

Supreme.

Condensed Interim Consolidated Financial Statements (Unaudited)

For the Three and Six Months Ended
December 31, 2020

February 11, 2021
(Expressed in Thousands of Canadian Dollars)

The Supreme Cannabis Company, Inc. | TSX:FIRE

Management's Responsibility for Financial Reporting

To the Shareholders of The Supreme Cannabis Company, Inc. (the "**Company**" or "**Supreme**"):

Management is responsible for the preparation and presentation of the accompanying condensed interim consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards ("**IFRS**"). This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the condensed interim consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of the condensed interim consolidated financial statements.

The Audit Committee is comprised of Directors who are neither management nor employees of the Company. The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the condensed interim consolidated financial statements. The Audit Committee has the responsibility of meeting with management and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting findings. The Audit Committee is also responsible for recommending the appointment of the Company's external auditors.

February 11, 2021

(signed)

/Nikhil Handa/
Chief Financial Officer

(signed)

/Kenneth McKinnon/
Director

The Supreme Cannabis Company, Inc.

Consolidated Statements of Financial Position

(Unaudited - Expressed in thousands of Canadian Dollars)

As at:	Note(s)	December 31, 2020	June 30, 2020
ASSETS			
Current assets			
Cash		\$ 20,383	\$ 28,419
Restricted cash	11	-	6,300
Receivables	3	11,750	9,025
Prepaid expenses, deposits and other receivables		3,664	2,007
Inventory	5	25,484	40,205
Biological assets	6	1,427	4,603
Assets held for sale	7	1,468	-
Total current assets		64,176	90,559
Non-current assets			
Property, plant and equipment	7	198,806	204,677
Deposits on property, plant and equipment		13	848
Right-of-use assets		2,141	3,280
Intangible assets		11,354	11,460
Investments	9	213	213
Other assets and deposits		182	911
Total assets		\$ 276,885	\$ 311,948
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	4, 8	\$ 13,206	\$ 13,610
Lease liabilities		341	342
Current portion of long-term debt	11	6,350	2,750
Other current liability	7, 8	300	3,237
Liabilities associated with assets held for sale	7	869	-
Total current liabilities		21,066	19,939
Long-term liabilities			
Long-term debt	11	51,170	62,516
Convertible debentures	10	17,946	85,237
Other long term liability	8	-	3,751
Long-term lease liabilities		2,463	3,330
Deferred tax liability		688	4,734
Total liabilities		93,333	179,507
SHAREHOLDERS' EQUITY			
Share capital	13	308,025	282,561
Reserves		64,707	60,919
Accumulated other comprehensive (loss) income		(10,047)	(10,047)
Deficit		(179,133)	(200,992)
Total shareholders' equity		183,552	132,441
Total liabilities and shareholders' equity		\$ 276,885	\$ 311,948

Note 16 - Subsequent Events

Approved and authorized by the Board of Directors on February 11, 2021:

"Beena Goldenberg"

Director

"Kenneth McKinnon"

Director

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

The Supreme Cannabis Company, Inc.

Consolidated Statements of Comprehensive Income (Loss)

(Unaudited - Expressed in thousands of Canadian Dollars)

	Note(s)	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019	Six Months Ended December 31, 2020	Six Months Ended December 31, 2019
Gross revenue	4	\$ 21,627	\$ 10,261	\$ 35,604	\$ 22,745
Excise taxes	4	(3,316)	(1,202)	(5,426)	(2,253)
Net revenue		18,311	9,059	30,178	20,492
Production costs, excluding inventory impairment	5	(9,278)	(4,874)	(14,909)	(8,671)
Inventory impairment	5	(685)	(1,552)	(9,074)	(2,123)
Production costs		(9,962)	(6,426)	(23,982)	(10,794)
Gross margin, excluding fair value items		8,349	2,633	6,196	9,698
Fair value changes on growth of biological assets	6	192	16,239	4,164	25,460
Realized fair value changes on inventory sold or impaired	5, 6	(6,223)	(8,044)	(19,382)	(18,582)
Gross margin		2,318	10,828	(9,022)	16,576
Operating expenses					
Wages and benefits	8, 14	\$ 3,826	\$ 6,753	\$ 7,374	\$ 11,663
Facilities		637	1,043	1,326	1,912
Professional fees		1,017	1,306	1,682	2,257
Regulatory recovery fee		492	225	815	1,475
Sales, marketing and business development		913	2,776	1,728	4,826
General and administrative	15	(129)	1,763	503	3,442
Acquisition related costs		-	45	-	723
Amortization of property, plant and equipment & intangible assets		1,153	1,870	2,342	3,571
Share based payments	12	525	3,974	(978)	8,377
Restructuring charges	8	-	-	189	-
		8,434	19,755	14,981	38,246
Other expenses					
Finance expense, net	10, 11	\$ 2,351	\$ 4,535	\$ 6,650	\$ 7,081
Gain on extinguishment of convertible debentures	10	-	-	(42,507)	-
Loss on modification of debt	11	-	-	909	-
Gain on settlement of contract	8	-	-	(6,828)	-
(Gain) loss on disposal of property, plant and equipment		(39)	1,918	(39)	1,914
Realized loss on investment		-	-	-	680
		2,312	6,453	(41,815)	9,675
Net (loss) income before taxes		\$ (8,427)	\$ (15,380)	\$ 17,813	\$ (31,345)
Current tax expense		-	403	-	-
Deferred tax recovery (expense)		518	(2,338)	4,046	(2,495)
Net (loss) income		\$ (7,909)	\$ (17,315)	\$ 21,859	\$ (33,840)
Loss on revaluation of investments, net of tax	9	-	(9,235)	-	(9,375)
Total comprehensive (loss) income		\$ (7,909)	\$ (26,550)	\$ 21,859	\$ (43,215)
Weighted average number of common shares		499,208,187	354,360,014	445,060,621	345,313,405
Basic and diluted net (loss) income per common share		\$ (0.02)	\$ (0.05)	\$ 0.05	\$ (0.10)

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

The Supreme Cannabis Company, Inc.

