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

MEDIPHARM LABS CORP.

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AT JUNE 30, 2020

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MEDIPHARM LABS CORP.

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

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

	Notes	June 30, 2020	December 31, 2019
ASSETS			
Current assets:			
Cash and cash equivalents		27,946	38,627
Trade and other receivables	6	32,866	27,540
Other assets		2,877	2,048
Restricted cash	9.3	18,911	-
Inventories	7	40,329	51,486
Current tax receivable		4,727	-
Total current assets		**127,656**	**119,701**
Non-current assets:			
Property, plant and equipment	8	45,552	42,233
Deferred tax asset		-	587
Non-current deposits		5,366	6,120
Other financial assets		191	189
Total non-current assets		**51,109**	**49,129**
Total assets		**178,765**	**168,830**

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

MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at June 30, 2020 and December 31, 2019
(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

	Notes	June 30, 2020	December 31, 2019
LIABILITIES AND EQUITY			
Current liabilities:			
Trade and other payables	12	13,085	20,946
Current employee benefit obligations		1,598	1,350
Loans and borrowings	9	1,628	1,823
Other current liabilities	9.3	18,911	-
Current tax liability		4,727	4,727
Total current liabilities		**39,949**	**28,846**
Warrant derivative liability	10.2	1,033	-
Conversion option derivative liability	10.1	5,900	-
Loans and borrowings	9	14,661	8,757
Total non-current liabilities		**21,594**	**8,757**
Total liabilities		**61,543**	**37,603**
Equity:			
Common shares	13	125,517	122,807
Reserves	13	21,236	16,960
Accumulated other comprehensive loss		(141)	(31)
Accumulated deficit		(28,631)	(8,189)
Total equity attributable to equity holders of the Parent		**117,981**	**131,547**
Non-controlling interest		(759)	(320)
Total equity		**117,222**	**131,227**
Total liabilities and equity		**178,765**	**168,830**

Commitments and contingencies 9, 11

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

/s/ "*Patrick McCutcheon*"
Patrick McCutcheon
Director

/s/ "*Christopher Hobbs*"
Christopher Hobbs
Director

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

MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF (LOSS)/INCOME
For the three and six months ended June 30, 2020 and 2019

(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	
	Notes	**2020**	**2019**	**2020**	**2019**
Revenue	14	13,918	31,472	25,007	53,422
Cost of sales		(11,706)	(20,161)	(33,677)	(35,248)
Gross profit		**2,212**	**11,311**	**(8,670)**	**18,174**
General administrative expenses		(6,793)	(3,225)	(12,293)	(5,354)
Marketing and selling expenses		(948)	(859)	(1,747)	(1,766)
Research and development expenses		(337)	-	(1,381)	-
Share based compensation expense	15	(1,520)	(2,742)	(4,279)	(6,714)
Other operating income/(expense), net	15	2,879	(258)	1,928	(265)
Operating (loss)/income		**(4,507)**	**4,227**	**(26,442)**	**4,075**
Unrealized gain in revaluation of derivative liabilities	10	1,285	-	1,285	-
Finance income		34	36	170	41
Finance expense		(587)	(180)	(817)	(358)
(Loss)/income before taxation		**(3,775)**	**4,083**	**(25,804)**	**3,758**
Taxation recovery/(expense)		285	(2,116)	4,951	(2,364)
Net (loss)/income for the period		**(3,490)**	**1,967**	**(20,853)**	**1,394**
Attributable to					
- Non-controlling interest		(136)	(32)	(411)	(95)
- Equity holders of the Parent		(3,354)	1,999	(20,442)	1,489
Basic earnings per share		(0.02)	0.02	(0.15)	0.01
Diluted earnings per share		(0.02)	0.01	(0.15)	0.01

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

MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME
For the three and six months ended June 30, 2020 and 2019
(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

	Notes	Three months ended June 30 2020	Three months ended June 30 2019	Six months ended June 30 2020	Six months ended June 30 2019
Net (loss)/income for the period		**(3,490)**	**1,967**	**(20,853)**	**1,394**
Other comprehensive income					
Items that may be reclassified to profit or loss					
Exchange differences on translation of foreign operations		(253)	(19)	(138)	(42)
Total comprehensive (loss)/income for the period		**(3,743)**	**1,948**	**(20,991)**	**1,352**
Total comprehensive (loss)/income attributable to					
- Non-controlling interest		(187)	(36)	(439)	(103)
- Equity holders of the Parent		(3,556)	1,984	(20,552)	1,455

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, 2020 and 2019
(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

