VIVO CANNABIS INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019
(In Canadian Dollars)

VIVO CANNABIS INC.
Condensed Interim Consolidated Statements of Financial Position (Unaudited)
(Expressed in Canadian dollars)

As at	June 30, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	**$ 22,240,357**	$ 43,390,973
Other financial assets *(note 9)*	**2,829,552**	4,908,272
Accounts receivable	**3,588,302**	2,856,078
Other receivables	**1,448,194**	857,552
Inventories *(note 4)*	**14,263,308**	11,598,945
Biological assets *(note 5)*	**2,834,629**	3,819,000
Prepaid expenses	**1,636,288**	2,095,115
	48,840,630	69,525,935
Property, plant and equipment *(note 6)*	**45,212,529**	43,622,684
Right-of-use assets	**578,166**	693,848
Intangible assets	**115,611,626**	117,242,978
Goodwill	**45,836,947**	45,836,947
	$ 256,079,898	$ 276,922,392
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 8,431,455**	$ 5,237,987
Current portion of lease liabilities	**150,505**	181,599
Current portion of convertible debentures (*note 11*)	**25,128,420**	3,141,230
RSU plan liability *(note 12)*	**83,938**	66,769
	33,794,318	8,627,585
Convertible debentures *(note 11)*	**-**	29,841,399
Deferred revenue *(note 8)*	**8,800,000**	8,800,000
Lease liabilities	**505,102**	563,303
Deferred income taxes	**33,357,180**	34,190,410
	76,456,600	82,022,697
Shareholders' equity		
Share capital *(note 7)*	**275,455,343**	275,676,482
Contributed surplus *(note 7)*	**21,740,488**	17,287,440
Warrant reserve *(note 7)*	**121,888**	4,030,657
Deficit	**(117,795,466)**	(102,099,860)
Accumulated other comprehensive income	**101,045**	4,976
	179,623,298	194,899,695
	$ 256,079,898	$ 276,922,392

Nature of operations *(note 1)*
Going Concern (Note 2)
Commitments and contingencies *(note 8)*

Approved and authorized for issue by the Board of Directors on August 14, 2020

"Barry Fishman"
Director

"Paul Lucas"
Director

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

VIVO CANNABIS INC.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)
(Expressed in Canadian dollars, except numbers of shares)

	For the three months ended		For the six months ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Net revenue *(note 15)*	**$9,436,491**	5,281,456	**$17,636,208**	10,334,580
Cost of sales and production				
Cost of inventory sold *(note 4)*	**(5,077,621)**	(2,578,917)	**(8,790,686)**	(4,528,913)
Production salaries and wages	**(1,267,883)**	(704,242)	**(2,183,047)**	(1,186,950)
Production amortization and depreciation *(notes 6)*	**(854,667)**	(302,557)	**(1,673,702)**	(1,038,814)
Production supplies and expense	**(605,122)**	(562,718)	**(1,229,667)**	(926,367)
Revenue less cost of sales and production before fair value adjustments	**1,631,198**	1,133,022	**3,759,106**	2,653,536
Realized gain on biological transformation *(note 5)*	**(2,486,997)**	(2,324,753)	**(7,727,978)**	(4,760,059)
Increase in fair value due to biological transformation *(note 5)*	**3,057,361**	5,431,951	**6,262,784**	8,476,331
Revenue less cost of sales and production and fair value adjustments	**2,201,562**	4,240,220	**2,293,912**	6,369,808
Expenses				
General and administrative	**4,469,194**	4,855,290	**9,805,171**	8,823,275
Sales and marketing	**218,070**	876,010	**408,414**	1,992,800
Amortization and depreciation	**1,114,300**	1,204,969	**2,222,357**	2,282,819
Stock-based payments *(notes 7, 10 & 12)*	**587,805**	534,366	**943,480**	1,352,988
Finance expense *(note 11)*	**1,193,905**	1,086,569	**2,706,435**	2,160,048
Loss (gain) on change in fair value of contingent consideration	**-**	(1,765,704)	**-**	(3,825,962)
Loss on change in fair value of derivative liability	**10,796**	-	**10,796**	-
Unrealized (gain) loss on other financial assets *(note 9)*	**(621,174)**	10,452,905	**2,078,769**	1,568,738
Realized gain on other financial assets *(note 9)*	**-**	-	**-**	(9,379)
Foreign exchange loss	**19,899**	27,589	**46,357**	37,876
Other income	**(47,901)**	-	**(120,569)**	(2,751)
Impairment of amount due from related parties	**-**	798,000	**-**	798,000
	6,944,894	18,069,994	**18,101,210**	15,178,452
Loss from operations before income taxes	**(4,743,332)**	(13,829,774)	**(15,807,298)**	(8,808,644)
Income tax expense - current *(note 16)*	**304,167**	-	**721,538**	-
Income tax recovery - deferred *(note 16)*	**(412,797)**	-	**(833,230)**	-
Net loss	**(4,634,702)**	(13,829,774)	**(15,695,606)**	(8,808,644)
Other comprehensive loss				
Amounts that may be reclassified subsequently to profit or loss:				
Foreign exchange translation (loss)	**126,209**	165,336	**96,069**	28,834
Comprehensive loss	**$(4,508,493)**	(13,664,438)	**(15,599,537)**	(8,779,810)
Net earnings (loss) per share				
Loss per share, basic	**$(0.02)**	$ (0.05)	**$(0.05)**	$(0.03)
Loss per share, diluted	**$(0.02)**	$ (0.05)	**$(0.05)**	$(0.03)
Weighted average shares outstanding, basic	**295,888,654**	295,229,654	**295,888,654**	295,229,654
Weighted average shares outstanding, diluted	**295,888,654**	295,229,654	**295,888,654**	295,229,654