Consolidated Statements of Cash Flows

(Unaudited - Expressed in thousands of Canadian Dollars)

For the six months ended	Note(s)	December 31, 2020	December 31, 2019
Operating activities:			
Net income (loss)		\$ 21,859	\$ (33,840)
<i>Adjustments:</i>			
Amortization of property, plant and equipment, intangible assets and right-of-use assets	7	5,882	5,455
Finance expense, net	10, 11	6,650	7,081
Share based payments	12	(978)	8,377
Loss on disposal of property, plant and equipment		(39)	1,914
Fair value changes on growth of biological assets	6	(4,164)	(25,460)
Realized fair value changes on inventory sold	5	8,022	11,447
Impairment adjustment on fair value of inventory	5	11,360	7,135
Deferred tax recovery (expense)		(4,046)	2,495
Realized loss on investment		-	680
Gain on extinguishment of convertible debentures	10	(42,507)	-
Loss on modification of debt	11	909	-
Gain on settlement of contract	8	(6,828)	-
<i>Changes in non-cash working capital and other:</i>			
Biological assets and Inventory		3,441	(12,590)
Receivables		(2,941)	8,944
Prepaid expenses, deposits and other receivables		(1,693)	(1,246)
Accounts payable and accrued liabilities		35	(6,402)
Other assets and deposits		729	648
Interest paid		(2,865)	(6,478)
Interest income and other		28	424
		(7,146)	(31,416)
Investing activities:			
Additions to property, plant and equipment	7	(745)	(29,444)
Acquired cash on business combination		-	757
Deposits on sale of property, plant and equipment	7	300	-
Proceeds from sale of property, plant and equipment	7	39	-
Deposits on property, plant and equipment		835	(52)
		429	(28,739)
Financing activities:			
Borrowings from credit facility, net of issuance costs		-	54,076
Convertible debenture re-financing transaction costs	10	(794)	-
Credit facility amendment transaction costs	11	(271)	-
Repayment of amounts borrowed under the credit facility	11	(8,158)	-
Warrants exercised	13	-	6,948
Stock options exercised	13	-	231
Shares issued under the ATM program, net of issuance costs	13	1,993	-
Repayment of lease liabilities		(389)	(917)
Transfer from restricted cash	11	6,300	(6,300)
		(1,319)	54,038
Net change in cash		(8,036)	(6,117)
Cash, beginning of period		28,419	54,822
Cash, end of period		\$ 20,383	\$ 48,705
Cash taxes paid		\$ -	\$ -
Cash interest paid		\$ 2,865	\$ 6,478

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

The Supreme Cannabis Company, Inc.

Consolidated Statements of Changes in Shareholders' Equity

(Unaudited - Expressed in thousands of Canadian Dollars)

	Note	Number of Common Shares	Share Capital	Shares to be issued	Reserves	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
Balance, June 30, 2019		301,551,430	\$ 217,646	\$ 250	\$ 53,312	\$ 950	\$ (61,186)	210,972
Impact of IFRS 16 to opening retained earnings		-	-	-	-	-	(386)	(386)
Warrants exercised	13	14,346,089	9,366	(250)	(2,168)	-	-	6,948
Stock options exercised	13	501,068	412	-	(181)	-	-	231
Shares issued for BlissCo's business combination		16,988,015	23,274	-	2,056	-	-	25,330
Shares issued for Truerra's business combination		14,699,966	21,168	-	-	-	-	21,168
Share based payments	12	6,446,136	8,831	-	(793)	-	-	8,038
Net loss for the period		-	-	-	-	-	(33,840)	(33,840)
Other comprehensive loss	9	-	-	-	-	(9,375)	-	(9,375)
Balance, December 31, 2019		354,532,704	\$ 280,697	\$ -	\$ 52,226	\$ (8,425)	\$ (95,412)	229,086
Balance, June 30, 2020		359,993,342	282,561	-	60,919	(10,047)	(200,992)	132,441
Restricted share units exercised	12	5,106,118	1,396	-	(1,396)	-	-	-
Share based payments	12	-	-	-	(557)	-	-	(557)
Shares issued from treasury for at-the-market ("ATM") program	13	13,288,502	1,993	-	-	-	-	1,993
Shares issued for convertible debenture refinancing	13	125,225,411	21,314	-	5,972	-	-	27,286
Shares issued for convertible debenture conversions		4,821,050	761	-	(231)	-	-	530
Net income for the period		-	-	-	-	-	21,859	21,859
Balance, December 31, 2020		508,434,423	\$ 308,025	\$ -	\$ 64,707	\$ (10,047)	\$ (179,133)	183,552

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



1. Nature of Operations

The Supreme Cannabis Company, Inc. (the “**Company**”, or “**Supreme**”) is a federally incorporated Canadian company with a diversified portfolio of distinct cannabis products and brands. Its common shares are listed on the Toronto Stock Exchange (“**TSX**”) under the symbol “**FIRE**”, Over-the-Counter (“**OTCQX**”) under the symbol “**SPRWF**”, and on the Frankfurt Stock Exchange (“**FRA**”) under the symbol “**53S1**”.

The Company's head office and registered records office is located at 178R Ossington Avenue, Toronto, ON, Canada.

