

**MEDIPHARM LABS CORP.**  
(formerly POCML 4 Inc.)  
**CONDENSED INTERIM**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 and 2018**  
(Unaudited)

**MEDIPHARM LABS CORP.**  
(formerly POCML 4 Inc.)

**CONTENTS OF CONDENSED INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS  
AS AT MARCH 31, 2019**

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**MEDIPHARM LABS CORP.**  
(formerly POCML 4 Inc.,)

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**As at March 31, 2019 and December 31, 2018 (unaudited)**

(All amounts disclosed in the condensed interim consolidated financial statements and notes have been rounded off to the nearest thousand currency units and are expressed in Canadian dollars (CAD\$) unless otherwise stated.)

	Notes	March 31, 2019	December 31, 2018
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents		8,400	7,850
Trade receivables	6	13,884	6,427
Prepays and deposits		555	2,695
Inventories	7	22,046	9,404
Other financial assets	4	200	200
Other current assets		565	38
<b>Total current assets</b>		<b>45,650</b>	<b>26,614</b>
<b>Non-current assets:</b>			
Investment property		2,040	2,066
Property, plant and equipment	9	15,837	13,968
Other financial assets	4	157	81
Non-current deposits	8	6,454	-
<b>Total non-current assets</b>		<b>24,488</b>	<b>16,115</b>
<b>Total assets</b>		<b>70,138</b>	<b>42,729</b>

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

**MEDIPHARM LABS CORP.**  
(formerly POCML 4 Inc.)

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**As at March 31, 2019 and December 31, 2018 (unaudited)**

(All amounts disclosed in the condensed interim consolidated financial statements and notes have been rounded off to the nearest thousand currency units and are expressed in Canadian dollars (CAD\$) unless otherwise stated.)

	Notes	March 31, 2019	December 31, 2018
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Trade payables	6	29,191	8,094
Current employee benefit obligations		149	449
Mortgage payable	10	6,000	6,000
Due to related parties	5	16	16
Other current liabilities		392	327
<b>Total current liabilities</b>		<b>35,748</b>	<b>14,886</b>
<b>Total liabilities</b>		<b>35,748</b>	<b>14,886</b>
<b>Equity:</b>			
Common shares	12	38,474	34,065
Reserves		6,143	3,409
Accumulated other comprehensive income		(14)	9
Accumulated deficit		(10,344)	(9,834)
<b>Total equity attributable to equity holders</b>		<b>34,259</b>	<b>27,649</b>
Non-controlling interest	3	131	194
<b>Total equity</b>		<b>34,390</b>	<b>27,843</b>
<b>Total liabilities and equity</b>		<b>70,138</b>	<b>42,729</b>
Commitments and contingencies	11		

Approved on behalf of the Board:

“Patrick McCutcheon”  
Patrick McCutcheon  
Director

“Christopher Hobbs”  
Christopher Hobbs  
Director

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

**MEDIPHARM LABS CORP.**

(formerly POCML 4 Inc.,)

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS****For the three months ended March 31, 2019 and 2018 (unaudited)**

(All amounts disclosed in the condensed interim consolidated financial statements and notes have been rounded off to the nearest thousand currency units and are expressed in Canadian dollars (CAD\$) unless otherwise stated.)

		<b>Three months ended</b>	
	<b>Notes</b>	<b>March 31, 2019</b>	<b>March 31, 2018</b>
Revenue from contracts with customers	13	21,950	-
Cost of sales		(15,088)	-
<b>Gross profit</b>		<b>6,862</b>	<b>-</b>
General administrative expenses		(2,128)	(394)
Marketing and selling expenses		(907)	(11)
Share based compensation expense	12.2	(3,972)	(758)
Other operating expenses		(7)	(105)
<b>Operating loss</b>		<b>(152)</b>	<b>(1,268)</b>
Finance income		5	-
Finance expense		(178)	(81)
<b>Loss before taxation</b>		<b>(325)</b>	<b>(1,349)</b>
Taxation expense	14	(248)	-
<b>Net loss for the period</b>		<b>(573)</b>	<b>(1,349)</b>
<b>Attributable to</b>			
- Non-controlling interest		(63)	(15)
- Equity holders of the Parent		(510)	(1,334)
Weighted average number of ordinary shares		103,710,872	50,117,003
Basic and diluted earnings per share (in full CAD\$)		(0.01)	(0.03)

The above condensed interim consolidated statement of loss should be read in conjunction with the accompanying notes.

