

**MEDIPHARM LABS CORP.
CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS ENDED
SEPTEMBER 30, 2019 and 2018**

MEDIPHARM LABS CORP.
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STATEMENTS
AS AT SEPTEMBER 30, 2019

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MEDIPHARM LABS CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at September 30, 2019 and December 31, 2018 (unaudited)

(All amounts are expressed in thousands of Canadian dollars (C\$'000s) except the share amounts.)

	Notes	September 30, 2019	December 31, 2018
ASSETS			
Current assets:			
Cash and cash equivalents		42,116	7,850
Trade receivables	6	40,786	6,427
Prepays and deposits		1,478	2,695
Inventories	7	54,086	9,404
Other financial assets	4	200	200
Other current assets	8	2,187	38
Total current assets		140,853	26,614
Non-current assets:			
Investment property		-	2,066
Property, plant and equipment	10	34,919	13,968
Other financial assets	4	189	81
Deferred tax asset	16	1,412	-
Non-current deposits	9	5,651	-
Total non-current assets		42,171	16,115
Total assets		183,024	42,729

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

MEDIPHARM LABS CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at September 30, 2019 and December 31, 2018 (unaudited)

(All amounts are expressed in thousands of Canadian dollars (C\$'000s) except the share amounts.)

	Notes	September 30, 2019	December 31, 2018
LIABILITIES AND EQUITY			
Current liabilities:			
Trade payables	6	41,704	8,094
Current employee benefit obligations		364	449
Mortgage payable	11.1	6,000	6,000
Current lease liability	11.2	361	-
Current tax liability		4,416	-
Other current liabilities		716	343
Total current liabilities		53,561	14,886
Non-current lease liability	11.2	484	-
Total non-current liabilities		484	-
Total liabilities		54,045	14,886
Equity:			
Common shares	13	121,062	34,065
Reserves		12,920	3,409
Accumulated other comprehensive income		(32)	9
Accumulated deficit		(4,969)	(9,834)
Total equity attributable to equity holders		128,981	27,649
Non-controlling interest	3	(2)	194
Total equity		128,979	27,843
Total liabilities and equity		183,024	42,729
Commitments	12		

Approved on behalf of the Board:

Patrick McCutcheon
 Director

Christopher Hobbs
 Director

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

MEDIPHARM LABS CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME/(LOSS)
For the three and nine months ended September 30, 2019 and 2018 (unaudited)
(All amounts are expressed in thousands of Canadian dollars (C\$'000s) except the share amounts.)

	Notes	Three months ended September 30		Nine months ended September 30	
		2019	2018	2019	2018
Revenue from contracts with customers	15	43,386	-	96,808	-
Cost of sales		(28,632)	-	(63,880)	-
Gross profit		14,754	-	32,928	-
General administrative expenses		(3,578)	(832)	(8,931)	(1,790)
Marketing and selling expenses		(730)	(549)	(2,496)	(692)
Research and development expense		(420)	-	(420)	-
Share based compensation expense		(4,157)	-	(10,871)	(1,227)
Other operating expenses		(504)	(533)	(769)	(976)
Operating income/(loss)		5,365	(1,914)	9,441	(4,685)
Finance income		225	42	266	42
Finance expense		(195)	(101)	(553)	(280)
Income/(loss) before taxation		5,395	(1,973)	9,154	(4,923)
Taxation expense	16	(2,120)	-	(4,485)	-
Net income/(loss) for the period		3,275	(1,973)	4,669	(4,923)
Attributable to					
- Non-controlling interest		(101)	(19)	(196)	(48)
- Equity holders of the Parent		3,376	(1,954)	4,865	(4,875)
Basic earnings per share	14	0.03	(0.02)	0.04	(0.08)
Diluted earnings per share	14	0.02	(0.02)	0.04	(0.08)

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

MEDIPHARM LABS CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE
INCOME/(LOSS)

For the three and nine months ended September 30, 2019 and 2018 (unaudited)

(All amounts are expressed in thousands of Canadian dollars (C\$'000s) except the share amounts.)

