MEDIPHARM LABS CORP.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of MediPharm Labs Corp.

Opinion

We have audited the consolidated financial statements of MediPharm Labs Corp. (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2019
- the consolidated statement of income (loss) for the year then ended
- the consolidated statement of comprehensive income (loss) for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter – Comparative Information

The financial statements for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 1, 2019.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report theron, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors’ report is Pardeep Singh Gill.

Vaughan, Canada
March 30, 2020

MEDIPHARM LABS CORP.

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MEDIPHARM LABS CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2019 and 2018

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

	Notes	December 31, 2019	December 31, 2018
ASSETS			
Current assets:			
Cash and cash equivalents	5	38,627	7,850
Trade and other receivables	8	27,540	6,465
Prepaids and deposits	10	2,048	2,695
Inventories	9	51,486	9,404
Other financial assets	6	-	200
Total current assets		**119,701**	**26,614**
Non-current assets:			
Investment property	11	-	2,066
Property, plant and equipment	12	42,233	13,968
Deferred tax asset	24	587	-
Non-current deposits		6,120	-
Other financial assets	6	189	81
Total non-current assets		**49,129**	**16,115**
Total assets		**168,830**	**42,729**

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

MEDIPHARM LABS CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2019 and 2018
(All amounts disclosed are expressed in Canadian dollars (C$'000s) except the share amounts.)

	Notes	December 31, 2019	December 31, 2018
LIABILITIES AND EQUITY			
Current liabilities:			
Trade and other payables	15	20,946	8,371
Current employee benefit obligations	16	1,350	449
Loans and borrowings	13	1,823	6,000
Current tax liability		4,727	-
Other current liabilities		-	66
Total current liabilities		**28,846**	**14,886**
Loans and borrowings	13	8,757	-
Total non-current liabilities		**8,757**	**-**
Total liabilities		**37,603**	**14,886**
Equity:			
Common shares	17	122,807	34,065
Reserves		16,960	3,409
Accumulated other comprehensive (loss)/income		(31)	9
Accumulated deficit		(8,189)	(9,834)
Total equity attributable to equity holders of the Parent		**131,547**	**27,649**
Non-controlling interest		(320)	194
Total equity		**131,227**	**27,843**
Total liabilities and equity		**168,830**	**42,729**
Commitments and contingencies	14		

Approved on behalf of the Board:

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

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

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

MEDIPHARM LABS CORP.

CONSOLIDATED STATEMENTS OF INCOME/(LOSS)
For the years ended December 31, 2019 and 2018

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

	Notes	2019	2018
Revenue	19	129,252	10,198
Cost of sales		(86,338)	(6,231)
Gross profit		**42,914**	**3,967**
General administrative expenses	20	(15,357)	(3,556)
Marketing and selling expenses	20	(3,330)	(1,272)
Research and development expenses		(867)	-
Share based compensation expense	17, 22	(15,502)	(1,965)
Transaction fee		-	(4,230)
Other operating expenses	21	(920)	(996)
Operating income/(loss)		**6,938**	**(8,052)**
Finance income	23	486	64
Finance expense	23	(672)	(478)
Income/(loss) before taxation		**6,752**	**(8,466)**
Taxation expense	24	(5,621)	-
Net income/(loss) for the year		**1,131**	**(8,466)**
Attributable to			
- Non-controlling interest	4	(514)	(80)
- Equity holders of the Parent		1,645	(8,386)
Basic earnings/(loss) per share	18	0.01	(0.12)
Diluted earnings/(loss) per share	18	0.01	(0.12)

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

MEDIPHARM LABS CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
For the years ended December 31, 2019 and 2018
(All amounts disclosed are expressed in Canadian dollars (C$'000s) except the share amounts.)

	Notes	2019	2018
Net income/(loss) for the year		**1,131**	**(8,466)**
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(40)	9
Total comprehensive income/(loss) for the year		**1,091**	**(8,457)**
Total comprehensive income/(loss) attributable to			
- Non-controlling interest		(514)	(80)
- Equity holders of the Parent		1,605	(8,377)

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

MEDIPHARM LABS CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2019 and 2018
(All amounts disclosed are expressed in Canadian dollars (C$'000s) except the share amounts.)