2. Significant Accounting Policies

a) Statement of compliance

These condensed interim consolidated financial statements (“**Financial Statements**”) have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board, following the same accounting policies, including estimates and judgments and methods of application as those disclosed in the Company's annual audited consolidated financial statements as at and for the year ended June 30, 2020 (“**Annual Financial Statements**”). The Financial Statements should be read in conjunction with the Annual Financial Statements of the Company, which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

These Financial Statements were authorized for issuance by the Company's Board of Directors on February 11, 2021.

b) Basis of measurement

These Financial Statements have been prepared on a historical cost basis except for certain financial instruments which have been measured at fair value and biological assets which have been measured at fair value less costs to sell.

c) Basis of consolidation

These Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, summarized as follows:

Incorporation #	Commercial Name
8528934 Canada Ltd.	7ACRES
BC0982062	BlissCo Holdings Ltd.
2638343	Truverra Inc.
11095668 Canada Ltd.	Supreme Cannabis Kitchener

d) Functional and presentation currency

The Financial Statements are presented in thousands of Canadian dollars unless otherwise noted, which is the Company's, and each of its subsidiaries', functional currency.



3. Accounts Receivable

The Company's accounts receivable consists of trade receivable and sales tax receivable. The breakdown of the accounts receivable balance is as follows:

	December 31, 2020	June 30, 2020
Trade accounts receivable (net of expected credit losses)	\$ 11,750	\$ 7,355
Sales tax receivable	-	1,670
Total accounts receivable	\$ 11,750	\$ 9,025

Trade accounts receivable is net of expected credit losses of \$84 (June 30, 2020: \$33). During the three and six months ended December 31, 2020, the Company recovered \$1,000 and \$1,075, respectively, of previously written-off receivable balances.

4. Revenue

The Company's sales transactions primarily occurred in Canada, Israel and Australia and are comprised of the sale of cannabis products. During the three and six months ended December 31, 2020 the Company recognized gross revenue of \$21,627 (December 31, 2019: \$10,261) and \$35,604 (December 31, 2019: \$22,745), respectively, from the sale of cannabis products. For the three and six months ended December 31, 2020, the Company recorded excise taxes of \$3,316 (December 31, 2019: \$1,202) and \$5,426 (December 31, 2019: \$2,253), respectively.

For the three and six months ended December 31, 2020, the Company adjusted gross revenue in the amount of \$253 (December 31, 2019: \$470) and \$998 (December 31, 2019: \$519), respectively, for discounts provided on sale of product. Additionally, for the three and six months ended December 31, 2020, the Company has recorded a net increase to provisions for expected discounts and sales returns on products sold of \$183 (December 31, 2019: \$68) and \$397 (December 31, 2019: \$68), respectively. As at December 31, 2020, the Company had a provision balance of \$1,307 (June 30, 2020: \$910) for expected discounts and sales returns on products sold, which is included in accounts payable and accrued liabilities.

During the three months ended December 31, 2020, the Company had four major customers that accounted for 21%, 16%, 14% and 12% (December 31, 2019: three major customers accounted for 22%, 18% and 16%), respectively, of total revenues for the period. During the six months ended December 31, 2020, the Company had four major customers that accounted for 20%, 16%, 12% and 12% (December 31, 2019: three major customers accounted for 18%, 17% and 17%), respectively, of total revenues for the period.

5. Inventory

Carrying amount as at	December 31, 2020	June 30, 2020
Supplies	\$ 2,763	\$ 3,397
Seeds	224	227
Work in progress	1,352	3,626
Finished goods	19,786	30,473
Distillate oil	1,359	2,482
Total inventory	\$ 25,484	\$ 40,205

During the three and six months ended December 31, 2020, inventory recognized as expense was \$15,764 (December 31, 2019: \$14,000) and \$42,484 (December 31, 2019: \$28,568), respectively. For the three and six months ended December 31, 2020, a total of \$9,541 (December 31, 2019: \$5,956) and \$23,102 (December 31, 2019: \$9,986), respectively, has been recorded as production costs on the consolidated statement of comprehensive loss (income) related to production costs and purchased inventory that were capitalized to inventory and sold or impaired during period. For the three and six months ended December 31, 2020 a total of \$6,223 (December 31, 2019: \$8,044) and \$19,382 (December 31, 2019: \$18,582) has been recognized as realized fair value changes on inventory sold or impaired. The realized fair value changes on inventory sold or impaired represents the change in fair value previously capitalized as a result of the biological asset transformation process prior to being transferred to inventory.



5. Inventory (continued)

The Company recognized impairment charges related to inventory for the three and six months ended December 31, 2020 of \$2,525 (December 31, 2019: \$4,382) and \$20,265 (December 31, 2019: \$9,258), respectively, driven by changes in market conditions. For the three and six months ended December 31, 2020, \$685 (December 31, 2019: \$1,552) and \$8,905 (December 31, 2019: \$2,123), respectively, of impairment charges were recognized in production costs related to inventory for which capitalized costs exceeded net realizable value. For the three and six months ended December 31, 2020, \$1,840 (December 31, 2019: \$2,830) and \$11,360 (December 31, 2019: \$7,135), respectively, of impairment charges were recognized in realized fair value changes on inventory sold or impaired, for inventory of which fair value exceeded net realizable value as part of biological asset adjustments.

6. Biological Assets

Use of Estimates:

Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. 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 determine the fair value of biological assets include the following assumptions as at December 31, 2020:

- Selling prices – selling prices are based on the Company's historical average selling price per gram adjusted for current market conditions. Adjusted selling prices averaged \$3.31 per gram (June 30, 2020: \$4.08 per gram) for cannabis flower.
- Post-harvest costs – the costs are based on actual processing costs incurred by drying, trimming, testing, packaging and manufacturing activities incurred in the period, including overhead allocations for these activities. Post-harvest processing costs averaged \$1.18 per gram (June 30, 2020: \$0.36 per gram).
- The stage of plant growth – the stage of plant growth is estimated by the number of days into the growing stage as compared to the estimated growing time for a full harvest. The estimated stage of growth of the cannabis plants as at December 31, 2020 averaged 63% (June 30, 2020: averaged 64%).
- Expected yield – the expected yield per plant is based on the Company's historical adjusted average yield per plant. Expected total yield per plant is 85.80 grams (June 30, 2020: 81.23 grams) of cannabis flower.