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

VIVO CANNABIS INC.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
(Expressed in Canadian dollars)

	Common Shares	Contributed Surplus	Warrant Reserve	Deficit	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2019	$275,676,482	$ 17,287,440	$ 4,030,657	$ (102,099,860)	$ 4,976	$ 194,899,695
Stock-based payments *(note 7)*	43,238	609,242	-	-	-	652,480
Expiry of warrants *(note 7)*	(264,377)	4,173,146	(3,908,769)	-	-	-
Net loss for the period	-	-	-	(15,695,606)	-	(15,695,606)
Adjustment on redemption of convertible note	-	(329,340)	-	-		(329,340)
Foreign exchange translation					96,069	96,069
Balance, June 30, 2020	**275,455,343**	**$ 21,740,488**	**$121,888**	**$ (117,795,466)**	**$ 101,045**	**$ 179,623,298**

	Common Shares	Contributed Surplus	Warrant Reserve	Deficit	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2019, as previously reported	$ 272,075,757	$ 16,714,186	$ 4,454,928	$ (71,453,528)	$ (122,951)	$ 221,668,392
Impact of change in accounting policy	-	-	-	38,123	-	38,123
Adjusted balance, January 1, 2019	272,075,757	16,714,186	4,454,928	(71,415,405)	(122,951)	221,706,515
Exercise of options	2,822,771	(1,312,771)	-	-	-	1,510,000
Exercise of warrants	746,523	-	(424,271)	-	-	322,252
Stock-based payments	166,623	1,155,199	-	-	-	1,321,822
Cancellation of common shares	(540,000)	-	-	-	-	(540,000)
Net loss for the period	-	-	-	(8,808,644)	-	(8,808,644)
Foreign exchange translation	-	-	-	-	28,834	28,834
Balance, June 30, 2019	**$ 275,271,674**	**$ 16,556,614**	**$ 4,030,657**	**$ (80,224,049)**	**$ (94,117)**	**$ 215,540,779**

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

VIVO CANNABIS INC.
Condensed Interim Consolidated Statements of Cash Flows (Unaudited)
(Expressed in Canadian dollars)

	For the six months ended June 30, 2020	June 30, 2019
Cash flow provided by (used in) operating activities		
Net loss	$ **(15,695,606)**	$ (8,808,644)
Add (deduct) items not involving cash		
Accretion and accrued interest expensed	**1,934,803**	1,796,407
Amortization and depreciation	**4,080,439**	3,392,722
Stock-based payments	**943,480**	1,352,989
Impairment of amount due from related party	**-**	798,000
Increase in fair value due to biological transformation	**(6,262,784)**	(8,476,331)
Gain on change in fair value of contingent consideration	**-**	(3,825,962)
Gain on disposal of property and equipment	**-**	(200)
Unrealized loss (gain) on other financial assets	**2,078,720**	1,559,358
Deferred income taxes	**(833,230)**	-
Change in non-cash working capital		
Accounts receivable	**(732,224)**	151,558
Other receivables	**(590,642)**	910,308
Inventory	**4,582,792**	4,615,894
Prepaid expenses	**458,827**	(324,969)
Accounts payable and accrued liabilities	**2,919,686**	(3,520,349)
	(7,115,739)	(10,379,219)
Cash flow provided by (used in) financing activities		
Impairment of amount due from related party	**-**	(257,691)
Advances from related parties	**-**	20,608
Retirement of convertible notes	**(10,118,400)**	-
Payment of lease liabilities	**(89,296)**	-
Exercise of options	**-**	1,510,000
Exercise of warrants	**-**	322,252
	(10,207,696)	1,595,169
Cash flow provided by (used in) investing activities		
Investment in property and equipment	**(3,667,354)**	(5,767,631)
Proceeds from disposal of property and equipment	**22,246**	200
Right of use	**(13,103)**	-
Investment in intangible assets	**(263,459)**	-
Purchase of short-term investments and other financial assets	**-**	(1,896,144)
Payment of contingent consideration	**-**	(930,823)
Proceeds from sale of short-term investments	**-**	426,517
Proceeds from mortgage receivable	**-**	94,953
	(3,921,670)	(8,072,928)
Effect of foreign exchange rate changes on cash	**94,489**	27,051
Decrease in cash	**(21,150,616)**	(16,829,927)
Cash, beginning of period	**43,390,973**	24,273,899
Cash, ending of period	$ **22,240,357**	$ 7,443,972

Supplementary cash flow information:

Cash interest paid	$ 830,764	$ 1,035,000

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

1. Nature of Operations

VIVO Cannabis Inc. (“**VIVO**” or the “**Company**”) was incorporated under the *Canada Business Corporations Act* on April 12, 2007. On April 28, 2017, the Company completed a reverse takeover transaction, pursuant to which ABcann Medicinals Inc. (“**ABcann**”) amalgamated with a wholly owned subsidiary of the Company and the Company’s business became the business of ABcann. Effective August 9, 2018, the Company changed its name from “ABcann Global Corporation” to “VIVO Cannabis Inc.” and the Company’s trading symbol on the TSX Venture Exchange changed from “ABCN” to “VIVO”. Effective January 24, 2020, the Company’s common shares were uplisted from the TSX Venture Exchange to the Toronto Stock Exchange, with the trading symbol continuing to be “VIVO”. VIVO’s registered office is located at 126 Vanluven Road, Napanee, Ontario K7R 3L2.