**MEDIPHARM LABS CORP.**

(formerly POCML 4 Inc.,)

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****For the three months ended March 31, 2019 and 2018 (unaudited)**

(All amounts disclosed in the condensed interim consolidated financial statements and notes have been rounded off to the nearest thousand currency units and are expressed in Canadian dollars (CAD\$) unless otherwise stated.)

	Notes	Three months ended	
		March 31, 2019	March 31, 2018
<b>Net loss for the period</b>		<b>(573)</b>	<b>(1,349)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(23)	(2)
<b>Total comprehensive loss for the period</b>		<b>(596)</b>	<b>(1,351)</b>
<b>Total comprehensive loss attributable to</b>			
- Non-controlling interest		(63)	(15)
- Equity holders of the Parent		(533)	(1,336)

The above condensed interim consolidated statement of comprehensive loss should be read in conjunction with the accompanying notes.

**MEDIPHARM LABS CORP.**  
(formerly POCML 4 Inc.,)

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**For the three months ended March 31, 2019 and 2018 (unaudited)**

(All amounts disclosed in the condensed interim consolidated financial statements and notes have been rounded off to the nearest thousand currency units and are expressed in Canadian dollars (CAD\$) unless otherwise stated.)

	<u>Common Shares</u>		<u>Reserves</u>		<u>Accumulated other comprehensive</u>	<u>Accumulated deficit</u>	<u>Non-controlling interest</u>	<u>Total</u>
	<u>Number (post stock split)</u>	<u>Share capital</u>	<u>Share-based payments</u>	<u>Equity component of convertible debt</u>				
<b>Balance at January 1, 2018</b>	<b>42,915,057</b>	<b>3,850</b>	<b>9</b>	<b>184</b>	-	<b>(1,169)</b>	<b>(5)</b>	<b>2,869</b>
Shares issued for cash	12,762,002	3,593	-	-	-	-	-	3,593
Share issue costs	-	(325)	149	-	-	-	-	(176)
Shares issued on exercise of stock options	3,170,000	34	(9)	-	-	-	-	25
Shares issued for services	118,000	28	-	-	-	-	-	28
Share based compensation	-	-	758	-	-	-	-	758
Foreign exchange translation	-	-	-	-	(2)	-	-	(2)
Net loss for the year	-	-	-	-	-	(1,334)	(15)	(1,349)
<b>Balance at March 31, 2018</b>	<b>58,965,059</b>	<b>7,180</b>	<b>907</b>	<b>184</b>	<b>(2)</b>	<b>(2,503)</b>	<b>(20)</b>	<b>5,746</b>
<b>Balance at January 1, 2019</b>	<b>97,539,361</b>	<b>34,065</b>	<b>3,409</b>	-	<b>9</b>	<b>(9,834)</b>	<b>194</b>	<b>27,843</b>
Shares issued on exercise of stock options	5,763,705	2,356	(994)	-	-	-	-	1,362
Shares issued on exercise of warrants	2,015,529	2,053	(244)	-	-	-	-	1,809
Share based compensation (Note 12.2)	-	-	3,972	-	-	-	-	3,972
Foreign exchange translation	-	-	-	-	(23)	-	-	(23)
Net loss for the year	-	-	-	-	-	(510)	(63)	(573)
<b>Balance at March 31, 2019</b>	<b>105,318,595</b>	<b>38,474</b>	<b>6,143</b>	-	<b>(14)</b>	<b>(10,344)</b>	<b>131</b>	<b>34,390</b>

The above condensed interim consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**MEDIPHARM LABS CORP.**  
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**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the three months ended March 31, 2019 and 2018 (unaudited)**

(All amounts disclosed in the condensed interim consolidated financial statements and notes have been rounded off to the nearest thousand currency units and are expressed in Canadian dollars (CAD\$) unless otherwise stated.)