Explanatory Information:

As at December 31, 2020, the Company's biological assets consist of cannabis plants. The changes in the fair value of biological assets are as follows:

Carrying amount, June 30, 2019	\$	8,762
Changes in fair value less costs to sell due to biological transformation		48,300
Capitalized costs incurred during the biological transformation process		24,948
Impairment of capitalized costs incurred during the biological transformation process		(426)
Transferred to inventory upon harvest		(76,981)
Carrying amount, June 30, 2020		4,603
Changes in fair value less costs to sell due to biological transformation		4,164
Capitalized costs incurred during the biological transformation process		9,782
Impairment of capitalized costs incurred during the biological transformation process		(169)
Transferred to inventory upon harvest		(16,953)
Carrying amount, December 31, 2020	\$	1,427

The Company expects that a \$1 increase or decrease in the wholesale market price per gram of cannabis flower would increase or decrease the fair value of biological assets by \$933. A 5% increase or decrease in the estimated yield per cannabis plant would result in an increase or decrease in the fair value of biological assets by \$81.



6. Biological Assets (continued)

Explanatory Information (continued):

Additionally, an increase or decrease of 10% in the post-harvest costs would decrease or increase the fair value of biological assets by \$110.

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

Three months ended	December 31, 2020	December 31, 2019
Unrealized change in fair value of biological assets	\$ (6,031)	\$ 8,195
Realized fair value increments on inventory sold or impaired	6,223	8,044
Six months ended	December 31, 2020	December 31, 2019
Unrealized change in fair value of biological assets	\$ (15,218)	\$ 6,878
Realized fair value increments on inventory sold or impaired	19,382	18,582

Unrealized change in fair value of biological assets is the net amount of changes in fair value due to biological transformation charges that have been added to biological assets and inventory during the six months ended December 31, 2020. As at December 31, 2020, biological assets and inventory include a total of \$6,365 (June 30, 2020: \$21,584) of unrealized fair value of biological assets charges which are yet to be expensed as the related biological assets and cannabis inventory is not yet sold.

7. Property, Plant and Equipment

	Facility	Land	Furniture, equipment and leaseholds	Total Property, Plant and Equipment
Cost				
Balance, June 30, 2019	\$ 175,596	\$ 5,897	\$ 6,880	\$ 188,373
Additions	30,612	-	1,004	31,616
Acquired assets	4,762	1,656	2,543	8,961
Disposals	(1,653)	(1,419)	-	(3,072)
Balance, June 30, 2020	209,317	6,134	10,427	225,878
Additions	737	-	8	745
Assets held for sale	(348)	-	-	(348)
Disposals	-	-	(153)	(153)
Balance, December 31, 2020	\$ 209,706	\$ 6,134	\$ 10,282	\$ 226,122
Accumulated Amortization and Impairment				
Balance, June 30, 2019	\$ 4,994	\$ -	\$ 1,653	\$ 6,647
Amortization	9,934	-	1,370	11,304
Impairment and disposals	1,351	-	1,899	3,250
Balance, June 30, 2020	16,279	-	4,922	21,201
Amortization	5,810	-	515	6,325
Assets held for sale	(96)	-	-	(96)
Impairment and disposals	-	-	(114)	(114)
Balance, December 31, 2020	\$ 21,993	\$ -	\$ 5,323	\$ 27,316
Net carrying cost, June 30, 2020	\$ 193,038	\$ 6,134	\$ 5,505	\$ 204,677
Net carrying cost, December 31, 2020	\$ 187,713	\$ 6,134	\$ 4,959	\$ 198,806



7. Property, Plant and Equipment (continued)

During the three and six months ended December 31, 2020, amortization expense of \$2,181 (December 31, 2019: \$1,884) and \$4,323 (December 31 2019: \$3,307), respectively, has been capitalized to inventory and biological assets. During the three and six months ended December 31, 2020, amortization expense of \$1,504 (December 31, 2019: \$839) and \$3,532 (December 31, 2019: \$1,229), respectively, has been expensed as production costs as inventory is sold or impaired during the period.

Assets held for sale:

During the six months ended December 31, 2020, management pursued the sale of certain of the Company's assets obtained from the Truverra acquisition. As such, the assets and associated liabilities have been presented as held for sale. The assets held for sale and the liabilities associated with assets held for sale are \$1,468 and \$869, respectively, which are presented on the consolidated statement of financial position. As at December 31, 2020, the Company received a non-refundable deposit of \$300 related to this transaction, which has been included in other current liability on the consolidated statement of financial position. Subsequent to December 31, 2020, the Company finalized the sale of these assets, and associated liabilities, for proceeds of \$1,490, including the non-refundable deposit.

8. Provisions

Royalty Payments for Product License:

On December 6, 2018 the Company entered into an agreement with KKE (an unrelated entity), which gave the Company an exclusive right to sell products under the KKE or KK brands across Canada, and international markets (other than the United States), in addition to certain product development services (the "**Agreement**"). The Company owed certain minimum royalty payments to KKE over the course of the Agreement.

The initial liability amount related to this future stream of payments was determined to be \$6,370. The Company had also capitalized this amount to intangible assets under the product licence category, which was fully impaired during the year ended June 30, 2020. As at June 30, 2020, the Company had an outstanding current and long-term liability of \$3,237 and \$3,741, respectively, related to the minimum royalty payments due. During the six months ended December 31, 2020, the Company and KKE mutually terminated the Agreement and settled the outstanding royalty payments due. As part of the termination, the Company settled the outstanding royalty payments with a one-time payment of \$150. During the six months ended December 31, 2020, the Company recognized a gain on settlement of contract of \$6,828 as a result of the termination and settlement of the liability.