Notes	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Net income/(loss) for the period	3,275	(1,973)	4,669	(4,923)
Other comprehensive income				
<i>Items that may be reclassified to profit or loss</i>				
Exchange differences on translation of foreign operations	-	(14)	(41)	(15)
Total comprehensive income/(loss) for the period	3,275	(1,987)	4,628	(4,938)
Total comprehensive income/(loss) attributable to				
- Non-controlling interest	(101)	(19)	(196)	(48)
- Equity holders of the Parent	3,376	(1,968)	4,824	(4,890)

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

MEDIPHARM LABS CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the nine months ended September 30, 2019 and 2018 (unaudited)

(All amounts are expressed in thousands of Canadian dollars (C\$'000s) except the share amounts.)

	<u>Common Shares</u>		<u>Reserves</u>		Equity component of convertible debt	Accumulated other comprehensive	Accumulated deficit	Non-controlling interest	Total
	Number (post stock split)	Share capital	Share-based payments						
Balance at January 1, 2018	42,915,057	3,850	9	184			(1,169)	(5)	2,869
Shares issued for cash	39,016,842	25,910	-	-	-	-	-	-	25,910
Share issue costs	-	(2,662)	1,048	-	-	-	-	-	(1,614)
Shares issued on exercise of stock options	3,170,000	34	(9)	-	-	-	-	-	25
Shares issued for services	118,000	28	-	-	-	-	-	-	28
Shares issued on equipment deposit	634,000	300	-	-	-	-	-	-	300
Share based compensation	-	-	1,227	-	-	-	-	-	1,227
Foreign exchange translation	-	-	-	-	-	(15)	-	-	(15)
Non-controlling interest	-	-	-	-	-	-	(279)	279	-
Net loss for the period	-	-	-	-	-	-	(4,873)	(49)	(4,922)
Balance at September 30, 2018	85,853,899	27,460	2,275	184		(15)	(6,321)	225	23,808
Balance at January 1, 2019	97,539,361	34,065	3,409	-		9	(9,834)	194	27,843
Shares issued for cash	13,514,000	75,003	-	-	-	-	-	-	75,003
Share issue costs, net of tax	-	(2,694)	-	-	-	-	-	-	(2,694)
Shares issued on exercise of stock options	6,308,206	2,589	(1,045)	-	-	-	-	-	1,544
Shares issued on exercise of warrants	13,406,200	12,099	(315)	-	-	-	-	-	11,784
Share based compensation	-	-	10,871	-	-	-	-	-	10,871
Foreign exchange translation	-	-	-	-	-	(41)	-	-	(41)
Net income for the period	-	-	-	-	-	-	4,865	(196)	4,669
Balance at September 30, 2019	130,767,767	121,062	12,920	-		(32)	(4,969)	(2)	128,979

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

MEDIPHARM LABS CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended September 30, 2019 and 2018 (unaudited)
(All amounts are expressed in thousands of Canadian dollars (C\$'000s) except the share amounts.)

	Notes	Nine months ended	
		September 30, 2019	September 30, 2018
Cash flows from operating activities:			
Net income/(loss) for the period		4,669	(4,923)
Adjustments for:			
Depreciation		1,760	454
Accretion expense on convertible debt		-	138
Interest accrued on convertible debt		-	82
Shares issued for services		-	28
Taxation expense		952	-
Interest expense		439	-
Share based compensation		10,871	1,227
Operating income/(loss) before changes in operating assets and liabilities		18,691	(2,994)
Change in trade receivables		(34,359)	(1,734)
Change in inventories		(44,682)	(7,508)
Change in other current assets		(2,149)	289
Change in prepaid and deposits		917	(1,861)
Change in trade payables		31,254	3,911
Change in restricted cash		-	(200)
Change in other current liabilities		4,010	36
Net cash used in operating activities		(26,318)	(10,061)
Cash flows from investing activities:			
Capital expenditures including given deposits		(22,975)	(11,133)
Acquisition of financial assets		(108)	-
Net cash used in investing activities		(23,083)	(11,133)
Cash flows from financing activities:			
Issuance of shares for cash less issuance costs		70,639	24,296
Exercise of warrants		11,784	-
Exercise of stock options		1,544	25
Payment of lease liability		(46)	-
Interest paid		(392)	-
Advances from shareholders		-	578
Net cash provided by financing activities		83,529	24,899
Effects of exchange rate changes on cash and cash equivalents		138	(15)
Increase in cash and cash equivalents		34,266	3,690
Cash and cash equivalents at the beginning of the period		7,850	2,493
Cash and cash equivalents at the end of the period		42,116	6,183