	Notes	Three months ended March 31, 2019	March 31, 2018
<b>Cash flows from operating activities:</b>			
Net loss for the period		(573)	(1,349)
<b>Adjustments for:</b>			
Depreciation		563	129
Accretion expense on convertible debt		-	45
Interest accrued on convertible debt		-	27
Accruals		241	(2)
Shares issued for services		-	28
Taxation expense		248	-
Interest expense		141	-
Share based compensation		3,972	758
<b>Operating income/(loss) before changes in operating assets and liabilities</b>			
		<b>4,592</b>	<b>(364)</b>
Change in trade receivables		(7,457)	-
Change in inventories		(12,642)	(1,624)
Change in other current assets		(527)	(463)
Change in prepaid and deposits		(239)	346
Change in trade payables		21,040	(692)
Change in other current liabilities		(724)	-
<b>Net cash provided by / (used in) operating activities</b>			
		<b>4,043</b>	<b>(2,797)</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures including given deposits		(6,497)	(2,322)
Acquisition of financial assets		(76)	-
<b>Net cash used in investing activities</b>			
		<b>(6,573)</b>	<b>(2,322)</b>
<b>Cash flows from financing activities:</b>			
Issuance of shares for cash less issuance costs		-	3,417
Exercise of warrants		1,809	-
Exercise of stock options		1,362	25
Interest paid		(84)	-
Advances from shareholders		-	515
<b>Net cash provided by financing activities</b>			
		<b>3,087</b>	<b>3,957</b>
<b>Effects of exchange rate changes on cash and cash equivalents</b>			
		<b>(7)</b>	<b>(2)</b>
<b>Increase in cash and cash equivalents</b>			
		<b>550</b>	<b>(1,164)</b>
<b>Cash and cash equivalents at the beginning of the period</b>			
		<b>7,850</b>	<b>2,493</b>
<b>Cash and cash equivalents at the end of the period</b>			
		<b>8,400</b>	<b>1,329</b>

The above condensed interim consolidated statement of cash flow should be read in conjunction with the accompanying notes.



## **MEDIPHARM LABS CORP.**

(formerly POCML 4 Inc.,)

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

#### **As at and for the three months ended March 31, 2019 (unaudited)**

(All amounts disclosed in the condensed interim consolidated financial statements and notes have been rounded off to the nearest thousand currency units and are expressed in Canadian dollars (CAD\$) unless otherwise stated.)

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#### **NOTE 1 - NATURE OF OPERATIONS**

MediPharm Labs Corp. (formerly POCML 4 Inc.) (the “Corporation” or “Company”) was incorporated under the Ontario Business Corporation Act on January 23, 2017 and prior to the Transaction (as defined Note 12) it was classified as a Capital Pool Corporation (“CPC”) as defined in the Policy 2.4 of the TSX Venture Exchange (the “Exchange”). Subsequent to the Transaction, the Corporation’s shares began trading on the Exchange on October 4, 2018 under the trading symbol “LABS”.

The Company produces purified, pharma-grade cannabis oil and cannabis concentrates for advanced derivative products and licensed under the Cannabis Act. The Corporation received its sales license from Health Canada on November 12, 2018.

The head office and the registered and records office of the Corporation is located at 151 John St. Barrie, Ontario, L4N 2L1.

The condensed interim consolidated financial statements as at and for the three-month period ended March 31, 2019, include the Company and its subsidiaries (together referred to as the “Group”).

#### **NOTE 2 - BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**

##### **2.1 Basis of presentation**

###### **(i) Statement of compliance**

These condensed interim consolidated financial statements for the three-month period ended March 31, 2019 have been prepared in accordance with International Accounting Standards IAS 34 *Interim Financial Reporting*.