The Company’s current principal business activity is the production and sale of medical and adult-use cannabis and cannabis products, and the provision of cannabis-related medical information and services in Canada. The Company provides these goods and services through its wholly-owned subsidiaries, ABcann, located in Napanee, Ontario, and Canna Farms Limited (“**Canna Farms**”), located in Hope, British Columbia, which are holders of licenses originally granted under the *Access to Cannabis for Medical Purposes Regulations* (Canada), which was superseded by the *Cannabis Act* (Canada) on October 17, 2018, and through a number of medical clinics operated by its Calgary, Alberta based subsidiary, Harvest Medicine Inc. ("**Harvest Medicine**").

The Company is also seeking to expand its business to jurisdictions outside of Canada where cannabis is legal. The Company does not engage in any U.S. cannabis-related activities as defined in the Canadian Securities Administrators’ Staff Notice 51-352 *Issuers with U.S. Marijuana-Related Activities*.

These consolidated financial statements were approved by the Company’s board of directors (the "**Board**") on August 14, 2020.

COVID-19 outbreak

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in a widespread international health crisis that has materially affected economies and financial markets, resulting in the rapid onset of an economic downturn. This unprecedented pandemic may result in, among other things, supply chain issues, a decrease in availability of production materials, transportation delays, personnel shortages, changes in customer demand for the Company’s products, increased government regulations or interventions, and ongoing economic uncertainty, all of which may negatively impact the business, financial condition or results of operations of the Company. The duration and impact of the COVID-19 pandemic is unknown at this time and it is not possible to reliably estimate the length of the outbreak or the severity of its impact at this time.

VIVO continues to monitor COVID-19 developments and has implemented enhanced personal safety and sanitation protocols. VIVO’s production facilities are continuing operations and to the Company’s knowledge, there have been no confirmed cases of COVID-19 among Company personnel. The Napanee and Hope facilities have extended hours and staggered shifts to facilitate physical distancing and ensure a safe work environment. Frontline staffing levels at the Company’s Napanee and Hope facilities during the last two months have ranged between 80% and 90%.

2. Basis of Presentation

(a) Going Concern

These condensed interim consolidated financial statements for the period ended June 30, 2020 are prepared on a going concern basis, which assumes that the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company currently has convertible debentures outstanding which come due within the next twelve months, with a total value that exceeds the Company's end of period cash and cash equivalents. The Company will need to raise additional capital in order to fund its planned operations and meet its obligations. Management believes that it has sufficient time and opportunity to secure various combinations of debt and equity financing; however, there is no assurance that additional funding will be available or available on terms that management finds acceptable, or within the required timeframe, thus creating a risk that the Company is unable to meet its financial obligations. When the Company will attain profitability and positive cash flows from operations is subject to uncertainty. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and obtain necessary financing to do so. While the Company has been successful in obtaining financing to date and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, there can be no assurance that the Company will achieve profitability and be able to do so on terms favourable for the Company.

These condensed interim consolidated financial statements do not include any adjustments to the carrying amount and classification of reported assets, liabilities, revenues or expenses that might be necessary should the Company not be successful with the aforementioned initiatives to raise capital. Any such adjustments could be material.

(b) Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards ("**IAS**") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("**IASB**") and using the accounting policies, determination of significant estimates and judgments, and corresponding accounting treatments consistent with the audited financial statements of the Company for the year ended December 31, 2019, which were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the IASB.

(c) *Use of estimates and judgments*

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

(Unaudited) (expressed in Canadian dollars)

3. Accounting Policies Adopted During the Period

Beginning on January 1, 2020, the Company adopted certain IFRS and amendments. As required by IAS 34 Interim Financial Reporting and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the nature and the effect of these changes are disclosed below:

Conceptual Framework

Beginning January 1, 2020, the Company adopted the revised Conceptual Framework for Financial Reporting ("revised conceptual framework"). The revised conceptual framework does not constitute a substantial revision from the previously effective guidance but does provide additional guidance on topics not previously covered such as presentation and disclosure. The adoption of the revised conceptual framework did not have a material impact on the consolidated financial statements.

Definition of a Business

Beginning January 1, 2020, the Company adopted the IASB amendment regarding the definition of a business under IFRS 3 *Business Combinations*. This amendment narrowed and clarified the definition of a business, as well as permitted a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The adoption of the amendment to IFRS 3 did not have a material impact on the consolidated financial statements.

4. Inventories

Inventories are comprised of the following:

	June 30, 2020	December 31, 2019
Dried cannabis	**7,701,524**	7,702,946
Derivatives (resin, shatter)	**4,262,390**	2,019,891
Oils	**810,382**	1,467,197
Accessories	**48,765**	52,924
Supplies	**1,440,247**	355,987
Total	**14,263,308**	11,598,945

Inventory recognized as an expense in cost of sales for the three and six months ended June 30, 2020 was $4,277,247 and $7,965,967 (2019 - $2,578,917 and $4,528,913), respectively.