	Common Shares		Reserves				
	Number	Share capital	Share-based payments	Accumulated other comprehensive	Accumulated deficit	Non-controlling interest	Total
Balance at January 1, 2019	**97,539,361**	**34,065**	**3,409**	**9**	**(9,834)**	**194**	**27,843**
Shares issued for cash	13,514,000	75,003	-	-	-	-	75,003
Share issue costs, net of tax	-	(2,505)	-	-	-	-	(2,505)
Shares issued on exercise of stock options	5,782,906	2,408	(1,013)	-	-	-	1,395
Shares issued on exercise of warrants	12,922,698	11,631	(315)	-	-	-	11,316
Share based compensation	-	-	6,714	-	-	-	6,714
Foreign exchange translation	-	-	-	(42)	-	-	(42)
Net income for the period	-	-	-	-	1,489	(95)	1,394
Balance at June 30, 2019	**129,758,965**	**120,602**	**8,795**	**(33)**	**(8,345)**	**99**	**121,118**
Balance at January 1, 2020	**131,525,068**	**122,807**	**16,960**	**(31)**	**(8,189)**	**(320)**	**131,227**
Share issuance cost (tax impact)	-	(812)	-	-	-	-	(812)
Shares issued on exercise of stock options	1,800	6	(3)	-	-	-	3
Shares issued on exercise of warrants	4,750,148	3,516	-	-	-	-	3,516
Share based compensation	-	-	4,279	-	-	-	4,279
Foreign exchange translation	-	-	-	(110)	-	(28)	(138)
Net loss for the period	-	-	-	-	(20,442)	(411)	(20,853)
Balance at June 30, 2020	**136,277,016**	**125,517**	**21,236**	**(141)**	**(28,631)**	**(759)**	**117,222**

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, 2020 and 2019
(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

	Notes	Six months ended June 30, 2020	June 30, 2019
Cash flows from operating activities:			
Net (loss)/income for the period		(20,853)	1,394
Adjustments for:			
Write down of inventory to net realizable value	7	12,811	-
Unrealized gain in revaluation of derivative liabilities	10	(1,285)	-
Depreciation	8	2,310	1,221
Interest expense and finance fee		647	283
Unrealized foreign exchange difference		(139)	44
Taxation (recovery)/expense		(4,951)	2,364
Share based compensation	15	4,279	6,714
Cash flows from operating activities before changes in working capital items		**(7,181)**	**12,020**
Change in trade and other receivables		(5,326)	(20,173)
Change in inventories		(1,654)	(33,020)
Change in other current assets		(829)	(538)
Change in trade and other payables		(7,976)	35,201
Change in other current liabilities		1,896	356
Net cash used in operating activities		**(21,070)**	**(6,154)**
Cash flows from investing activities:			
Capital expenditures		(6,409)	(12,176)
Acquisition of financial assets		(2)	(108)
Net cash used in investing activities		**(6,411)**	**(12,284)**
Cash flows from financing activities:			
Issuance of shares for cash less issuance costs		-	70,828
Proceeds from issuance of convertible debt, net of fee	9.3, 10	18,027	-
Repayment of loans and borrowings		(4,285)	-
Exercise of warrants		3,516	11,316
Exercise of stock options		3	1,395
Interest and finance fee paid		(461)	(228)
Interest received		170	-
Payment of lease liabilities		(170)	-
Net cash provided by financing activities		**16,800**	**83,311**
(Decrease)/increase in cash and cash equivalents		**(10,681)**	**64,873**
Cash and cash equivalents at the beginning of the period		**38,627**	**7,850**
Cash and cash equivalents at the end of the period		**27,946**	**72,723**

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

NOTE 1 - NATURE OF OPERATIONS

MediPharm Labs Corp. (formerly POCML 4 Inc.) (the "Company") was incorporated under the Business Corporations Act (Ontario) on January 23, 2017 and prior to a reverse takeover transaction, the Company was classified as a capital pool company (a "CPC") as defined in Policy 2.4 of the TSX Venture Exchange. Subsequent to the reverse takeover, the common shares in the capital of the Company (the "Common Shares") began trading on the TSX Venture Exchange on October 4, 2018 under the trading symbol "LABS". On July 29, 2019, the Common Shares were voluntarily delisted from the TSX Venture Exchange and began trading on the Toronto Stock Exchange under the symbol "LABS".

The Company produces purified, pharmaceutical-like cannabis extracts and related derivative products and its operating subsidiaries are the holders of various cannabis-related licenses in Canada and Australia.

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, 2020 ("Condensed Interim Consolidated Financial Statements"), include the financial statements of the Company and its subsidiaries (together referred to as the "Group").

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

2.1 Basis of presentation

(i) Statement of compliance

These Condensed Interim Consolidated Financial Statements for the three-month and six-month periods ended June 30, 2020 have been prepared in accordance with International Accounting Standards IAS 34, *Interim Financial Reporting* following the same accounting policies and methods of application as those disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2019 with the exception of new accounting policies that were adopted in January 1, 2020 as described in Note 2.2 and Note 2.3.

The Condensed Interim Consolidated Financial Statements do not include all the notes of the type normally included in an annual financial statement. Accordingly, these Condensed Interim Consolidated Financial Statements are to be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

On August 13, 2020, the Board of Directors of the Company approved these Condensed Interim Consolidated Financial Statements.