The condensed interim consolidated financial statements do not include all the notes of the type normally included in an annual financial statement. Accordingly, this report is to be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and any public announcements made by the Group during the interim reporting period.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

On May 9, 2019, the Board of Directors approved the condensed interim consolidated financial statements for the three-month period ended March 31, 2019.

###### **(ii) Historical cost convention**

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except the certain financial assets and liabilities which are expressed with their fair values. In addition,

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**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**As at and for the three months ended March 31, 2019 (unaudited)**

(All amounts disclosed in the condensed interim consolidated financial statements and notes have been rounded off to the nearest thousand currency units and are expressed in Canadian dollars (CAD\$) unless otherwise stated.)

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

these interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

**2.2 Changes in accounting policies**

**New and revised accounting standards**

As explained below, accounting policy changes were adopted in the current period without restating the comparative information.

*IFRS 16, Leases*

The Group has adopted IFRS 16, *Leases*, on or after January 1, 2019. The Group has elected to account for lease payments as an expense on a straight-line basis over the lease term since the Group leases its office space with a lease term less than 12 months and containing no purchase options. Therefore, there is no impact on the accumulated deficit.

Other than the above-mentioned accounting policy change, other accounting policy changes/amendments announced by IASB and effective from annual period beginning on or after January 1, 2019, do not have any significant impact on the Group's consolidated financial statements.

**2.3 Use of estimates and judgements**

The preparation of consolidated financial statements requires the use of accounting estimates. Management also needs to exercise judgement in applying the Group's accounting policies. Actual results may differ from these estimates.

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

Information about significant areas of estimation, uncertainty, and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the interim consolidated financial statements are described below:

**(i) Expected loss rate**

As at March 31, 2019, the Group management's estimate for the expected loss rate for the receivable balance is nominal. Management believes that this is the best estimate considering the subsequent collections on the outstanding receivable balance and the credibility of the customers.

**MEDIPHARM LABS CORP.**

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**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****As at and for the three months ended March 31, 2019 (unaudited)**

(All amounts disclosed in the condensed interim consolidated financial statements and notes have been rounded off to the nearest thousand currency units and are expressed in Canadian dollars (CAD\$) unless otherwise stated.)

**NOTE 2 - BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)****(ii) Fair value of share-based warrants and stock options**

The Group has share-based warrants and stock options. In estimating the fair value of the share-based warrants and stock options, the Group management uses the Black Scholes option pricing model with inputs such as expected life of share option, expected forfeiture rate and volatility, based on their best estimate. The assumptions used for estimating fair value for share based payment transactions disclosed in Note 12.2.

**(iii) Useful lives of assets**

The useful lives of the Group's assets are estimated by management at the time the asset is acquired and regularly reviewed for appropriateness. The Group defines useful life of its assets in terms of the assets' expected utility to the Group. This judgement is based on the experience of the Group with similar assets. In determining the useful life of an asset, the Group also follows technical and/or commercial obsolescence arising on changes or improvements from a change in the market.

**NOTE 3 – NON-CONTROLLING INTEREST**

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

Name of subsidiary	Operation	Place of business	Ownership interest held by non-controlling interests	
			March 31, 2019	December 31, 2018
MediPharm Labs Australia Pty.Ltd.	Cannabis oil	Australia	20%	20%

Since the construction of extraction facility at MPL-AU is still under way and no operation has started as of March 31, 2019, non-controlling interest is not material to the Group.

**NOTE 4 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

	March 31, 2019	December 31, 2018
Financial assets at amortized cost		
Cash and cash equivalents	8,400	7,850
Trade receivables (Note 6)	13,884	6,427
Other financial assets at amortized cost (1)	200	200
Financial assets at fair value through other comprehensive income (FVOCI) (2)	157	81
	<b>22,641</b>	<b>14,558</b>

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**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**As at and for the three months ended March 31, 2019 (unaudited)**

(All amounts disclosed in the condensed interim consolidated financial statements and notes have been rounded off to the nearest thousand currency units and are expressed in Canadian dollars (CAD\$) unless otherwise stated.)