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

NOTE 1 - NATURE OF OPERATIONS

MediPharm Labs Corp. (formerly POCML 4 Inc.) (the “Company”) was incorporated under the Business Corporation Act (Ontario) on January 23, 2017 and prior to the Transaction (as defined Note 13) it was classified as a capital pool company (a “CPC”) as defined in Policy 2.4 of the TSX Venture Exchange. Subsequent to the Transaction, the common shares in the capital of the Company (the “Common Shares”) began trading on the TSX Venture Exchange on October 4, 2018 under the trading symbol “LABS”. On July 29, 2019, the Common Shares were delisted from TSX Venture Exchange and began trading on the Toronto Stock Exchange under the symbol “LABS”.

The Company produces purified, pharmaceutical-like cannabis extracts and related derivative products and is the holder of a standard processing license under the *Cannabis Act* (Canada). The Company received its intra-industry sales authorization from Health Canada on November 9, 2018.

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

The condensed interim consolidated financial statements as at and for the nine-month period ended September 30, 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 nine-month period ended September 30, 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 November 11, 2019, the Board of Directors approved the condensed interim consolidated financial statements for the nine-month period ended September 30, 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,

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.

For the contracts entered into on or after January 1, 2019, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying assets or to restore the underlying asset of the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use-asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the statement of income if the carrying amount of the right-of-use asset has been reduced to zero.

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

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 September 30, 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.

(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, expected forfeiture rate and volatility of the stock option, based on their best estimate. The assumptions used for estimating fair value for share based payment transactions with respect to stock options are disclosed in Note 13.2.

(iii) Useful life of assets

The useful life 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 2 - BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

2.4 Change in estimates and judgements

(i) Revision of useful life of buildings

During the three months ending September 30, 2019, the estimated useful life to certain items of building improvements were revised from 5 years to 10-20 years range. The net effect of the changes in the current period was a decrease in depreciation expense of \$170.

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	
			September 30, 2019	December 31, 2018
MediPharm Labs Australia Pty.Ltd.	Cannabis oil	Australia	20%	20%

Since the construction of extraction facility owned by MediPharm Labs Australia Pty. Ltd. is still under way and no operation started as of September 30, 2019, the non-controlling interest is not material to the Group.

NOTE 4 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	September 30, 2019	December 31, 2018
Financial assets at amortized cost		
Cash and cash equivalents	42,116	7,850
Trade receivables (Note 6)	40,786	6,427
Other financial assets at amortized cost (1)	200	200
Financial assets at fair value through other comprehensive income (FVOCI) (2)	189	81
Financial liabilities at amortized cost		
Trade payables (Note 6)	41,704	8,094
Mortgages payable (Note 11.1)	6,000	6,000
Lease liability	845	-

- (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 cards.
- (2) The Group's financial assets at FVOCI are all equity instruments which are unlisted securities. The increase is related with capital contribution.

NOTE 5 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES

5.1 Balances with related parties

As at September 30, 2019, the Group had a \$9 (December 31, 2018: \$16) due to related party balance. The balance was for the 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 nine months ended September 30, 2019 was \$1,381 (nine months ended September 30, 2018: \$385) included in consulting fees and salaries and benefits.