During the three and six months ended June 30, 2020, the Company recognized inventory impairment in the amount of $233,523 and $803,753 (2019 - $410,133 and $765,007), respectively due to decreases in the net realizable value of the inventory. Prior year impairments are due to lower estimated market selling price

During the three and six month ended June 30, 2020, the Company recorded an impairment of inventories of $nil (2019 - $nil) and $1,514,457 (2019 - $nil). This was taken as a reduction to the realized gain on biological assets, and due to the decrease in the estimated market selling price.

(Unaudited) (expressed in Canadian dollars)

5. Biological Assets

The Company's biological assets consist of cannabis plants. The continuity of biological assets is as follows:

		Amount
Balance, January 1, 2019	$	1,634,632
Increase in fair value less costs to sell due to biological transformation		16,480,647
Transferred to inventory upon harvest		(14,296,279)
Balance, December 31, 2019		3,819,000
Increase in fair value less costs to sell due to biological transformation		6,262,784
Transferred to inventory upon harvest		(7,247,155)
Balance, June 30, 2020	**$**	**2,834,629**

As listed below, key estimates are involved in the valuation process of the cannabis plants. The Company's estimates, by their nature, are subject to changes and inaccuracies that could result in future gains or losses in value of biological assets. Changes in estimates could result from volatility of sales prices, changes in yields, and variability of the costs necessary to complete a harvest. Prior to harvest, all production costs are expensed.

As at June 30, 2020, the Company's biological assets were, on average, 43% complete (2019 - 39%), and it was expected that the biological assets would yield approximately 1,067 kg of dry flower (2019 – 1,560 kg) and 787 kg of trim (2019 – 640 kg). As at June 30, 2020, the Company had 58,439 plants that were biological assets (2019 – 68,153 plants).

The Company values its biological assets at the end of each reporting period at fair value less costs sell. This is determined using a valuation model that calculates biological asset value by estimating the expected yield of each plant at harvest, prorated based on the stage at which the plant is in its lifecycle, multiplied by the survival rate of plants at this stage in their life cycles, the estimated per-gram selling price for the expected yield (different prices are applied for trim and dry flower yield), and less processing and selling costs. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions:

- For plants cultivated indoors, the average number of weeks in the growing cycle is sixteen weeks from propagation to harvest for plants grown indoors. The Company considers plants less than 3.5 weeks of age to be in the cloning stage; between 3.5 and 6 weeks to be in the vegetative stage; and more than 6 weeks to be in the flowering stage. For plants grown in the Company's Kimmetts airhouses, assumed harvest dates of September 30 and October 15, 2020 were used to determine the proration based on the stage of plants in their lifecycle, and all plants were classified as being in the vegetative stage as they were planted in late April and May. As at June 30, 2020, the Company had $156,973 (2019 - $282,396) of biological assets in the cloning stage, $449,946 (2019 - $701,350) in the vegetative stage and $2,227,709 (2019 - $2,835,254) in the flowering stage.
- For plants cultivated indoors, the expected average yields used were 26.6 grams of dry flower per plant (2019 – 28.6 grams per plant) and 12.5 grams of dry trim per plant (2019 – 11.7 grams). For plants cultivated in the Kimmetts airhouses, the expected average yields used were 200 grams of dry flower for extraction per plant and 200 grams of dry trim per plant.
- For plants cultivated indoors, the expected average selling price used was $5.74 per gram (2019 - $6.10 per gram) for dry flower, and $0.23 per gram (2019 – $0.22 gram) for trim, based on management's estimates. For plants in the Kimmetts airhouses, the expected average selling price of dry flower for extraction, net of processing and selling costs, was $0.75 per gram and the expected average selling price of trim, net of processing and selling costs, was $0.25 per gram.
- For plants cultivated indoors, the expected average processing and selling costs, including the costs to harvest, trim, dry and package bulk dry flower are $1.25 per gram (2019 - $0.70 per gram).

(Unaudited) (expressed in Canadian dollars)

The estimates of growing cycle, harvest yield and costs per gram are based on the Company's historical results. The estimate of the selling price per gram is based on the Company's historical sales in addition to the Company's expected sales price going forward. These assumptions are subject to volatility and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The Company expects that a $1 increase or decrease in the selling price per gram of indoor cultivated dried cannabis flower would increase or decrease the fair value of its indoor biological assets by $529,602 (2019 – $619,052), and for plants cultivated outdoors, by $537,687 (2019 - $nil). A 5% increase or decrease in the estimated yield per indoor cultivated cannabis plant would result in an increase or decrease in the fair value of biological assets of $114,847 for indoor (2019 - $173,847), and $26,884 (2019 - $nil) for outdoor. Additionally, an increase or decrease of 10% in the costs of production would decrease or increase the fair value of biological assets by $66,919 (2019 - $37,591).