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

2.2 New accounting policies adopted in 2020

Government grants

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

2.3 New accounting pronouncements adopted in 2020

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

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

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

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

- IFRS 17, *Insurance Contracts*

2.5 Use of estimates and judgements

The preparation of these Condensed Interim Consolidated Financial Statements requires the use of accounting estimates and exercise of judgement in applying the Group's accounting policies. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation, uncertainty, and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in these Condensed Interim Consolidated Financial Statements are described below:

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

(i) Expected loss rate

As at June 30, 2020, the Group's estimate for the expected loss rate for its trade receivables is nominal. Management believes that this is the best estimate considering the historical and subsequent collection rates on the outstanding trade receivables.

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

The Group has share-based warrants and stock options. In estimating the fair value of the share-based warrants and stock options, the Group uses the Black Scholes option pricing model with inputs such as expected life, expected forfeiture rate and volatility of the stock option, based on their best estimate. The assumptions used for estimating fair value for share based payment transactions with respect to stock options are disclosed in Note 13.2.

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

The assessment of any impairment of the Group's property, plant and equipment is dependent upon estimate of the recoverable amounts of these assets. The determination of recoverable amounts requires the use of estimates such as future cash flows, discount rates and terminal growth rate.

(iv) Valuation of inventories

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

(v) Fair value of derivative liabilities

The Group applies judgment in determining the inception fair value allocation of proceeds from unsecured convertible debt to conversion option derivative liability, warrant derivative liability and debt component by applying estimates and assumptions. The judgments and estimates are described under Note 10.

(vi) Right to return

The Group has agreements with its customers offering right to return products within six months for a full refund provided that the products are not used in manufacturing or materially altered. Expected value method is used to estimate such returns at the time of sale. Since the Group has experience in selling such products, it is highly probable that a significant reversal in the cumulative revenue recognized will not

(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)

occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date and adjusted as necessary to estimate returns for the sold products.

(vii) COVID-19 estimation uncertainty

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, did not materially impact the Group's operations during the six months ended June 30, 2020. The production and sale of cannabis have been recognized as essential services in Canada and across Europe. Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Group's business, consolidated financial position and consolidated operating results in the future. Additionally, it is possible that estimates in the Group's consolidated financial statements will change in the near term as a result of COVID-19. The Group is closely monitoring the impact of the pandemic on all aspects of its business.

NOTE 3 – NON-CONTROLLING INTEREST

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

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

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

	June 30, 2020	**December 31, 2019**
Current assets	4,428	926
Non-current assets	8,840	7,844
Current liabilities	17,086	10,379
Accumulated deficit	(4,945)	(2,889)
Attributable to		
-Equity holders of Parent	(4,186)	(2,569)
-Non-controlling interest	(759)	(320)

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

NOTE 3 – NON-CONTROLLING INTEREST (Continued)

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Revenue	625	-	625	-
Net loss	(682)	(159)	(2,057)	(476)
Attributable to				
-Equity holders of Parent	(546)	(127)	(1,646)	(381)
-Non-controlling interest	(136)	(32)	(411)	(95)

NOTE 4 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	June 30, 2020	December 31, 2019
Financial assets at amortized cost		
Cash and cash equivalents	27,946	38,627
Trade receivables (Note 6)	32,163	25,979
Restricted cash (Note 9.3)	18,911	-
Financial assets at fair value through other comprehensive income (FVOCI) (1)	191	189
Financial liabilities at amortized cost		
Trade and other payables (Note 12)	13,085	20,946
Loans and borrowings (Note 9)	16,289	10,580
Financial liabilities at fair value through profit/loss		
Subscription receipt liability (Note 9.3)	18,911	-
Conversion option derivative liability (Note 10.1)	5,900	-
Warrant derivative liability (Note 10.2)	1,033	-

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

NOTE 5 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES

5.1 Key management personnel compensation

The Group has determined that key management personnel consist of directors and officers in the Group. The non-share based compensation remuneration to directors and officers during the three-month and six-month periods ended June 30, 2020 were $429 and $998, respectively (June 30, 2019: $407 and $833, respectively) and is included in general and administrative expenses.

During the six-month period ended June 30, 2020, the Group issued 300,000 options at an average exercise price of $1.35 per share (June 30, 2019: 1,890,000 options at $2.00 per share) to its key management personnel and recognized total share-based compensation expense of $465 (June 30, 2019: $1,097). During the six-month period ended June 30, 2020, the Group's key management personnel exercised no options (June 30, 2019: 3,043,200 options for gross proceeds of $720).

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

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

5.2 Transactions and balances with key management personnel

Several key management personnel hold positions in other companies that result in them having control or significant influence over these companies. Some of these companies transacted with the Group during the three-month and six-month periods ended June 30, 2020.

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

For the three-month and six-month periods ended June 30, 2020, the Group has incurred $5 and $11, respectively (June 30, 2019: $Nil and $7, respectively) rent expenses as a result of transactions with the key management personnel's related entities.