Restructuring Charges:

During the three and six months ended December 31, 2020, the Company recognized \$nil (December 31, 2019: \$nil) and \$189 (December 31, 2019: \$nil), respectively, of restructuring charges on the consolidated statement of comprehensive loss, primarily related to employee severance costs.

As at December 31, 2020, a liability of \$329 (June 30, 2020: \$2,099) has been recorded in accounts payable and accrued liabilities on the statement of financial position, which represents remaining payments related to the restructuring charges for employee severance costs recorded by the Company to date and are expected to be paid within twelve months.

Reorganization Activities:

During the three and six months ended December 31, 2020, the Company recognized an expense of \$527 (December 31, 2019: \$1,050) and \$527 (December 31, 2019: \$1,390), respectively, related to certain reorganization activities undertaken by the Company, which are included in wages and benefits on the consolidated statement of comprehensive income. The Company finalized the settlements for the outstanding balance as at December 31, 2020 of \$1,121 (June 30, 2020: \$594), which is expected to be paid within twelve months.



9. Investments

	Level 1 on fair value hierarchy		Level 2 on fair value hierarchy		Level 3 on fair value hierarchy		Carrying value
	BlissCo shares		BlissCo warrants		Trellis Solutions Inc.	MG Health	Total
						Note 9A	
Balance, June 30, 2019	\$	3,550	\$	418	\$	1,074	\$ 15,325
Unrealized loss		(262)		(418)		(1,074)	(11,824)
Deemed disposition		(3,288)		-		-	(3,288)
Balance, June 30, 2020	\$	-	\$	-	\$	-	\$ 213
Balance, December 31, 2020	\$	-	\$	-	\$	-	\$ 213

Note 9A:

On March 20, 2018, Supreme closed an investment in MG Health Lesotho ("**MG Health**"), a licensed producer of medical cannabis based in the Kingdom of Lesotho. MG Health is focused on medical cannabis oil production for export to federally legal medical cannabis markets globally.

The Company purchased 278,000 common shares for \$10,074 and incurred \$88 of transaction costs that have been capitalized. The Company does not exercise significant influence or control. The investment has been classified as a fair value through other comprehensive income ("**FVOCI**") financial instrument. Based on a free cash flow analysis, the Company determined no changes to the carrying value of the investment during the three and six months ended December 31, 2020, which is assessed at \$213 (June 30, 2020: \$213).

10. Convertible Debentures

October 2018 Convertible Debentures:

On October 19, 2018, the Company received gross proceeds of \$100,000 from a bought deal offering issuance of 6% coupon, unsecured debentures, which are convertible into common shares at a rate of \$2.45 per share at any time and mature on October 19, 2021 ("**October 2018 Debentures**" or "**Debentures**"). As at June 30, 2020, the principal amount outstanding of the Debentures was \$100,000.

On August 31, 2020, the Company obtained approval from the requisite majority of the holders (the "**Debenture Holders**") of the Company's outstanding Debentures to amend the terms of the Debentures. The Company executed the amendment on September 9, 2020. The Company reduced the principal amount of the Debentures by \$63,500 (the "**Settled Portion**") in exchange for the issuance of 116,600,000 common shares at \$0.17 per share ("**Share Consideration**"). The total principal amount of the Debentures outstanding was reduced from \$100,000 to \$36,500 (the "**Amended Portion**" or "**September 2020 Debentures**") and the maturity date was extended from October 19, 2021 to September 10, 2025. The coupon rate on the Amended Portion was increased to 8%. The conversion price of the Amended Portion was reduced from \$2.45 per share to \$0.285 per share ("**Conversion Price**"). The Share Consideration was allocated first to the Settled Portion up to the amount of the fair value of the Settled Portion (which was based on the observable market price of the Debentures prior to the transaction and determined to be \$19,051), and the remainder to the Amended Portion.

The extinguishment of the Settled Portion of the Debentures resulted in an accounting gain of \$37,078, which represents the difference between the carrying amount of the Settled Portion, which was \$56,078, and the market value of the allocated Share Consideration to the Settled Portion, which was \$19,000. The Company allocated \$51 of the shares issued to settle the equity component of the Settled Portion.



10. Convertible Debentures (continued)

The amendments to the Amended Portion resulted in substantially different terms and therefore was accounted for as an extinguishment of the Amended Portion and a recognition of a new financial instrument for accounting purposes. As the Amended Portion is convertible into common shares, the liability and equity components are presented separately on the consolidated statement of financial position. The initial carrying amount of the financial liability was determined by using a market-based valuation of the Company's Debentures. The carrying amount of the conversion feature is the difference between the fair value of the Company's Debentures under the new terms and the initial carrying value of the financial liability. The equity component is recorded in reserves on the consolidated statement of financial position. The Amended Portion, net of the equity component, is accreted using the effective interest method over the term of the Amended Portion, such that its carrying amount will equal the principal balance at maturity.

This resulted in a gain of \$12,159, representing the difference between the previous carrying value of the Amended Portion and the fair value of the Company's Debenture under the new terms.

In addition, new Senior Unsecured Non-Convertible Debentures ("**Accretion Debentures**") were issued. The principal amount begins at \$nil and accretes at a rate of 11.06% per annum based on the principal amount of the Amended Portion of \$36,500 to \$13,500, compounding on a semi-annual basis commencing on September 9, 2020, and ending on September 9, 2023. The Accretion Debentures are payable in cash, but do not bear cash interest and are not convertible into the Company's common shares. The principal amount of the Accretion Debentures will amortize, or be paid, at 1.0% per month over the 24 months prior to maturity. The Accretion Debentures were evidenced by a separate series of debentures, which were not listed on the Toronto Stock Exchange.

The initial carrying amount of the Accretion Debentures was determined by discounting the future payment at a market interest rate of 37.50%. The Accretion Debentures are accreted using the effective interest method over the term of the debentures, such that the carrying amount of the financial liability will equal the principal balance at maturity.