**NOTE 4 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)**

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Financial liabilities at amortized cost		
Trade payables (Note 6)	29,191	8,094
Mortgages payable (Note 10)	6,000	6,000
	<b>35,191</b>	<b>14,094</b>

- (1) Other financial assets at amortized cost include the restricted cash with an original maturity of one year with an effective interest rate of 0.9%. This cash amount is pledged as security for corporate credit card liabilities.
- (2) The Group's financial assets at FVOCI are all equity instruments which are unlisted securities.

**NOTE 5 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES**

**5.1 Balances with related parties**

As at March 31, 2019, the Group has CAD\$16 (December 31, 2018: CAD\$16) due to related party balance. The balance is related with reimbursement of expenses. The amount is non-interest bearing, unsecured and due on demand.

**5.2 Benefits provided to top management**

The Group has determined that key management personnel consist of directors and officers. The remuneration to directors and officers during the three months ended March 31, 2019 was CAD\$426 (three months ended March 31, 2018: CAD\$119) included in consulting fees and salaries and benefits.

During the three-month period ended March 31, 2019, the Group issued 1,890,000 options at an exercise price of CAD\$2 to its key management personnel and the fair value of total share-based compensation is CAD\$2,647. During the three-month period ended March 31, 2019, the key management personnel exercised 3,043,200 options for gross proceeds of CAD\$720.

**NOTE 6 – TRADE RECEIVABLES AND PAYABLES**

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Trade receivables	13,884	6,427
	<b>13,884</b>	<b>6,427</b>

Credit risk and aging analysis related to trade receivables are included in Note 15.

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**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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(All amounts disclosed in the condensed interim consolidated financial statements and notes have been rounded off to the nearest thousand currency units and are expressed in Canadian dollars (CAD\$) unless otherwise stated.)

**NOTE 6 – TRADE RECEIVABLES AND PAYABLES (Continued)**

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Payable to suppliers	20,356	7,992
Goods received not invoiced	8,742	-
Other	93	102
	<b>29,191</b>	<b>8,094</b>

Payable to suppliers arises in the ordinary course of business. Other includes the payable to financial institutions related to credit card payables. Trade payables are all short term natured with due dates less than 30 days. Goods received not invoiced include the liability balance arising from inventory purchases with no issued invoices as of the end of reporting period.

**NOTE 7 – INVENTORIES**

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Raw materials	15,635	5,878
Work in progress	3,120	803
Finished goods	3,291	2,723
	<b>22,046</b>	<b>9,404</b>

Raw material inventory is comprised of harvested cannabis plants acquired from third party licensed cannabis producers. Finished goods inventory is comprised of bulk and formulated concentrate.

**NOTE 8 – NON-CURRENT DEPOSITS**

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Deposit for building improvements and equipment	6,154	-
Other	300	-
	<b>6,454</b>	<b>-</b>

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**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the three months ended March 31, 2019 (unaudited)**

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**NOTE 9 – PROPERTY, PLANT AND EQUIPMENT**

	January 1, 2019	Additions	Disposals	Transfers	Exchange difference	March 31, 2019
<b>Cost</b>						
Land	1,635	-	(20)	(181)	(10)	1,424
Building	8,501	1,204	-	181	(6)	9,880
Computers	332	133	-	-	-	465
Office equipment	53	32	-	-	-	85
Machinery and plant equipment	4,038	970	-	-	-	5,008
Security equipment	370	109	-	-	-	479
	<b>14,929</b>	<b>2,448</b>	<b>(20)</b>	<b>-</b>	<b>(16)</b>	<b>17,341</b>
<b>Less: Accumulated depreciation</b>						
Building	466	265	-	-	-	731
Computers	50	30	-	-	-	80
Office equipment	5	3	-	-	-	8
Machinery and plant equipment	404	224	-	-	-	628
Security equipment	36	21	-	-	-	57
	<b>961</b>	<b>543</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,504</b>
<b>Net book value</b>	<b>13,968</b>					<b>15,837</b>