NOTE 6 – TRADE AND OTHER RECEIVABLES

	June 30, 2020	December 31, 2019
Trade receivables (Note 4)	32,163	25,979
HST/GST receivable	-	1,281
Contract assets	161	238
Other receivable	542	42
	32,866	**27,540**

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

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

The Group recognized other receivable of $541 related with Canada Emergency Wage Subsidy (CEWS) and Australia JobKeeper Payment Subsidy (December 31, 2019: $Nil) since there is reasonable assurance that the grants will be received and the grants to compensate the expenses are incurred in three month period ended June 30, 2020 (Note 15).

NOTE 7 – INVENTORIES

	June 30, 2020	December 31, 2019
Raw materials	7,043	22,694
Work in progress	428	4,880
Finished goods	31,488	23,408
Consumables and packages	1,370	504
	40,329	**51,486**

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

NOTE 7 – INVENTORIES (Continued)

Raw material inventory is comprised of dried cannabis flower and trim acquired from third party licensed cannabis cultivators. Finished goods inventory is comprised of bulk and formulated concentrate, formulated oil, distillate product 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, 2020, the Group recognized a write down of the carrying value of its raw materials, work in progress and finished goods by $nil and $12,811, respectively (June 30, 2019: $nil and $nil, respectively) since the cost of these inventories exceeded their net realizable value due to compression of pricing in the industry. The loss is included in the cost of sales in the condensed interim consolidated statements of loss.

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

	January 1, 2020	Additions	Disposals	Transfers (2)	Exchange difference	June 30, 2020
Cost						
Land	1,860	-	-	-	10	1,870
Building and building improvements	18,245	1,526	-	4,027	144	23,942
Leasehold improvements	-	209	-	-	-	209
Computers	1,568	124	(2)	-	13	1,703
Office equipment	196	57	-	-	1	254
Machinery and plant equipment	8,677	665	-	2,098	67	11,507
Motor vehicles	70	-	-	-	-	70
Security equipment	629	35	-	70	-	734
Construction in progress (1)	13,254	2,808	(89)	(6,195)	45	9,823
Right-of-use assets (Note 8.1)	1,204	30	-	-	-	1,234
	45,703	**5,454**	**(91)**	-	**280**	**51,346**
Less: Accumulated depreciation						
Building and building improvements	1,382	733	-	-	8	2,123
Computers	273	264	-	-	4	541
Office equipment	26	20	-	-	-	46
Machinery and plant equipment	1,470	1,003	-	-	2	2,475
Motor vehicles	4	7	-	-	-	11
Security equipment	143	68	-	-	-	211
Right-of-use assets	172	215	-	-	-	387
	3,470	**2,310**	-	-	**14**	**5,794**
Net book value	**42,233**					**45,552**

(1) Construction in progress consists of the machinery and equipment in the installation process and renovation and expansion of building. Since these assets are not ready for their intended use, no depreciation was recognized for these assets during the period.

(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 (Continued)

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

8.1 Right-of-use assets

The Group leases assets including land, building, equipment, motor vehicles and IT equipment. The details of the asset types where the Group is lessee are listed below. Total amount of leases with a term of 12 months or less ("short-term leases") expensed to the consolidated statements of loss for three and six months ending June 30, 2020 is $55 and $148, respectively (June 30, 2019: $177 and $244, respectively).

	January 1, 2020	Additions	June 31, 2020
Cost			
Right-of-use assets			
-Land	74	30	104
-Building	757	-	757
-Equipment	309	-	309
-Vehicle	31	-	31
-IT equipment	33	-	33
	1,204	**30**	**1,234**
Less: Accumulated depreciation			
Right-of-use assets			
-Land	28	24	52
-Building	100	149	249
-Equipment	25	31	56
-Motor vehicle	13	7	20
-IT equipment	6	4	10
	172	**215**	**387**
Net book value	**1,032**		**847**

NOTE 9 – LOANS AND BORROWINGS

	June 30, 2020	December 31, 2019
Current liabilities		
Current portion of bank loans (Note 9.2)	786	1,459
Current portion of convertible debt (Note 9.3)	471	-
Current portion of lease liability (Note 9.1)	371	364
	1,628	**1,823**

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

NOTE 9 – LOANS AND BORROWINGS (Continued)

	June 30, 2020	December 31, 2019
Non-current liabilities		
Convertible debt (Note 9.3)	9,639	-
Bank loans (Note 9.2)	4,558	8,116
Lease liability (Note 9.1)	464	641
	14,661	**8,757**

9.1 Lease liability

The Group has various lease agreements with maturities of 1 and 5 years. An incremental borrowing rate of 3.1% is used to calculate the net present value of the lease liability. The maturity analysis of lease liability based on contractual undiscounted cash flow is included in Note 16.2.

9.2 Bank loans

	June 30, 2020	December 31, 2019
Aggregate outstanding advances	5,415	9,700
Accrued interest	20	16
Less: Amortized cost impact	91	141
	5,344	**9,575**
Current portion of bank loan	786	1,459
Non-current portion of bank loan	4,558	8,116

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

During the six-month period ended June 30, 2020, MPL repaid amounts of $3,900 outstanding under the non-revolving delayed loan. As of June 30, 2020, the Group has outstanding amounts payable under the Credit Agreement of $5,415 that is related to non-revolving term facility and repayable in mandatory quarterly installments.