During the nine-month period ended September 30, 2019, the Group issued 2,190,000 options (three-month period ended September 30, 2019: 300,000 options) at an average exercise price of \$2.61 per share (three-month period ended September 30, 2019: \$6.47 per share) to its key management personnel and the fair value of total share-based compensation is \$3,972 (three-month period ended September 30, 2019: \$1,325). During the nine-month period ended September 30, 2019, the key management personnel exercised 3,043,200 options for gross proceeds of \$720 (three-month period ended September 30, 2019: nil).

NOTE 6 – TRADE RECEIVABLES AND PAYABLES

	September 30, 2019	December 31, 2018
Trade receivables	40,786	6,427

Credit risk and aging analysis related to trade receivables are included in Note 17.

	September 30, 2019	December 31, 2018
Payable to suppliers	41,636	7,992
Other	68	102
	41,704	8,094

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.

NOTE 7 – INVENTORIES

	September 30, 2019	December 31, 2018
Raw materials	37,061	5,878
Work in progress	6,326	803
Finished goods	10,288	2,723
Consumables	411	-
	54,086	9,404

Raw material inventory is comprised of dried cannabis flower and trim acquired from third party licensed cannabis cultivators. Finished goods inventory is comprised of bulk and formulated concentrate, formulated oil and distillate product. Consumables are MCT oil used in the production of formulated oil and packaging materials.

NOTE 8 – OTHER CURRENT ASSETS

	September 30, 2019	December 31, 2018
HST/GST receivable	1,900	-
Other	287	38
	2,187	38

NOTE 9 – NON-CURRENT DEPOSITS

	September 30, 2019	December 31, 2018
Deposit for building improvements and equipment	5,351	-
Other	300	-
	5,651	-

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT

	January 1, 2019	Additions	Disposals	Transfers (2)	Exchange difference	September 30, 2019
Cost						
Land	1,635	1	(19)	266	(30)	1,853
Building	8,501	4,790	-	1,814	(139)	14,966
Computers	332	568	(21)	3	(1)	881
Office equipment	53	73	-	(3)	-	123
Machinery and plant equipment	4,038	2,284	(451)	-	-	5,871
Motor vehicles	-	35	-	-	-	35
Security equipment	370	182	-	-	-	552
Construction in progress (1)	-	12,455	-	-	(9)	12,446
Right-of-use assets (3)	-	891	-	-	-	891
	14,929	21,279	(491)	2,080	(179)	37,618
Less: Accumulated depreciation						
Building	466	665	-	50	-	1,181
Computers	50	133	(8)	-	-	175
Office equipment	5	12	-	-	-	17
Machinery and plant equipment	404	798	(36)	-	-	1,166
Motor vehicles	-	1	-	-	-	1
Security equipment	36	68	-	-	-	104
Right-of-use assets	-	55	-	-	-	55
	961	1,732	(44)	50	-	2,699
Net book value	13,968					34,919

- (1) Construction in progress consists of the machinery in installation process and renovation/expansion of building. Since these assets are not ready for their intended use, no depreciation is calculated for the current period.
- (2) The Group started using the whole portion of production facility for its own use; therefore, the rented-out portion classified as investment property was derecognized on the statement of financial position. The transfer to land and building under property, plant and equipment presents the transfer from investment property as a part of the expansion of the usage area.
- (3) The Group leases assets including land, building, motor vehicles and IT equipment. The details of the asset types where the Group is lessee is listed below. Total amount of leases with a term of 12 months or less (“short-term leases”) expensed to the consolidated statement of income for the nine-month period ending September 30, 2019 is \$393 (September 30, 2018: \$121). Total amount of short-term leases expensed in the three-month period ending September 30, 2019 is \$170 (September 30, 2018: \$34). Total expenses relating to leases of low-value assets is nil for the nine-month period ending September 30, 2019 (September 30, 2018: Nil).