**NOTE 10 – BORROWINGS**

**Mortgage payable**

On October 10, 2018, the Group entered into first and second mortgages for CAD\$6,000 which is secured against the land and building and a general security agreement on the assets of the Group. The first mortgage of CAD\$3,000 bears interest at a floating rate at the greater of 7.5% per annum or the TD Canada Trust Posted Bank Prime Rate of interest plus 3.80% per annum. The interest on the second mortgage of CAD\$3,000 bears interest of floating rate at the greater of 11% per annum or the TD Canada Trust Posted Bank Prime Rate of interest plus 7.30% per annum. The mortgages have a term of one year and can be repaid before maturity without penalty. As at March 31, 2019, the balance is CAD\$6,000.

**NOTE 11 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS**

**11.1 Commitments under supply agreements**

Under the wholesale supply agreements signed with licensed producers, the Group commits to sell 1,192.7kg of cannabis oil to licensed producers within 18 months. In the default of not delivering any or portion of committed product, the Group is subject to a late in-kind/cash payment. For the three-month period ended March 31, 2019, the Group fulfilled the committed amount for the reporting period and no penalty provision was estimated.

## **MEDIPHARM LABS CORP.**

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

**As at and for the three months ended March 31, 2019 (unaudited)**

(All amounts disclosed in the condensed interim consolidated financial statements and notes have been rounded off to the nearest thousand currency units and are expressed in Canadian dollars (CAD\$) unless otherwise stated.)

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

##### **11.2 Given guarantees**

MediPharm Labs Inc (wholly owned subsidiary of the Group) is the guarantor for the short-term mortgage financing for the land and building owned by MPL Property Holdings Inc. (wholly owned subsidiary of the Group).

#### **NOTE 12 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS**

##### **12.1 Common shares issued**

On January 7, 2019, 5,445,806 stock options were exercised into common shares for proceeds of CAD\$1,286.

On March 2019, 317,900 stock options were exercised into common shares for proceeds of CAD\$76.

During the three-month period ended March 31, 2019, 2,015,529 warrants were exercised into common shares for proceeds of CAD\$1,809.

##### **12.2 Stock options / Share based compensation**

On January 8, 2019, the Company issued 5,300,900 stock options with an exercise price of CAD\$2.00 per share (in full amount) for a five-year term expiring January 8, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued is, estimated using the Black Scholes option pricing model, CAD\$7,423 using the following assumptions: estimated volatility of 92.1%, estimated forfeiture rate of 0%-5%, expected life of 5 years and a risk-free rate of 1.89%.

On February 4, 2019, the Company issued 790,500 stock options with an exercise price of CAD\$1.96 per share (in full amount) for a five-year term expiring February 4, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued is, estimated using the Black Scholes option pricing model, CAD\$1,082 using the following assumptions: estimated volatility of 91.7%, estimated forfeiture rate of 0%-7%, expected life of 5 years and a risk-free rate of 1.86%.

On March 29, 2019, the Company issued 791,000 stock options with an exercise price of CAD\$3.34 per share (in full amount) for a five-year term expiring March 29, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued is, estimated using the Black Scholes option pricing model, CAD\$1,823 using the following assumptions: estimated volatility of 90.6%, estimated forfeiture rate of 0%-8%, expected life of 5 years and a risk-free rate of 1.53%.

The expected life of the share options is based on historical data of similar companies (since the Group does not have sufficient historical data) and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

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

	<b>Number of options</b>	<b>2019 Weighted average exercise price CAD\$*</b>
As at January 1	9,389,606	0.69
Granted during the period	6,882,400	2.15
Forfeited/cancelled during the period	(15,600)	1.68
Exercised during the period	(5,763,706)	0.24
<b>As at March 31</b>	<b>10,492,700</b>	<b>1.90</b>

(\*) CAD\$ is in full amount

Weighted average remaining contractual life of options outstanding at end of period 4.69 years

The expense recognized for employee services rendered during the three-month period ended March 31 is as follows:

	<b>2019</b>	<b>2018</b>
Expense arising from equity-settled share-based payment transactions	3,972	758
	<b>3,972</b>	<b>758</b>