The issuance of the Accretion Debentures at a carrying value of \$3,672 and transaction costs incurred of \$3,058 (in cash and shares), offset the above gains by \$6,730.

The \$42,507 net gain from the above transaction is presented in the consolidated statement of comprehensive income collectively as "gain on extinguishment of convertible debentures". The Company continues to be in a loss position for tax purposes, and as a result, the recorded gain will reduce the amount of tax attributes available to the Company.

During the three and six months ended December 31, 2020, Debenture Holders exercised the option to convert certain September 2020 Debentures into the Company's common shares, resulting in a decrease to the September 2020 Debentures carrying value of \$530.

Convertible debentures consist of the following:	Debt component	Equity component conversion option
Balance, June 30, 2019	\$ 79,054	\$ 26,246
Accretion and interest, net of payments (October 2018 Debentures)	6,183	-
Balance, June 30, 2020	\$ 85,237	\$ 26,246
Accretion and interest, net of payments (October 2018 Debentures) up to Amendment date	3,075	-
October 2018 Debentures - Settled Portion	(56,078)	(51)
October 2018 Debentures - Amended Portion extinguishment	(32,234)	-
September 2020 Debentures - Amended Portion new liability	14,053	6,023
Conversions to common shares	(530)	(231)
Accretion and interest, net of payments (September 2020 Debentures)	370	-
Balance, December 31, 2020	\$ 13,893	\$ 31,987



10. Convertible Debentures (continued)

Accretion Debentures	
Balance, June 30, 2020	\$ -
Issuance of Accretion Debentures	3,672
Accretion, net of payments	381
Balance, December 31, 2020	\$ 4,053

11. Long-Term Debt

	December 31, 2020	June 30, 2020
Term loan and revolver borrowings	\$ 57,842	\$ 66,000
Less: Transaction costs	(22)	(734)
Less: Prepaid interest	(300)	-
	57,520	65,266
Less: Current portion	(6,350)	(2,750)
Long-term debt	\$ 51,170	\$ 62,516

On November 14, 2019, the Company entered into a credit agreement with a Tier 1 Canadian Bank acting as a lead arranger and agent on behalf of a group of lenders (the “**Credit Agreement**”) for \$90,000 of senior secured credit facilities consisting of a term loan of \$70,000 and a revolving credit facility of \$20,000 (the “**Credit Facility**”). The Company is subject to certain financial covenants under the Credit Facility, which include a total funded debt to tangible net worth ratio, a minimum fixed charge coverage ratio and a maximum total funded debt to earnings before interest, taxes, depreciation and amortization ratio, as these terms are defined in the Credit Agreement. The Company monitors these ratios and is required to report them to its lenders.

On September 21, 2020, under the terms of the Credit Facility Amendment, the Company secured a deferral of its financial covenants related to fixed charge coverage ratio and funded debt to earnings before interest, taxes, depreciation and amortization ratio by 12 months, which are to become effective in the quarter ending March 31, 2022. New covenants regarding minimum liquidity and earnings before interest, taxes, depreciation and amortization will be tested in the interim. In addition, the Company agreed to a 75 basis point increase in the applicable interest rate margin on the Credit Facility. The requirement for a minimum restricted cash balance was removed and the previously maintained restricted cash balance of \$6,300 was used to repay a portion of the term loan outstanding. With the Credit Facility Amendment, the Credit Facility remained with a three-year term and has an amended term loan of \$57,200 and a revolving credit facility limit of \$7,000. During the three months ended December 31, 2020, the Company made additional repayments of \$1,858 toward the Credit Facility.

As at December 31, 2020, the Company had drawn \$57,842 (June 30, 2020: \$66,000) million under the Credit Facility and had committed \$3,214 (June 30, 2020: \$nil) of the Credit Facility towards standby letters of credit.

As a result of the Credit Facility Amendment, the Company recognized a loss of \$909 during the three months ended September 30, 2020, which has been recorded on the consolidated statement of comprehensive income under “loss on modification of debt”.

The Credit Facility matures and is payable three years from the closing date of the Credit Facility, which is November 14, 2022. The Credit Facility is secured by the assets of the Company. Pricing is based on a set margin over the Tier 1 Canadian Bank’s CAD Prime Rate or Bankers’ Acceptance and a pricing grid linked to certain financial ratios. At December 31, 2020, the effective interest rate on the Credit Facility was 5.20% (June 30, 2020: 4.45%).

As at December 31, 2020, the Company was in compliance with the financial covenants under the Credit Facility.



12. Share Based Compensation

a) Stock Option issuances:

During the six months ended December 31, 2020, the Company granted 5,005,000 (December 31, 2019: 1,560,000) incentive stock options to employees. During the three and six months ended December 31, 2020 the Company recognized an expense of \$134 (December 31, 2019: \$1,249) and a recovery of \$1,590 (December 31, 2019: \$2,463), respectively, related to stock options, net of cancellations.

Significant estimates are used to determine the fair value of stock options issued to various employees of the Company, the table below shows the estimates and assumptions used in applying the Black-Scholes option pricing model for options granted during the six months ending December 31, 2020:

Share price	\$	0.15-0.16
Expected dividend yield		0.00%
Stock price volatility		78.73%-78.85%
Expected life of options		5 years
Forfeiture rate		1%
Risk free rate		0.41%-0.43%

b) Stock Option exercises and cancellations:

During the six months ended December 31, 2020, there were nil (December 31, 2019: 501,068) common share issuances upon exercise of stock options generating proceeds of \$nil (December 31, 2019: \$231). During the six months ended December 31, 2020, there were 11,000,632 (December 31, 2019: 654,476) stock options forfeited or cancelled.