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

NOTE 9 – LOANS AND BORROWINGS (Continued)

9.3 Convertible debt

As at January 1, 2020	-
Issued at amortized, net issuance cost	9,809
Accrued and unpaid interest	301
As at June 30, 2020	**10,110**

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

$18,911 of the 2020 Private Placement is related to the placement of a $20,500 unsecured convertible note (the "First Note") and a warrant (the "First Warrant") to purchase up to 3,601,427 Common Shares; and the remaining $18,911 is currently being held in escrow managed by a licensed Canadian trust company and is related to the placement of a subscription receipt (the "Subscription Receipt") entitling the holder to receive, upon satisfaction of certain Escrow Release Conditions (as defined below), a further $20,500 unsecured convertible note (the "Second Note" and, together with the First Note, collectively, the "Notes") and a further warrant (the "Second Warrant" and, together with the First Warrant, collectively, the "Warrants") to purchase up to 3,601,427 Common Shares at a price of $2.28 per share and expiring on October 9, 2023.

The Notes have a three-year term, were issued at an original issue discount of 7.75% and are convertible to Common Shares at the option of the investor at a price of $2.28 per share (the "Conversion Price"). Commencing four months after the closing date, the Notes will begin to amortize through bi-monthly installment payments of approximately $320 (the "Bi-Monthly Installment Payments"), payable in Common Shares, subject to the satisfaction of equity conditions including a minimum volume and trading price for the Common Shares, at a price per Common Share equal to 90% of the market price of the Common Shares (being the 5-day volume weighted average price of the Common Shares on the TSX) or 87% of such market price where that market price is less than $1.00 (each an "Installment Percentage") or, at the option of the Group, in whole or in part, in cash.

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

The gross proceeds from the placement of the Subscription Receipt have been delivered to a licensed Canadian trust company, in its capacity as subscription receipt agent, and will be delivered to the Company net of certain fees and expenses upon satisfaction of the escrow release conditions, specifically, the receipt of Shareholder Approval, and there existing no event or pending event of default under the Notes (the "Escrow Release Conditions"). As of June 30, 2020, the escrow balance of $18,911 was recorded as restricted cash and a corresponding liability for subscription receipt for this balance was recognized in other current liabilities which is measured at fair value through profit/loss. Upon satisfaction of the Escrow Release Conditions, the Subscription Receipt will convert automatically into the Second Note and the Second Warrant (Note 19).

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

NOTE 9 – LOANS AND BORROWINGS (Continued)

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

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

The Group incurred costs and fees of $1,564 which were allocated on a pro-rata basis to the convertible note, conversion option derivative liability (Note 10.1) and warrant derivative liability (Note 10.2) in the amounts of $884, $512 and $168 respectively.

NOTE 10 –DERIVATIVE LIABILITIES

10.1 Conversion option derivative liability

A holder of a Note has the option to accelerate or defer the Bi-Monthly Installment Payments. Common Shares issued as settlement for the accelerated payment are issued in accordance with the Installment Percentage (Note 9.3), resulting in a variable number of Common Shares issuable. As a result, a holder's acceleration right for Bi-Monthly Installment Payments was recognized as a conversion option derivative liability and had a fair value of $6,187 at inception. Financing cost of $512 were expensed at recognition. As at June 30, 2020, the conversion option derivative liability was revalued and revaluation gain of $287 was recorded in the condensed interim consolidated statements of loss for the six-month period ended June 30, 2020 (three-month period ended June 30, 2020: $287).

The fair value of the conversion option derivative liability was determined based on company specific inputs and valuation techniques that utilized both observable and unobservable market inputs. Therefore, the estimate used for fair value of conversion option derivative liability was categorized as Level 3 measurement input (Note 17). Expected market share price of a Common Share is the significant input. As of June 30, 2020, with all other variables held constant, a 5% decrease in the expected market share price would have decreased the fair value of conversion option derivative liability by $253 and there would be an equal but opposite impact on net income.

10.2 Warrant derivative liability

As at January 1, 2020	-
Issued First Warrant	2,031
Gain in revaluation	(998)
As at June 30, 2020	**1,033**

Under the 2020 Private Placement, the Group issued a warrant to purchase up to 3,601,427 Common Shares with an exercise price of $2.28 per share and expiring on October 9, 2023 (Note 9.3).

NOTE 10 –DERIVATIVE LIABILITIES (Continued)

The warrants are classified as a liability because of the cashless exercise option which does not satisfy fixed-for-fixed testing. On initial recognition, the warrant derivative liability was valued at $2,031 using the Black-Scholes option pricing model using the following input data: stock price of $1.89 per share; expected life of 3 years; 66.6% volatility based upon historical prices and risk-free interest rate of 0.30%. Financing cost of $168 were expensed at recognition.