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT (Continued)

	January 1, 2019	Additions	September 30, 2019
Cost			
Right-of-use assets			
-Land	-	74	74
-Building	-	753	753
-Vehicle	-	31	31
-IT equipment	-	33	33
	-	891	891
Less: Accumulated depreciation			
Right-of-use assets			
-Land	-	18	18
-Building	-	23	23
-Motor vehicle	-	10	10
-IT equipment	-	4	4
	-	55	55
Net book value	-		836

NOTE 11 – BORROWINGS**11.1 Mortgage payable**

On October 10, 2018, the Group entered into first and second mortgages for \$6,000 which was secured against the land and building and a general security agreement on the assets of the Group. The first mortgage of \$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 \$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 September 30, 2019, the balance is \$6,000.

11.2 Lease liability

The maturity analysis of lease liability based on contractual undiscounted cash flow is as follows:

	September 30, 2019
Less than one year	382
One to three years	437
Four to five years	60
Total undiscounted lease liabilities	879

NOTE 12 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

12.1 Commitments under supply agreements

Under the wholesale supply agreements signed with license holders under the *Cannabis Act*, as of end of the reporting period, the Group commits to sell 1,175kg of cannabis resin and distillate within the next 73 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 nine-month period ended September 30, 2019, the Group fulfilled the committed amounts for the reporting period and no penalty provision was estimated.

12.2 Given guarantees

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

NOTE 13 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS

13.1 Common Shares issued

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

In March 2019, 317,900 stock options were exercised into Common Shares for proceeds of \$76.

In April 2019, 4,500 stock options were exercised into Common Shares for proceeds of \$8.

In May 2019, 12,000 stock options were exercised into Common Shares for proceeds of \$20.

In June 2019, 2,700 stock options were exercised into Common Shares for proceeds of \$5.

In July 2019, 12,000 stock options were exercised into Common Shares for proceeds of \$24.

In August 2019, 512,000 stock options were exercised into Common Shares for proceeds of \$121.

In September 2019, 1,300 stock options were exercised into Common Shares for proceeds of \$4.

During the nine-month period ended September 30, 2019, 13,406,200 warrants were exercised into Common Shares for proceeds of \$11,784.

On June 17, 2019, the Company closed its bought deal offering of 13,514,000 Common Shares at a price of \$5.55 per share for aggregate gross proceeds of \$75,003.

13.2 Stock options / Share based compensation

On January 8, 2019, the Company issued options to purchase up to 5,300,900 Common Shares with an exercise price of \$2.00 per share for a five-year term expiring January 8, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued is, estimated

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

using the Black Scholes option pricing model, \$7,373 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 options to purchase up to 790,500 Common Shares with an exercise price of \$1.96 per share for a five-year term expiring February 4, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued is, estimated using the Black Scholes option pricing model, \$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 options to purchase up to 791,000 Common Shares with an exercise price of \$3.34 per share for a five-year term expiring March 29, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued is, estimated using the Black Scholes option pricing model, \$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%.

On August 13, 2019, the Company issued options to purchase up to 1,844,980 Common Shares with an exercise price of \$6.47 per share for a five-year term expiring August 13, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued is, estimated using the Black Scholes option pricing model, \$8,151 using the following assumptions: estimated volatility of 89.7%, estimated forfeiture rate of 0%-3%, expected life of 5 years and a risk-free rate of 1.30%.

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

		2019
	Number of	Weighted average
	options	exercise price
		\$
Outstanding at January 1	9,389,606	0.69
Granted during the period	8,729,900	3.06
Forfeited/cancelled during the period	(370,020)	1.75
Exercised during the period	(6,308,206)	0.24
Outstanding at September 30	11,441,280	2.72

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

	2019
	Weighted average
	exercise price
	\$
Exercisable at September 30	4,529,996
Weighted average remaining contractual life	4.20 years

The range of exercise prices for options outstanding as at September 30, 2019 is as below:

Exercise price range	Number of
	outstanding options
Less than and equal to \$1.00	126,800
Between \$1.00 and \$3.00	8,679,400
More than and equal to \$3.00	2,635,080
	11,441,280