**12.3 Share purchase warrants**

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

	<b>Number of warrants</b>	<b>2019 Weighted average exercise price CAD\$*</b>
As at January 1	26,082,277	0.86
Exercised during the period	(2,015,529)	0.90
<b>As at March 31</b>	<b>24,066,748</b>	<b>0.86</b>

(\*) CAD\$ is in full amount

Weighted average remaining contractual life of warrants outstanding at end of period 1.62 years



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

##### **12.4 Reverse takeover transaction**

On October 1, 2018, the Corporation and 2645354 Ontario Inc., the Corporation's wholly owned subsidiary, completed a three-cornered amalgamation with MediPharm Labs Inc. (the "Transaction"), which served as a reverse takeover transaction. On the Transaction date, the Corporation changed its name from POCML 4 Inc. to MediPharm Labs Corp. In connection with the Transaction, the amalgamated entity (named MediPharm Labs Inc.) is a wholly owned subsidiary of the Corporation.

POCML 4 Inc. had 5,000,000 common shares issued and outstanding immediately prior to the closing of the Transaction. Upon the completion of the Transaction, POCML 4 Inc. had 96,866,628 common shares outstanding with the former shareholders of MediPharm Labs Inc. holding 91,866,628 common shares (approximately 95%).

The Transaction does not qualify as a business combination under IFRS 3, because the acquisition accounting (POCML 4 Inc.) did not meet the definition of a business.

As a result, for accounting purposes, the Transaction is being accounted for as a reverse takeover asset acquisition with MediPharm Labs Inc. identified as the acquirer and the net assets of POCML 4 Inc. being treated as the acquired assets and the share-based payment under IFRS 2 related to the acquisition of the public company listing. Accordingly, the consolidated financial statements are presented as a continuation of MediPharm Labs Inc. which has a financial year end of December 31. Consideration paid by the acquirer is measured at the fair value of the equity issued to the shareholders of POCML 4 Inc., CAD\$4,250 (5,000,000 shares at CAD\$0.85 per share (in full amount)) with the excess amount above the fair value of the net assets acquired, treated as listing expense in the consolidated statement of loss for the year ended December 31, 2018.

The assets acquired and liabilities assumed at their fair value on the acquisition date are as follows:

Shares outstanding prior to the Transaction	5,000,000
Price per share (CAD\$ in full amount)	0.85
Fair value of shares	4,250
Fair value of existing and options of POCML 4 Inc.	407
Fair value of net assets, including cash of CAD\$461	(427)
<b>December 31, 2018</b>	<b>4,230</b>

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#### **NOTE 13 – REVENUE**

The Group derives revenue from the transfer of goods and services over time and at a point in time.

The Group's revenue at a point in time come from the sales of cannabis concentrates to licensed producers ("LP") at wholesale prices and tolling fee for producing cannabis concentrates under tolling agreements with LP partners. The Group's revenue over the time come from investment property rental income.

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**NOTE 13 – REVENUE (Continued)**

	<b>Three months ended</b>	
	<b>March 31, 2019</b>	<b>March 31, 2018</b>
At a point in time	21,914	-
Over time	36	-
	<b>21,950</b>	<b>-</b>

The Group's sales at a point in time only consist of private label production sales for the three-month period ended March 31, 2019. No tolling revenue was recognized for the three-month period ended March 31, 2019.

76% of Group's revenue (2018: nil) is derived from two external customers. All of the Group's revenue is domiciled in Canada.

**NOTE 14 – INCOME TAX EXPENSE**

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim condensed consolidated statement of loss are:

	<b>Three months ended</b>	
	<b>March 31, 2019</b>	<b>March 31, 2018</b>
Current income tax expense	248	-
Deferred tax income/expense	-	-
<b>Total income tax</b>	<b>248</b>	<b>-</b>

**NOTE 15 – FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT**

The Group is exposed to a variety of financial risks due to its operations. These risks include credit risk, market risk (foreign exchange risk and interest rate risk) and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Financial risk management is carried out by the Subsidiaries of the Group under policies approved by the Company's Board of Directors.