The warrant derivative liability was revalued as of June 30, 2020 using the Black-Scholes option pricing model using the following input data: stock price of $1.15 per share; expected life of 2.94 years; 66.42% volatility based upon historical prices and risk-free interest rate of 0.25%. The revaluation gain of the warrant derivative liability for the six-month period ended June 30, 2020 was $998 (three-month period ended June 30, 2020: $998) which was recorded in the condensed interim consolidated statements of loss.

The fair value was determined based on company specific inputs and valuation techniques that utilized both observable and unobservable market inputs. Therefore, the estimate used for fair value of warrant derivative liability was categorized as Level 3 measurement input (Note 17). Volatility estimate is the significant input. As of June 30, 2020, with all other variables held constant, a 5% increase in the volatility would have increased the fair value of warrant derivative liability by $142 and there would be an equal but opposite impact on net income.

NOTE 11 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

11.1 Sales commitments under supply agreements

Under supply agreements, as of June 30, 2020, the Group is committed to sell 2,000 units of tincture bottles of cannabis oil to licensed producers within next 11 months. In the event the Group does not meet the commitments, the Group is not subject to any late in-kind/cash payments. For the six-month period ended June 30, 2020, the Group fulfilled the committed amount for which orders had been submitted.

11.2 Purchase commitments under purchase agreements

Under the cannabis material purchase agreements signed within the reporting period, the Group committed to purchase 480kg of dried GMP grade cannabis flower within six months.

11.3 Litigation

On January 24, 2020, MPL filed a statement of claim ("Claim") in the Ontario Superior Court of Justice against one of its long-term customers of cannabis concentrates. The Claim relates to, among other things, the payment of outstanding amounts due to MPL for products shipped to and received by the customer and deposits owed to MPL for committed amounts not yet shipped. The outstanding amounts on the date of the claim was approximately $9,800. On February 26, 2020, the defendant in the Claim filed a statement of defence and counterclaim for $35,000. The Group is proceeding with a motion for summary judgment that currently has a court date set in November 2020. The Group has not recognized a liability in connection with the counterclaim.

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

NOTE 11 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS (Continued)

On June 16, 2020, a claim in connection with a proposed national consumer protection class-action lawsuit was filed with the Court of Queen's Bench in Alberta (as amended from time to time, the "Alberta Claim") seeking damages against several Canadian cannabis companies including MPL. The Alberta Claim does not particularize all of the claims against the companies however it makes allegations with respect to the content of THC and CBD in the companies' products. The proposed action is not certified. MPL has reported the Alberta Claim to its insurers. The Group has not recognized a liability in connection with the counterclaim.

NOTE 12 – TRADE AND OTHER PAYABLES

	June 30, 2020	December 31, 2019
Payable to suppliers	5,646	19,057
Accrued liabilities	4,916	1,793
HST/GST and excise tax payable	1,559	-
Refund liabilities (1)	790	-
Other	174	96
	13,085	**20,946**

Payable to suppliers are amounts due to vendors for unpaid goods and services received arising in the ordinary course of business. Trade payables are all short term natured with due dates less than 30 days. Accrued liabilities mainly result from products and services received from third parties related to ordinary course of business for which invoices have not been received as of the reporting date. Other includes the payable to financial institutions related to credit card payables.

(1) Refund liability of $790 (December 31, 2019: $Nil) is recognized for the products expected to be returned within a given period. The Group also recognized right to the returned goods of $790 (December 31, 2019: $Nil) under other current assets for the products expected to be returned which is measured by reference to the former carrying amount of the goods. The costs to recover the products are not material.

NOTE 13 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS

13.1 Common shares issued

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

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

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

For the six month period ended June 30, 2020, 1,800 stock options (June 30, 2019: 5,782,906 stock options) and 4,750,148 warrants (June 30, 2019: 12,922,698 warrants) were exercised into common shares for proceeds of $3 (June 30, 2019: $1,395) and $3,516 (June 30, 2019: $11,316), respectively.

13.2 Stock options / Share based compensation

On January 8, 2019, the Company issued options to purchase up to 4,920,500 Common Shares with an exercise price of $2.00 per share for a five-year term expiring January 8, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was $6,750 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 92.1%, estimated forfeiture rate of 0%-3%, expected life of 5 years and a risk-free rate of 1.89%.

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

On February 4, 2019, the Company issued options to purchase up to 790,500 Common Shares with an exercise price of $1.96 per share for a five-year term expiring February 4, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was $1,087 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 91.7%, estimated forfeiture rate of 0%, expected life of 5 years and a risk-free rate of 1.86%.

On March 29, 2019, the Company issued options to purchase up to 791,000 Common Shares with an exercise price of $3.34 per share for a five-year term expiring March 29, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was $1,345 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 90.6%, estimated forfeiture rate of 0%, expected life of 5 years and a risk-free rate of 1.53%.

On August 13, 2019, the Company issued options to purchase up to 1,844,980 Common Shares with an exercise price of $6.47 per share for a five-year term expiring August 13, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was $7,630 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 89.7%, estimated forfeiture rate of 0%-4% expected life of 5 years and a risk-free rate of 1.30%.