Net effect of changes in fair value of biological assets and inventory include:

		June 30, 2020		June 30, 2019
Increase in fair value due to biological transformation	**$**	**6,262,784**	$	8,476,331
Realized gain on inventory sold in the year		**(7,727,978)**		(4,760,059)
Unrealized fair value in biological asset transformation	**$**	**(1,465,194)**	$	3,716,272

(Unaudited) (expressed in Canadian dollars)

6. Property, Plant and Equipment

	Land	Building and improvements	Office furniture, computer and other equipment	Production equipment and vehicles	Assets under construction	Total
Cost						
At December 31, 2019	3,920,867	32,582,214	1,309,501	11,523,526	1,907,050	51,243,158
Additions	-	56,966	208,288	1,884,325	1,517,775	3,667,354
Disposals	-	-	-	-	(22,246)	(22,246)
Reclassification	-	-	-	1,193,317	(1,193,317)	-
Effect of changes in exchange rates	-	-	2,587	-	-	2,587
At June 30, 2020	**$3,920,867**	**$32,639,180**	**$1,520,376**	**$14,601,168**	**$2,209,262**	**$54,890,853**
Accumulated depreciation						
At December 31, 2019	-	2,045,650	714,776	4,860,048	-	7,620,474
Expense for the period	-	961,672	157,643	925,535	10,938	2,055,788
Effect of changes in exchange rates	-	-	2,062	-	-	2,062
At June 30, 2020	**$ -**	**$3,007,322**	**$874,481**	**$5,785,583**	**$10,938**	**$9,678,324**
Net Book Value at December 31, 2019	**$3,920,867**	**$30,536,564**	**$594,725**	**$6,663,478**	**$1,907,050**	**$43,622,684**
Net Book Value at June 30, 2019	**$3,920,867**	**$29,631,858**	**$645,895**	**$8,815,585**	**$2,198,324**	**$45,212,529**

The depreciation expense included in production expense for the three and six months ended June 30, 2020 was $854,667 and $1,673,702 (2019 - $302,557 and $1,038,814), respectively. During the three and six months ended June 30, 2020, the Company capitalized $85,381 and $182,245 (2019 - $68,766 and 94,752) respectively, of borrowing costs to property, plant and equipment.

7. Shareholders' Equity

Authorized share capital

The Company is authorized to issue an unlimited number of common shares.

Outstanding share capital

As at June 30, 2020, there were no shares issued and outstanding other than common shares.

(Unaudited) (expressed in Canadian dollars)

	June 30, 2020		June 30, 2019	
	Number of shares	**Amount**	**Number of shares**	**Amount**
Balance as at January 1	**295,888,654**	**275,676,482**	291,009,922	272,075,757
Stock-based payments (1)	-	**43,238**	-	166,623
Cancellation of Shares	-	-	(600,000)	(540,000)
Expiry of warrants (2)	-	**(264,377)**	-	-
Exercise of options	-	-	3,200,000	2,822,771
Exercise of warrants	-	-	1,619,732	746,523
Redemption of RSUs	-	-	-	-
Issuance of consulting shares	-	-	-	-
Balance as at June 30	**295,888,654**	**275,455,343**	295,229,654	275,271,674

1) During the six months ended June 30, 2020, the Company recognized $43,238 with respect to the vesting of common shares granted in a prior period. As at June 30, 2020, 1,508,333 common shares were fully vested, and 66,667 remain unvested.

2) During the six months ended June 30, 2020, the Company transferred $264,377 of warrant issuance costs to share capital issuance costs due to expiry of warrants.

Warrants

Each warrant entitles the holder to purchase one common share at a set price, at the option of the holder, for a set period of time. The following table sets out information regarding warrants issued by the Company:

	2020			2019		
	Number of warrants		**Weighted average exercise price**	**Number of warrants**		**Weighted average exercise price**
Balance as at January 1	**14,955,500**	**$**	**2.23**	17,991,636	$	1.94
Exercise of warrants	-		-	(3,036,136)	$	0.50
Expiry of warrants	**(7,187,500)**	**$**	**4.19**	-		-
Balance as at June 30	**7,768,000**	**$**	**0.41**	14,955,500	$	2.23

The following table presents information related to warrants outstanding as at June 30, 2020:

Weighted average exercise price	Number of Warrants	Weighted average remaining life (years)	Expiry Date
$0.41	7,768,000	1.34	31/10/2021

The remaining warrants expire on October 31, 2021.

(Unaudited) (expressed in Canadian dollars)

Incentive stock options

The Company has stock-based compensation arrangements to encourage ownership of the Company's common shares by its officers, directors, employees and certain non-employees. The maximum number of common shares granted, vesting period and contractual life of the options under these arrangements are determined from time to time by the Board. The exercise price for each option is determined by the Board based on the fair market value of the Company's common shares on the date of grant, as estimated using the Black-Scholes model.

The following table summarizes the Company's stock option activity for the periods indicated:

	2020			2019	
	Number of Options	**Weighted average exercise price**		**Number of Options**	**Weighted average exercise price**
Balance as at January 1	13,215,168	$	0.81	13,240,460	$ 0.84
Granted	1,225,000		0.29	1,565,000	0.77
Exercised	-		-	(3,200,000)	0.47
Forfeited	(588,797)		0.69	(999,900)	1.29
Expired	(392,165)		0.88	(284,475)	1.65
Balance as at June 30	**13,459,206**	**$**	**0.62**	**10,321,085**	**$ 0.87**

During the six months ended June 30, 2020, 1,225,000 stock options were granted, of which options granted to directors vest over 12 months and all other options vest over 36 months from the date of grant. The options had an aggregate value of $225,998. During the six months ended June 30, 2020, 588,797 options were forfeited, and 392,165 options expired.

The Company recognized $587,805 and $943,480 (2019 - $513,220 and $1,125,958), respectively, of expense related to stock options for the three and six months ended June 30, 2020.