13.3 Common Share purchase warrants

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

	2019
	Weighted average
	exercise price
	\$
As at January 1	26,082,277
Exercised during the period	(13,406,201)
As at September 30	12,676,076

Weighted average remaining contractual life 1.12 years

13.4 Reverse takeover transaction

On October 1, 2018, the Company and 2645354 Ontario Inc., the Company's wholly owned subsidiary, completed a three-cornered amalgamation with MediPharm Labs Inc. (the "Transaction"), which constituted as a reverse takeover of the Company by MediPharm Labs Inc. On the closing date of the Transaction, the Company changed its name from POCML 4 Inc. to MediPharm Labs Corp. In connection with the Transaction, the entity resulting from the amalgamation of 2645354 Ontario Inc. and MediPharm Labs Inc. became a wholly owned subsidiary of the Company and continued under the name MediPharm Labs Inc.

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

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, the Company 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 has been accounted for as a reverse acquisition that does not constitute a business combination under IFRS 3.

For accounting purposes, the legal subsidiary, MediPharm Labs Inc., has been treated as the acquirer and POCML 4 Inc., the legal parent, has been treated as the acquiree. Accordingly, the consolidated financial statements are presented as a continuation of MediPharm Labs Inc.'s financial statements which have 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., \$4,250 (5,000,000 shares at \$0.85 per share) 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	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 \$461	(427)
December 31, 2018	4,230

NOTE 14 – EARNINGS PER SHARE (EPS)

Basic EPS is calculated by dividing the profit/(loss) for the reporting period attributable to equity holders of the Company by the weighted average number of Common Shares outstanding during the reporting period.

Diluted EPS is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of Common Shares outstanding during the reporting period plus the weighted average number of Common Shares that would be issued on conversion of all the dilutive potential Common Shares into Common Shares.

NOTE 14 – EARNINGS PER SHARE (EPS) (Continued)

The following table reflects the income and share data used in the basic and diluted EPS calculations:

	Three months ended		Nine months ended	
	September 30		September 30	
	2019	2018	2019	2018
Profit/(loss) attributable to equity holders of the Company	3,376	(1,954)	4,865	(4,875)
Weighted average number of shares for basic EPS	130,278,152	85,853,899	116,508,416	63,644,928
Effects of dilution from:				
Stock options	5,267,940	-	4,542,160	-
Warrants	10,607,116	-	10,251,665	-
Weighted average number of shares adjusted for the effect of dilution	146,153,208	85,853,899	131,302,241	63,644,928
Basic EPS	0.03	(0.02)	0.04	(0.08)
Diluted EPS	0.02	(0.02)	0.04	(0.08)

Excluded from the calculation of diluted shares for the nine-month period ended September 30, 2019 are 1,844,980 stock options (three-month period ended September 30, 2019: 1,844,980 stock options) that are considered anti-dilutive.

For the nine-month and three-month periods ended September 30, 2018, since the Group reported a loss, the effects of stock options and warrants were considered anti-dilutive.

NOTE 15 – REVENUE

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2019	2018	2019	2018
Cannabis oil				
At a point in time	42,633	-	95,577	-
Tolling process				
Over time	746	-	1,142	-
Other				
Over time	7	-	89	-
	43,386	-	96,808	-

NOTE 15 – REVENUE (Continued)

The Group's sales at a point in time only consist of private label production sales for the nine-month period ended September 30, 2019. The Group has started a tolling process within the nine-month period ended September 30, 2019 and recognized revenue over time. The Group's other revenue generation over time is related with investment property rental income.

The Group started selling cannabis concentrate outside of Canada during the reporting period. For the nine-month ended September 30, 2019, 2% of revenue came from the sale of cannabis concentrate to Australia (three-month ended September 30, 2019: 3%).

For the nine-month period ended September 30, 2019, 83% of total revenue is from 4 customers each representing more than 10% of the Group's revenue (nine-month period ended September 30, 2018: nil). For the three-month period ended September 30, 2019, 91% of total revenue is from 5 customers each representing more than 10% of the Group's revenue (three-month period ended September 30, 2018: nil).