At December 31, 2020, the Company had 13,525,683 (June 30, 2020: 19,521,315) stock options outstanding as follows, of which 6,635,741 (June 30, 2020: 13,605,482) were exercisable at December 31, 2020:

	Options Outstanding	Weighted Average Exercise Price
Outstanding, June 30, 2019	24,579,567	\$ 1.62
Granted	4,504,476	1.02
Exercised	(501,068)	(0.46)
Forfeited	(9,061,660)	(1.61)
Outstanding, June 30, 2020	19,521,315	\$ 1.51
Granted	5,005,000	0.16
Forfeited	(11,000,632)	(1.57)
Outstanding, December 31, 2020	13,525,683	\$ 0.97

The stock options outstanding are as follows:

Exercise Price	Expiry Date	Number of Options	Weighted Average Remaining Life (years)
\$0.50	January 10, 2021	500,000	0.03
\$0.75	August 29, 2021	840,858	0.66
\$1.45	September 25, 2022	1,225,000	1.73
\$1.25	February 22, 2023	259,200	2.15
\$1.50	August 23, 2023	200,000	2.64
\$0.30	April 29, 2025	850,000	4.33
\$0.17	December 23, 2025	30,000	4.98
\$0.16	December 30, 2025	4,975,000	5.00
\$2.00	December 15, 2026	2,000,000	5.96
\$1.80	March 29, 2028	2,645,625	7.25
		13,525,683	4.70



12. Share Based Compensation (continued)

c) Restricted share units ("RSUs") issuances, exercises and cancellations:

During the six months ended December 31, 2020 the Company granted 12,566,104 (December 31, 2019: 4,228,233) RSU's to various employees. The RSUs were valued at the stock price on the date of issuance, adjusted for a forfeiture rate of 10%. All RSUs are equity settled instruments. During the three and six months ended December 31, 2020 the Company recognized an expense of \$354 (December 31, 2019: \$1,077) and \$613 (December 31, 2019: \$1,966), respectively, related to RSUs issuances, net of cancellations.

During the six months ended December 31, 2020, there were 5,106,118 RSU conversions and 969,473 RSUs were forfeited or cancelled.

As at December 31, 2020, the Company had 14,222,688 RSUs outstanding as follows:

	RSUs Outstanding
Outstanding, June 30, 2019	
Granted	8,897,007
Exercised	(190,638)
Expired / Forfeited	(974,194)
Outstanding, June 30, 2020	7,732,175
Granted	12,566,104
Exercised	(5,106,118)
Expired / Forfeited	(969,473)
Outstanding, December 31, 2020	14,222,688

d) Preferred share units ("PSUs"):

During the six months ended December 31, 2020, the Company cancelled 1,032,685 PSUs that were previously issued to various employees of the Company. During the three and six months ended December 31, 2020, the Company recognized a share-based payment recovery of \$nil (December 31, 2019: \$49) and \$nil (December 31, 2019: expense of \$122), respectively, related to PSUs. As at December 31, 2020, there are 167,590 outstanding PSUs and the liability related to these PSUs is \$9 (June 30, 2020: \$9).

e) Deferred share units ("DSUs"):

During the three and six months ended December 31, 2020, the Company recognized a share-based payment expense of \$37 (December 31, 2019: recovery of \$137) and a recovery of \$1 (December 31, 2019: expense of \$163), respectively, related to DSUs. As at December 31, 2020, there are 499,150 outstanding DSUs issued to directors of the Company. These DSUs are cash settled and they vest immediately upon issuance. As at December 31, 2020, the liability recognized related to DSUs is \$80 (June 30, 2020: \$81), which is recorded in accounts payable and accrued liabilities on the statement of financial position.

13. Share Capital

Authorized share capital:

Unlimited number of voting common shares

10,000,000 Class "A" preference shares

10,000,000 Class "B" preference shares

Share Capital: Common shares issued and outstanding

On December 31, 2020 the Company had 508,434,423 common shares issued and outstanding.



13. Share Capital (continued)

On April 24, 2020, the Company established an at-the-market ("ATM") Program that allows the Company to issue and sell up to \$9,750 of common shares in the capital of the Company from treasury to the public, from time to time, at the Company's discretion. During the six months ended December 31, 2020, the Company issued 13,288,502 shares under the ATM program for net proceeds of \$1,993. Since the inception of the ATM Program, the Company has issued 18,558,502 shares for net proceeds of \$3,673.

During the six months ended December 31, 2020, the Company issued 125,225,411 shares related to the extinguishment of outstanding convertible debentures, discussed in Note 10 – Convertible Debentures. Also, during the six months ended December 31, 2020, the Company issued 4,821,050 shares related to conversions of outstanding September 2020 Debentures, discussed in Note 10 – Convertible Debentures.

Share Capital: Share purchase warrants

During the six months ended December 31, 2020, nil (December 31, 2019: 13,846,089) warrants were exercised, generating proceeds of \$nil (December 31, 2019: \$6,948). Additionally, during the six months ended December 31, 2020, 14,700,766 (December 31, 2019: 17,955,144) warrants expired.

At December 31, 2020, the Company had nil (June 30, 2020: 14,700,766) share purchase warrants outstanding as follows:

	Warrants Outstanding	Weighted Average Exercise Price
Outstanding, June 30, 2019	48,597,337	\$ 1.24
Issued as part of business combination	4,516,701	1.72
Exercised	(13,846,089)	(0.50)
Expired	(24,567,183)	(1.47)
Outstanding, June 30, 2020	14,700,766	\$ 1.68
Expired	(14,700,766)	(1.68)
Outstanding, December 31, 2020	-	\$ -

Reserves:

Reserves are comprised of share-based payments, the equity component of convertible debt, RSUs and initial fair value of warrants, offset by the exercise and settlement of these instruments.