The fair value of each group of stock options on the date granted was estimated using the Black-Scholes valuation model. The following assumptions were used during the six months ended:

	June 30, 2020	June 30, 2019
Volatility	**74-89%**	82-88%
Risk-free interest rate	**0.40% to 1.21%**	1.40% to 2.27%
Expected life (years)	**5 years**	5 years
Dividend yield	**Nil**	Nil
Forfeiture rate	**Nil**	Nil
Share price	**$0.27 to $0.31**	$0.64 to $0.90

(Unaudited) (expressed in Canadian dollars)

Volatility assumptions used in the model were calculated based on the actual annualized one-year trading volatility of the Company's common shares. The following table presents information related to stock options outstanding as June 30, 2020:

Weighted average exercise price	**Number of Options**	**Vested**	**Weighted average remaining life (years)**
$0.01 to $1.00	12,030,500	6,604,941	3.55
$1.00 to $2.00	1,428,706	1,184,415	2.70
Balance as at June 30, 2020	**13,459,206**	**7,789,356**	**3.46**

8. Commitments and Contingencies

<u>Litigation</u>

The Company may be involved in legal proceedings, claims and assessments arising in the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Legal fees for such matters are expensed as incurred and the Company accrues for adverse outcomes as they become probable and estimable.

<u>Commitments</u>

Auxly Cannabis Group Inc. (formerly Cannabis Wheaton Income Corp.)

On May 29, 2017, the Company announced it had entered into a binding interim agreement (the "**Auxly Agreement**") with Auxly Cannabis Group Inc. (formerly known as Cannabis Wheaton Income Corp.) ("**Auxly**") to fund the construction of a minimum of an additional 50,000 square feet of cultivation space (the "**Financed Expansion Area**") at the Company's proposed Kimmett Facility. The Financed Expansion Area was to be in addition to the Company's originally planned 100,000 square foot Kimmett Facility. Under the terms of the Auxly Agreement, the Company received gross proceeds of $15,000,000 in August 2017 from the issuance of 6,666,666 common shares to Auxly pursuant to a binding agreement to finance the construction of additional cultivation space. The Company recognized $8,800,000 of deferred revenue, which represents the premium over the closing price of the Company's common shares on the date of issue.

In March 2018, the Company and Auxly entered into an amendment to the Auxly Agreement pursuant to which they agreed to a number of amendments to the Auxly Agreement, including extending the deadline for completion of the second $15 million investment to within 60 days of Auxly accepting the Company's proposed construction budget and timeline for the Financed Expansion Area as contemplated by the amended Auxly Agreement. In January 2019, the parties entered into a confidential arbitration process with respect to the Auxly Agreement and its amendment, which process is ongoing. As the arbitration is at a preliminary stage, it is too early to assign a probability as to its likely outcome. As such, the Company continues to maintain the original amount~~s~~ received as provision and equity.

9. Other Financial Assets

*National Access Cannabis Corp. dba Meta Growth ("**Meta Growth**")*

During 2018, the Company purchased 5,494,505 common shares of Meta Growth for a total cost of $5,000,000. The valuation at June 30, 2020 was based on the quoted market price of $0.13 per share on June 30, 2020. The Company's investment in Meta Growth has been classified as level 1 within the fair value hierarchy – quoted market price.

*Decibel Cannabis Company Inc. ("**Decibel**")*

(Unaudited) (expressed in Canadian dollars)

During 2018, the Company purchased 5,882,353 units of Decibel (formerly Westleaf Inc.), each consisting of one common share and one half of one warrant, with each whole warrant exercisable into one common share at a price of $0.85 until October 2, 2020, for a total cost of $5,000,000. As at June 30, 2020, the fair value of the shares was determined based on the quoted market price of $0.09 per share on June 30, 2020. The fair value of the associated warrants, is based on the Black-Scholes model with the following assumptions: exercise price of $0.85, risk free rate of 0.26%, expected volatility of 116%, expected life of 0.26 years and expected dividend yield of 0%. The shares have been classified as level 1 within the fair value hierarchy – quoted market price, and the warrants have been classified as level 2 – valuation technique with observable market inputs.

*CB2 Insights Inc. ("**CB2**")*

In 2015, the Company advanced $160,000, represented by a promissory note, to CB2 (formerly MVC Technologies Inc.). The loan was fully impaired in 2015 and was converted into 208 Class B common shares of CB2 in 2016. CB2 subsequently completed a series of share consolidations, resulting in the Company owning 6,240,000 common shares of CB2. The valuation at June 30, 2020 was based on the quoted market price of $0.095 per share on June 30, 2020. The Company's investment in CB2 has been classified as level 1 within the fair value hierarchy – quoted market price.

*Friendly Stranger Holdings Corp. ("**Friendly Stranger**")*

In June 2019, the Company purchased 187,500 Class A common shares in the capital of Friendly Stranger for $750,000 and Friendly Stranger issued the Company a convertible debenture in the principal amount of $500,000. The debenture matures on June 19, 2021, bears interest at the rate of 6.0% per annum, and is convertible into Class A common shares of Friendly Stranger at a conversion price of $5.00 per share. The conversion will be forced upon Friendly Stranger obtaining authorization for a second cannabis retail store location. The Class A common shares were measured at fair value through profit or loss. The Friendly Stranger is not a publicly traded company therefore, the fair value was classified as level 3 within the fair value hierarchy. As at June 30, 2020, the Company determined the best information to assess the fair value of the investment was based on movement of comparable public company share prices, resulting in a decline in the fair value of the investment of 29% from December 31, 2019. Comparable companies were determined in looking at product offering, relative size of operations, geographical market and other factors. A change in this assumption of plus or minus 10% would result in a corresponding change in fair value of the investment of approximately $21,662. As at June 30, 2020, the Company determined the fair value of the investment was $533,779.