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

**15.1 Credit risk**

Credit risk arises from deposits with banks and financial institutions and outstanding receivables. Credit risk is managed on a group basis. For banks and financial institutions, only independently rated parties with a minimum rating of “A” are accepted. As of end of March 31, 2019, the Group has significant concentration of credit risk on outstanding receivables; however, management considers that the customers that the Group is working with have low credit risk. In addition, the Group gets 50% of sales value in advance.

The Group does not have past due outstanding receivables over 60 days. Total amount of past due receivables is CAD\$6,442. The expected loss rate for undue and overdue balance is estimated to be nominal based on the subsequent collections on the outstanding receivable balance and the credibility of the customers.

**15.2 Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash to meet obligations when due and to close out market positions. At the end of the reporting period the Group held deposits at banks and financial institutions of CAD\$8,400 (December 31, 2018: CAD\$7,850) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, the management maintains flexibility in funding by maintaining a minimum cash level at banks and financial institutions.

Management monitors rolling forecasts of the Group’s liquidity reserve and cash and cash equivalents on the basis of expected cash flows.

**15.3 Market risk**

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

**(i) Foreign currency risk**

Foreign exchange risk arises from recognized assets and liabilities denominated in a currency that is not the functional currency of the relevant Group entity. As of the end of the reporting period, the Group does not have significant foreign currency exposure.

**(ii) Interest rate risk**

The Group is exposed to interest rate risk through floating interest rates at the greater of fixed interest rate declared by Mortgage Agreement or floating interest rate. As at March 31, 2019, the fixed interest rate is greater than the floating interest rate; therefore, the Group is not exposed to interest rate risk. The Group

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

has CAD\$6,000 mortgage payable and the maturity of this financial instrument is less than 1 year. Therefore, the management believes that the Group's fair value interest rate risk is not significant to its interim consolidated financial statements.

**15.4 Capital risk management**

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

Management defines capital as the Company's shareholder's equity and debt. As at March 31, 2019, total managed capital is CAD\$40,259 (December 31, 2018: CAD\$33,649).

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the identification and evaluation of potential acquisitions. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

**NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

The judgements and estimates are made in determining the fair values of the financial instruments that are recognized and measured at fair value in the consolidated financial statements. To provide an indication about the reliability of the inputs used in determining fair value, The Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level is as follows:

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

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

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

The Group's cash and cash equivalents are classified as Level 1 whereas other financial assets (trade receivables) are classified as Level 2. Carrying values of significant portion of financial assets do not differ significantly from their fair values due to their short-term nature. Equity investments at fair value through other comprehensive income are not traded in an active market and valuation techniques with Level 3 inputs are not available based on market conditions. Considering the significance of the equity investment amount, the fair value of these financial assets is assumed to approximate their carrying value.

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**NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

The Group's mortgage payables are classified as Level 1 whereas other financial liabilities (trade payables) are classified as Level 2. Fair values of financial liabilities (mortgage payable and trade payables) are assumed to approximate their carrying values due to their short term and floating interest rates.

**NOTE 17 – SEGMENT INFORMATION**

The Group operates in one segment, the production and sales of cannabis oil. Non-current assets located outside of Canada is CAD\$1,862 (December 31, 2018: CAD\$903) and made up of property, plant and equipment.

All revenues were principally generated in Canada during the three-month period ended March 31, 2019.

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

**18.1 Exercised stock options and warrants**

Subsequent to period end, 16,500 stock options were exercised into common shares for proceeds of CAD\$28 and 8,147,826 warrants were exercised for the gross proceeds of CAD\$7,211.

**18.2 Agreements with commitments**

In accordance with a unanimous shareholders agreement dated March 1, 2018 with respect to the Group's minority interest in 10552763 Canada Corp. (o/a Garden Variety), a Manitoba retailer of cannabis products and a capital call notice dated April 4, 2019, the Group was required to make a capital contribution of CAD\$32 to Garden Variety in April 2019.

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