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

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

estimated volatility of 88.8%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 1.48%.

On November 12, 2019, the Company issued options to purchase up to 242,250 Common Shares with an exercise price of $4.42 per share for a five-year term expiring November 12, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was $719 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 88.8%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 1.58%.

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

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

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

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

On June 22, 2020, the Company issued options to purchase up to 300,000 Common Shares with an exercise price of $1.35 per share for a five-year term expiring June 22, 2025. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was $281 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 91.15%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 0.34%.

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.

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

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

	Number of options	2020 Weighted average exercise price $
As at January 1	11,760,020	2.93
Granted during the period	603,150	1.92
Exercised during the period	(1,800)	1.96
Forfeited/cancelled during the period	(444,710)	3.64
Outstanding at June 30	**11,916,660**	**2.85**
Exercisable at June 30	7,716,748	2.53
Weighted average remaining contractual life	3.61 years	

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

Exercise price range	Weighted average remaining contractual life 2020	Number of outstanding options 2020
Less than and equal to $1.00	2.83	56,800
Between $1.00 and $3.00	3.32 – 4.98	8,515,650
Between $3.00 and $5.00	3.75 – 4.56	1,607,050
More than and equal to $5.00	4.12	1,737,160
		11,916,660

13.3 Share purchase warrants

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

	Number of warrants	2020 Weighted average exercise price $
As at January 1	12,519,675	0.84
Exercised during the period	(4,750,148)	0.74
As at June 30	**7,769,527**	**0.90**
Weighted average remaining contractual life	0.39 years	

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

NOTE 14 – REVENUE

	Three months ended June 30		Six months ended June 30	
	2020	**2019**	**2020**	**2019**
Revenue from contracts with customers	13,918	31,426	25,007	53,340
Other revenue				
Investment property rental	-	46	-	82
Total revenue	**13,918**	**31,472**	**25,007**	**53,422**

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	
	2020	**2019**	**2020**	**2019**
Canada	13,293	30,917	21,711	52,831
Australia	625	509	3,296	509
	13,918	**31,426**	**25,007**	**53,340**
Private label	12,284	31,030	21,921	52,944
White label	1,568	-	2,980	-
Tolling process	41	396	98	396
Other	25	-	8	-
	13,918	**31,426**	**25,007**	**53,340**
Products transferred at a point in time	13,877	31,256	24,909	53,170
Products and services transferred over time	41	170	98	170
	13,918	**31,426**	**25,007**	**53,340**

For the six months ended June 30, 2020, 83% (June 30, 2019: 86%) of total revenue is from five customers (June 30, 2019: four customers) each representing more than 10% of the Group's revenue. For the three months ended June 30, 2020, 80% (three months ended June 30, 2019: 95%) of total revenue is from two customers each representing more than 10% of the Group's revenue (three months ended June 30, 2019: five customers).

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

NOTE 15 – EXPENSES BY NATURE

	Three months ended June 30		Six months ended June 30	
	2020	**2019**	**2020**	**2019**
Inventory and consumables recognized in cost of sales	7,941	16,315	16,220	29,037
Write down of inventory to net realizable value (Note 7)	-	-	12,811	-
Employee compensation	4,706	3,145	8,855	5,356
Consulting and professional fees	2,465	1,423	4,428	2,274
Share based compensation expense (2)	1,520	2,742	4,279	6,714
Supplies and small equipment	1,001	441	1,691	694
Depreciation	807	731	1,515	1,221
Analytical testing	510	697	924	993
Software licenses	302	129	604	189
Royalty	164	-	300	-
Government grants (3)	(1,808)	-	(1,808)	-
Other (1)	817	1,622	1,630	2,869
	18,425	**27,245**	**51,449**	**49,347**

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

(2) For the six-month period ended June 30, 2020, out of total share based compensation expense of $4,279 (June 30, 2019: $6,714), general administrative expense portion is $2,972 (June 30, 2019: $4,796), marketing and selling expense portion is $525 (June 30, 2019: $920), cost of sales portion is $772 (June 30, 2019: $1,002) and research and development portion is $10 (June 30, 2019: $nil). For the three-month period ended June 30, 2020, out of total share based compensation expense of $1,520 (June 30, 2019: $2,742), general administrative expense portion is $1,087 (June 30, 2019: $1,980), marketing and selling expense portion is $216 (June 30, 2019: $338), cost of sales portion is $213 (June 30, 2019: $424) and research and development portion is $4 (June 30, 2019: $nil).

(3) The Group applied for Canada Emergency Wage Subsidy (CEWS) and Australia JobKeeper Payment Subsidy and through these programs granted of $1,808 of government grants for three-month period ended June 30, 2020. Such government grants are recognized as other operating income in the condensed interim consolidated statement of loss. These grants may be subject to government review at a later date. However, there are no unfulfilled conditions or other contingencies attached to these grants. The Group did not benefit directly from any other forms of government assistance.