The convertible debenture is measured at fair value through profit or loss. The fair value was classified as level 3 within the fair value hierarchy. The fair value of the debt component was calculated using a discount rate of 29.5% at date of issuance. The conversion feature was calculated using the Black-Scholes model with the following assumptions: exercise price of $5.00, risk free rate of 0.25%, expected volatility of 100%, expected life of two years and expected dividend yield of 0%. As at June 30, 2020, the convertible debenture had a fair value of $459,194. The debt component was calculated based on a discount rate of 29.5%, while the conversion feature was calculated using the Black-Scholes model with the following assumptions: exercise price of $5.00, risk free rate of 0.25%, expected volatility of 100%, expected life of 0.97 years and expected dividend yield of 0%.

10. Related Party Transactions

(a) The Company's related party transactions for the three and six months ended June 30, 2020 were solely comprised of compensation paid to key management, being directors and officers of the Company. Compensation awarded to key management was comprised of the following:

	For the three months ended June 30, 2020	For the three months ended June 30, 2019	**For the six months ended June 30, 2020**	For the six months ended June 30, 2019

Short-term	**$321,636**	$888,768	**$1,125,001**	$1,630,269
Share-based payments	**13,754**	201,978	**95,151**	512,115
Total	**$335,390**	$1,090,746	**$1,220,152**	$2,142,384

As at June 30, 2019, the Company was owed $15,456 from a former director of the Company. $1,338,000 of the amount owed was settled during the period by cancellation of 600,000 common shares. The Company recognized an impairment in the amount of $798,000 in connection with this transaction.

11. Convertible Debentures

December 2017 Debentures

In December 2017, the Company issued senior unsecured convertible debentures in the aggregate principal amount of $30,000,000 (the "**December 2017 Debentures**"), bearing interest at the rate of 7% per annum and maturing on December 21, 2020. The December 2017 Debentures and accrued interest can be converted at the option of the holder into common shares of the Company at a conversion price of $1.50 per share, subject to adjustment as provided in the December 2017 Debentures. The Company initially recognized $22,056,922 as the fair value of the December 2017 Debentures, and $6,075,065 was initially recognized in contributed surplus with respect to the value of the conversion feature. During the year ended December 31, 2018, $26,500,000 of the principal amount was converted into 17,666,666 common shares. As at June 30, 2020, an aggregate principal amount of $3,500,000 was outstanding.

February 2018 Debentures

In February 2018, the Company issued unsecured convertible debentures in the aggregate principal amount of $34,500,000 (the "**February 2018 Debentures**") pursuant to a bought deal financing. The February 2018 Debentures mature on February 28, 2021 and the outstanding principal of the debentures bears interest at the rate of 6.0% per annum, payable semi-annually in arrears on June 30 and December 31 in each year, commencing on June 30, 2018. Each debenture is convertible into common shares at the option of the holder at any time prior to the close of business on the earlier of the last business day immediately preceding the maturity date at a conversion price of $4.00 per share, subject to adjustment in certain circumstances. The Company initially recognized $23,661,109 as the fair value of the February 2018 Debentures, and $9,393,195 was initially recognized in contributed surplus with respect to the value of the conversion feature. As at June 30, 2020, an aggregate principal amount of $23,620,000 was outstanding.

Effective April 2, 2020, the Company repurchased a portion of the February 2018 Debentures in the aggregate principal amount of $10,000,000 for a price of $9,300,000 (plus accrued and unpaid interest thereon), representing a 7.0% discount to the face value, pursuant to a private agreement.

Effective May 8, 2020, the Company repurchased an additional portion of the February 2018 Debentures in the aggregate principal amount of $880,000 for a price of $818,400 (plus accrued and unpaid interest thereon up to but excluding April 30, 2020), representing a 7.0% discount to the face value, pursuant to the terms of a first supplement to the debenture indenture dated April 24, 2020 between the Company and TSX Trust Company, following which, February 2018 Debentures in the aggregate principal amount of $23,620,000 remain outstanding.

With the repurchase of the February 2018 Debentures, the Company reported an adjustment of $329,341 to the corresponding equity component based on a revised fair value (debt interest rate of 19%) and amount paid to settle the February 2018 Debentures.

(Unaudited) (expressed in Canadian dollars)

	December 2017 Debentures	February 2018 Debentures	Total
Balance, December 31, 2019	3,141,230	29,841,399	32,982,629
Less: Early repayment of debt	-	(9,789,011)	(9,789,011)
Accretion	174,802	1,760,000	1,934,802
Balance, June 30, 2020	**3,316,032**	**21,812,388**	**25,128,420**

12. Restricted Share Unit Liability

As at June 30, 2020, there were 381,538 restricted share units ("RSUs") outstanding, valued at $83,938 (December 31, 2019 - $66,769). The remaining RSUs will expire by December 31, 2020.

13. Financial Instruments and Risk Management

Financial Instruments

The Company measures financial instruments by grouping them into classes upon initial recognition, based on the purpose of the individual instruments. The Company initially measures all financial instruments at fair value plus, in the case of financial instruments not classified as FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial instruments.