14. Related Party Transactions

The remuneration awarded to directors and executives for the three and six months ended December 31, 2020, includes the following:

For the three months ended	December 31, 2020	December 31, 2019
Share based payments	\$ 320	\$ 1,126
Salaries and wages	754	974
	\$ 1,074	\$ 2,100
For the six months ended	December 31, 2020	December 31, 2019
Share based payments	\$ 719	\$ 2,207
Salaries and wages	1,456	1,899
	\$ 2,175	\$ 4,106



15. Financial Risk Management and Financial Instruments

Classification and measurement:

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.

The classifications and methods of measurement subsequent to initial recognition of the Company's financial assets and financial liabilities are as follows:

The Company classifies its financial assets as amortized cost, FVTPL or FVOCI. The Company classifies its financial liabilities as amortized cost. Cash is classified as FVTPL, accounts receivables as amortized cost, investments as FVTPL or FVOCI. Accounts payable, accrued liabilities, current portion of long-term debt, long-term debt and convertible debentures are classified as amortized cost.

Use of Estimates:

Financial instruments measured at fair value are classified into one of the levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Explanatory Information:

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

Credit risk:

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and receivables. To minimize the credit risk the Company places cash with a high credit quality financial institution in Canada. For receivables, the Company evaluates the credit worthiness of the counterparty before credit is granted. As at December 31, 2020 a total of \$1,305 (June 30, 2020: \$725) of trade accounts receivable were considered overdue. During the three and six months ended December 31, 2020, the Company recovered \$1,000 and \$1,075, respectively, of previously written-off receivable balances. The recoveries have been recorded as part of general and administrative expense on the Company's consolidated statements of comprehensive income (loss).

At December 31, 2020, the Company has estimated the expected loss allowance using the lifetime credit loss approach to estimate bad debt expense to be \$84 (June 30, 2020: \$33) on its outstanding accounts receivable. The Company's aging of its trade accounts receivable is as follows:

Trade Accounts Receivable Aging	Current	1-30 days	31-60 days	61-90 days	91-120+ days	Total
As at December 31, 2020	\$ 10,529	601	91	106	507	11,834
As at June 30, 2020	\$ 6,663	62	114	440	109	7,388



15. Financial Risk Management and Financial Instruments (continued)

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company typically settles its financial obligations out of cash and occasionally will settle liabilities with the issuance of common shares. The ability to settle obligations with cash relies on the Company raising funds in a timely manner and by maintaining sufficient cash in excess of anticipated needs. As at December 31, 2020, the Company had a cash balance of \$20,383 (June 30, 2020: \$28,419) and current liabilities of \$21,066 (June 30, 2020: \$19,939).

The Company estimates that its current resources are sufficient to settle its current liabilities. All the Company's liabilities are due within one year, other than the September 2020 Debentures, Accretion Debentures, long-term portion of lease liabilities and long-term portion of borrowings under the Credit Facility.

Interest rate risk:

The Company is subject to interest rate risk on future cash flows due to variability of interest rates of the Company's Credit Facility. An increase or decrease of interest rates by 50 basis points would result in an approximately \$289 impact on the Company's borrowing costs on an annual basis.

Capital management:

Capital is comprised of the Company's shareholders' equity and any debt it may issue, other than trade payables in the normal course of operations. As at December 31, 2020, the Company's shareholders' equity was \$183,552 (June 30, 2020: \$132,441) and liabilities other than trade payable and accruals were \$80,127 (June 30, 2020: \$165,897).

At June 30, 2020, the Company's Credit Facility comprised of a term loan of \$57,200 and a revolving credit facility of \$7,000. At September 30, 2020, the Company had \$3,144 available under the Credit Facility.

The Company's objective when managing capital is to safeguard its accumulated capital in order to provide adequate return to shareholders by maintaining a sufficient level of funds in order to support its ongoing activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable. The Company is dependent on external financing to fund its activities. The Company will spend its existing working capital on operations, development of infrastructure and raise additional amounts as needed.

The Company is subject to certain covenants under the Credit Facility, discussed in Note 11 – Long-term debt. As at December 31, 2020, the Company was in compliance with the covenants under the Credit Agreement.

There have been no changes in the Company's approach to capital management during the three and six months ended December 31, 2020.

16. Subsequent Events

Overnight Marketed Public Offering:

On January 25, 2021, the Company announced that it had launched an overnight marketed public offering of units of the Company (the "Units") at a price of \$0.19 per Unit for gross proceeds of approximately \$20,000 (the "Offering"). Each unit will be comprised of one common share of the Company and one half of one common share purchase warrant of the Company (each full common share purchase warrant, a "Warrant"). Each Warrant will be exercisable to acquire one common share of the Company (a "Warrant Share") for a period of 36 months following the closing date of the Offering at an exercise price of \$0.23 per Warrant Share, subject to adjustment in certain events.

Subsequently on January 29, 2021, the Company announced the closing of the Offering of 121,049,000 Units for net proceeds to the Company of \$21,526, including the full exercise of the over-allotment option granted to the underwriters in connection with the Offering.



16. Subsequent Events (continued)

ATM Program Share Issuance:

Subsequent to December 31, 2020, the Company issued 21,560,500 shares under the ATM program for net proceeds of \$4,209.

Sale of assets:

Subsequent to December 31, 2020, the Company finalized the sale of its assets held for sale, and associated liabilities, relating to the Truverra business for proceeds of \$1,490, including the non-refundable deposit received during the three months ended December 31, 2020.

Restricted Share Unit Issuance:

On February 10, 2021, the Company issued 665,484 restricted share units that vested immediately upon issuance.

Restricted Share Unit Conversions:

Subsequent to December 31, 2020, various restricted share unit holders exercised 153,750 restricted share units.

Restricted Share Unit Cancellations:

Subsequent to December 31, 2020, the Company cancelled 145,832 restricted share units.

TSX : FIRE

The Supreme Cannabis Company, Inc.