NOTE 16 – 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 income/(loss) are:

	Three months ended		Nine months ended	
	September 30		September 30	
	2019	2018	2019	2018
Current income tax expense	2,144	-	4,653	-
Deferred tax	(24)	-	(168)	-
Total income tax expense	2,120	-	4,485	-

For the nine-month periods ended September 30, 2019, the current and deferred tax relating to items recognized directly in equity are \$236 and \$1,244, respectively (2018: nil).

The Group's consolidated effective tax rate for the nine-month period ended September 30, 2019 is 26.5%.

The effect of temporary differences that give rise to the deferred tax asset, which was recognized during the nine-month period ended September 30, 2019 are as follows:

NOTE 16 – INCOME TAX EXPENSE (Continued)

	January 1, 2019	Recognized in equity	Recognized in net income	September 30, 2019
Deferred tax asset				
Share issuance cost	-	1,244	-	1,244
Property, plant and equipment	-	-	168	168
Net deferred tax	-	1,244	168	1,412

NOTE 17 – 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.

17.1 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 September 30, 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 typically receives 50% of sales value in advance.

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.

17.2 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 \$42,116 (December 31, 2018: \$7,850) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, 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.

NOTE 17 – FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

17.3 Market risk

Market risk is the risk that changes in market price in cannabis flower and trim, 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 the fixed interest rate under its mortgages or floating interest rate. As at September 30, 2019, the fixed interest rate is greater than the floating interest rate; therefore, the Group was not exposed to interest rate risk. The Group had \$6,000 mortgage payable and the maturity of this financial instrument was 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.

17.4 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 September 30, 2019, total managed capital is \$135,826 (December 31, 2018: \$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 and capital expenditures of its Canadian and Australian locations. 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 18 – 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:

NOTE 18 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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 insignificance of the equity investment amount, the fair value of these financial assets is assumed to approximate their carrying value.

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 19 – SEGMENT INFORMATION

The Group operates in one segment, the production and sales of cannabis extracts and derivative products. Non-current assets located outside of Canada is \$4,883 (December 31, 2018: \$903) and are made up of property, plant and equipment and deposits given for property, plant and equipment.

NOTE 20 – EVENTS AFTER THE REPORTING PERIOD

20.1 Issued stock options

The Board of Directors of the Company has approved a grant of stock options under its stock option plan to purchase an aggregate of 967,250 common shares in the capital of the Company with 725,000 common shares having an exercise price of \$4.61 and the remaining having an exercise price set as at the close of business on November 12, 2019 all with a 5-year term. Each grant vests in 20% equal instalments, the first of which vests immediately with the four other instalments vesting on the dates which are six, twelve, eighteen and twenty-four months from the grant date. The stock options were granted to the directors and employees of the Company.

NOTE 20 – EVENTS AFTER THE REPORTING PERIOD (Continued)

20.2 Credit Facility

The Group closed a credit agreement (the “Credit Facility”) with a Schedule 1 bank (the “Bank”) for an aggregate credit availability of \$38,700. The Credit Facility is comprised of a revolving term facility, a non-revolving term facility and a non-revolving delayed draw term facility. The revolving term facility is for up to \$25,000 subject to the Group’s borrowing base, can be drawn in Canadian or Australian dollars, has a 1-year term and is to be used for Canadian and Australian working capital. The \$5,700 non-revolving term facility was fully drawn on closing, has a 3-year term and was used to refinance and reduce the interest expense of an existing \$6,000 mortgage payable. The non-revolving delayed draw term facility of up to \$8,000 has a 3-year term and is to be used to fund capital expenditures.

The Credit Facility will bear interest at the Bank’s prime lending rate plus a certain per cent per annum dependent upon the Group’s debt to EBITDA ratio. The Credit Facility has a first ranking general security interest in the Group’s assets and can be repaid without penalty.