Fair Value Hierarchy

The following table summarizes information about financial assets and liabilities measured at fair value on a recurring basis in the consolidated statement of financial position and categorized by level of significance of the inputs used in making the measurements:

(Unaudited) (expressed in Canadian dollars)

	June 30, 2020				December 31, 2019		
	Level 1	**Level 2**	**Level 3**		Level 1	Level 2	Level 3
Other financial assets - common shares of Decibel	**529,412**	-	-		1,176,471	-	-
Other financial assets - common share purchase warrants of Decibel	-	**7**	-		-	31,135	-
Other financial assets - common shares of Meta Growth	**714,286**	-	-		1,813,187	-	-
Other financial assets - common shares of CB2 Insights	**592,874**	-	-		624,000	-	-
Other financial assets - common shares of Friendly Stranger	-	-	**533,779**		-	-	750,000
Other financial assets - convertible debentures of Friendly Stranger	-	-	**459,194**		-	-	513,479
RSU plan liability	**83,938**	-	-		66,769	-	-
	$1,920,510	**$ 7**	**$ 992,973**	$	3,680,427	$ 31,135	$1,263,479

Financial Risk Factors

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and amounts due from related parties. The Company's cash and cash equivalents are held at a major Canadian bank or credit union. The Company regularly monitors its credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

The aging of the Company's accounts receivable as at June 30, 2020 was as follows:

	Current	**1-30 days**	**31-60 days**	**61-90 days**	**Over 91 days**	**Total**
Accounts receivable	$ 2,681,494	$ 164,057	$ 676,848	$ 65,290	$ 613	$ 3,588,302

The Company has recognized an expected loss allowance of $98,206 as at June 30, 2020 (2019 – $65,325).

(b) Liquidity risk

The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The Company constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations. All of the Company's financial liabilities are due within one year except for finance lease obligations.

	Carrying Amount	**Contractual cash flows**	**Within 1 year**	**1 to 2 years**	**2 to 5 years**	**5+ years**
Accounts payable and accrued liabilities	$ 8,431,455	8,431,455	8,431,455	$ -	$ -	$ -
Convertible debentures	25,128,420	28,193,405	28,193,405	-	-	-
Finance lease obligations (net of discount)	655,606	1,068,091	262,096	420,009	385,986	-
	$ 34,215,481	$37,692,951	$36,886,956	$420,009	$385,986	$ -

(c) Interest rate risk

The Company is subject to interest rate risk from its convertible debentures. Debentures owed by the Company are all fixed rate instruments.

14. Segmented Information

During the period, operating segments were determined to exist in two operating areas (production and sale of cannabis, and patient clinics) and a corporate segment. As the Company has experienced rapid growth, operating segments will be further analyzed and are subject to future change. The following table presents selected financial results for the operating segments and the corporate segment for the three months ended June 30, 2020:

(Unaudited) (expressed in Canadian dollars)

	Cannabis	Patient Clinics	Corporate	Total
For the three months ended June 30, 2020				
Net Revenue	8,751,606	684,885	-	9,436,491
Net income (loss)	(999,660)	(162,158)	(3,472,884)	(4,634,702)
For the six months ended June 30, 2020				
Net revenue	16,233,702	1,402,506	-	17,636,208
Net income (loss)	(5,872,217)	(304,265)	(9,519,124)	(15,695,606)
As at June 30, 2020				
Total assets	233,329,357	2,311,203	20,439,338	256,079,898
Total liabilities	41,032,794	647,056	34,776,749	76,456,599

The Company holds assets across three geographical locations – Canada, Germany and Australia.

	Canada	Germany	Australia	Total
For the three months ended June 30, 2020				
Net revenue	9,436,491	-	-	9,436,491
Net income (loss)	(4,074,602)	(549,601)	(10,499)	(4,634,702)
For the six months ended June 30, 2020				
Net revenue	17,636,208	-	-	17,636,208
Net income (loss)	(14,649,263)	(959,369)	(86,974)	(15,695,606)
As at June 30, 2020				
Total assets	255,116,668	621,315	341,915	256,079,898
Total liabilities	76,110,480	303,105	43,014	76,456,599

For the six months ended June 30, 2020, all revenues were earned by Canadian based entities.

15. Revenue

	For the three months ended		**For the six months ended**	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Sale of cannabis	**$12,147,075**	$5,883,468	**22,389,337**	$ 11,308,594
Consultation	**105,987**	169,589	**266,063**	277,165
Education services	**567,691**	605,865	**1,114,736**	1,210,695
Other	**(260,741)**	118,371	**(155,979)**	266,058
Discounts	**(1,347,447)**	(380,903)	**(2,500,718)**	(835,393)
Excise taxes	**(1,776,074)**	(1,114,934)	**(3,477,231)**	(1,892,539)
Net revenue	**$9,436,491**	$5,281,456	**$17,636,208**	$ 10,334,580

16. Income tax

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2019 - 26.5%) to the effective tax rate is as follows:

	2020
Net loss before recovery of income taxes	**$ 15,807,298**
Expected income tax recovery	**(4,117,966)**
Share based compensation and non-deductible expenses	**448,800**

Change in tax benefits not recognized		**3,557,478**
Income tax recovery	**$**	**(111,688)**

The Company's income tax recovery is allocated as follows:

		2020
Current tax expense	**$**	**721,538**
Deferred tax recovery	**$**	**(833,230)**