NOTE 16 –FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

The Group is exposed to a variety of financial risks due to its operations. These risks include credit risk, market risk (foreign exchange risk and interest rate risk) and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential

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

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

adverse effects on the Group's financial performance. Financial risk management is carried out by the Subsidiaries of the Group under policies approved by the Company's Board of Directors.

16.1 Credit risk

Credit risk arises from deposits with banks and financial institutions, restricted escrow balances and outstanding receivables if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group holds cash of $27,946 (December 31, 2019: $38,627). The cash and restricted cash held in escrow are held with banks and financial institutions that are either Schedule 1 Canadian banks or large credit unions.

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

	June 30, 2020	**December 31, 2019**
Business to business customers	31,001	26,105
Distributors / Retailers	1,323	112
	32,324	**26,217**

The Group limits its exposure to credit risk from trade receivables and contract assets by negotiating full or partial advance payment from business to business customers before the shipment of the products. Also, the Group management believes that the exposure to credit risk from distributors is very limited since most of the distributors are government organizations. As at June 30, 2020, 89% of the Group's trade receivables (December 31, 2019: 86%) is due from five customers (December 31, 2019: three customers) each representing more than 10% of the Group's trade receivables balance. The Group has legal collection proceedings with respect to $8,531 of the Group's trade receivable balance, which are all due from one customer. The past due portion of these trade receivables comprise 47% of all the Group's past due trade receivables as at June 30, 2020. The Group has not recognized an allowance for expected credit losses in connection with its trade receivables. The aging of the Group's trade receivables at June 30, 2020 is as follows:

	June 30, 2020 Gross carrying amount
Current (not past due)	13,904
1-30 days past due	2,420
31-60 days past due	6,975
61-90 days past due	71
90-180 days past due	1,065
>180 days past due	7,728
	32,163

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

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

The expected loss rate for undue and overdue balance is estimated to be nominal based on the expected collections on the outstanding receivable balance.

16.2 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 $27,946 (December 31, 2019: $38,627) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, the Group management maintains flexibility in funding by maintaining a minimum cash level at banks and financial institutions.

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, 2020	**Less than 6 months**	**6-12 months**	**12-36 months**	**36-60 months**	**Total contractual cash flows**	**Carrying amount**
Trade and other payables	13,085	-	-	-	13,085	13,085
Lease liability	200	187	376	104	867	835
Non-revolving loan (1)	291	285	4,845	-	5,421	5,344
Convertible debt	1,644	3,945	15,322	-	20,911	10,110
Total financial liabilities	**15,220**	**4,417**	**20,543**	**104**	**40,284**	**29,374**

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

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

16.3 Market risk

Market risk is the risk that changes in market price – e.g. foreign exchange rates and interest rates – will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

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

(i) Foreign currency risk

Foreign exchange risk arises from recognized assets and liabilities denominated in a currency that is not the functional currency of the relevant Group entity. As of the end of the reporting period, the Group's foreign currency exposure is due to USD and AUD foreign currency denominated transactions.

(ii) Interest rate risk

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

(iii) Price risk

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

16.4 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Management defines capital as the Company's shareholders' equity attributable to equity holders of the Parent and debt. As at June 30, 2020, total managed capital is $141,203 (December 31, 2019: $142,127). The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund both existing and future value-added growth opportunities. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners or through debt financing.

NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Group's cash and cash equivalents and restricted cash 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, trade payables and subscription receipt liability are classified as Level 2. These financial liabilities except the subscription receipt liability are classified as amortized cost and their carrying values approximate their fair values whereas subscription receipt liability is classified as fair value through profit or loss. The derivative liabilities are classified as Level 3 since some of the significant inputs used to calculate the fair value of the derivative liabilities are subject to volatility and several factors outside of the Company's control. The sensitivity analysis for each significant input is performed in Note 10.

During the six months ended June 30, 2020, there were no transfers between levels.

NOTE 18 – SEGMENT INFORMATION

The Group operates in one segment, the production and sales of cannabis extracts and derivative products. The carrying value of non-current assets located outside of Canada is $8,840 (December 31, 2019: $7,844) and these assets are made up of property, plant and equipment and deposits given for property, plant and equipment.

NOTE 19 – EVENTS AFTER THE REPORTING PERIOD

(i) 2020 Private Placement

After receipt of Shareholder Approval at the Company's Annual and Special Shareholder's meeting held on August 5, 2020 (i) the Group received from escrow the remaining half, net of certain fees, of the $37,822 in gross proceeds from the 2020 Private Placement and (ii) the Subscription Receipt was converted into the Second Note and the Second Warrant.

(ii) Issued and cancelled stock options

The Board of Directors of the Company has approved a grant of stock options under its stock option plan to purchase an aggregate of 600,000 common shares in the capital of the Company with a weighted average exercise price of $1.13 and with a 5-year term. The stock options will be vested immediately. The stock options were granted to newly appointed directors of the Company. Subsequently, 359,460 stock options were cancelled.