	Common Shares		Reserves					
	Number (post stock split)	Share capital	Share-based payments	Equity component of convertible debt	Accumulated other comprehensive	Accumulated deficit	Non-controlling interest	Total
Balance at January 1, 2018	**42,915,057**	**3,850**	**9**	**184**	**-**	**(1,169)**	**(5)**	**2,869**
Shares issued for cash	39,016,841	25,910	-	-	-	-	-	25,910
Share issue costs	-	(2,651)	1,037	-	-	-	-	(1,614)
Shares issued on exercise of stock options	3,170,000	34	(9)	-	-	-	-	25
Shares issued on exercise of warrants	672,733	733	-	-	-	-	-	733
Shares issued on equipment deposit	634,000	300	-	-	-	-	-	300
Shares issued for services	118,000	28	-	-	-	-	-	28
Shares issued on convertible debenture	6,012,729	1,598	-	(184)	-	-	-	1,414
RTO transaction (Note 17.4)	5,000,000	4,250	407	-	-	-	-	4,657
Shares to be issued upon exercise of stock options	-	13	-	-	-	-	-	13
Share based compensation	-	-	1,965	-	-	-	-	1,965
Foreign exchange translation	-	-	-	-	9	-	-	9
Transaction with non-controlling interest	-	-	-	-	-	(279)	279	-
Net loss for the year	-	-	-	-	-	(8,386)	(80)	(8,466)
Balance at December 31, 2018	**97,539,360**	**34,065**	**3,409**	**-**	**9**	**(9,834)**	**194**	**27,843**
Balance at January 1, 2019	**97,539,360**	**34,065**	**3,409**	**-**	**9**	**(9,834)**	**194**	**27,843**
Shares issued for cash (Note 17.1)	13,514,000	75,003	-	-	-	-	-	75,003
Share issue costs	-	(2,694)	-	-	-	-	-	(2,694)
Shares issued on exercise of stock options	6,909,106	4,146	(1,636)	-	-	-	-	2,510
Shares issued on exercise of warrants	13,562,602	12,287	(315)	-	-	-	-	11,972
Share based compensation (Note 17.2)	-	-	15,502	-	-	-	-	15,502
Foreign exchange translation	-	-	-	-	(40)	-	-	(40)
Net income for the year	-	-	-	-	-	1,645	(514)	1,131
Balance at December 31, 2019	**131,525,068**	**122,807**	**16,960**	**-**	**(31)**	**(8,189)**	**(320)**	**131,227**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2019 and 2018
(All amounts disclosed are expressed in Canadian dollars (C$'000s) except the share amounts.)

	Notes	2019	2018
Cash flows from operating activities:			
Net income/(loss) for the year		1,131	(8,466)
Adjustments for:			
Depreciation		2,531	982
Interest expense and finance fee		672	-
Interest income		(486)	
Taxation expense		5,621	-
Accretion expense on convertible debt		-	138
Interest accrued on convertible debt		-	82
Accruals		-	726
Shares issued for services		-	28
Share based compensation		15,502	1,965
Listing expense		-	4,657
Operating income before changes in operating assets and liabilities		**24,971**	**112**
Change in trade and other receivables		(19,552)	(6,427)
Change in inventories		(42,082)	(9,404)
Change in other current assets		(1,523)	255
Change in prepaids and deposits		647	(2,282)
Change in restricted cash		200	(200)
Change in trade and other payables		11,239	6,885
Change in other current liabilities		835	(52)
Net cash used in operating activities		**(25,265)**	**(11,113)**
Cash flows from investing activities:			
Capital expenditures		(32,438)	(14,572)
Acquisition of financial assets		(108)	(31)
Net cash used in investing activities		**(32,546)**	**(14,603)**
Cash flows from financing activities:			
Issuance of shares for cash less issuance costs		70,827	24,296
Repayment of loans and borrowings		(6,000)	-
Exercise of warrants		11,972	733
Exercise of stock options		2,510	38
Interest and finance fee paid		(797)	-
Interest received		486	-
Proceeds from loans and borrowings		9,700	6,000
Payment of lease liabilities		(199)	-
Advances from shareholders		-	(3)
Net cash provided by financing activities		**88,499**	**31,064**
Effects of exchange rate changes on cash and cash equivalents		**89**	**9**
Increase in cash and cash equivalents		**30,777**	**5,357**
Cash and cash equivalents at the beginning of the year	**5**	**7,850**	**2,493**
Cash and cash equivalents at the end of the year	**5**	**38,627**	**7,850**

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

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

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 17.4) the Company was classified as a capital pool company (a "CPC") as defined in Policy 2.4 of the TSX Venture Exchange. Subsequent to the 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.

These consolidated financial statements of the Company as at and for year ended December 31, 2019 ("Consolidated Financial Statements"), include the financial statement of the Company and its subsidiaries.

The Company and its subsidiaries are referred to as the "Group" in the notes to the Consolidated Financial Statements. The operations of the Company's subsidiaries are stated below:

Subsidiaries	Nature of business	Registered Country
MediPharm Labs Inc. (1)	Pharmaceutical	Canada
MediPharm Labs Australia Pty. Ltd. (2)	Pharmaceutical	Australia
MPL Property Holdings Inc. (3)	Real Estate	Canada
MPL Manufacturing Inc. (4)	Holding	Canada
2612785 Ontario Inc. (4)	Holding	Canada
MPL International Holdings Inc. (4)	Holding	Canada

(1) MediPharm Labs Inc. ("MPL"), incorporated on January 26, 2015, operates out of a 70,000 sq.ft. building (wholly owned by Group company) located in Barrie, Ontario which currently includes 18,000 sq.ft of pharma-grade manufacturing space leaving availability for future expansion.

(2) MediPharm Labs Australia Pty. Ltd. ("MPL-AU"), incorporated on January 18, 2017, is located in Wonthaggi, Australia. Construction of extraction facility is under way. The facility is designed to the same quality standards as the MPL facility. MPL owns 80% of MPL-AU's shares.

(3) MPL Property Holdings Inc ("MPL-P"), incorporated on June 5, 2018 owns a 70,000 sq.ft. building located in Barrie, Ontario and rents out the space to Group companies and third-party companies. As at December 31, 2019, whole building is occupied by subsidiaries within the Group.

(4) These subsidiaries are inactive companies.

NOTE 2 - BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation

(i) Statement of compliance

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

On March 30, 2020, the Board of Directors approved these Consolidated Financial Statements.

(ii) Historical cost convention

These Consolidated Financial Statements have been prepared on a historical cost basis, except certain financial assets which are expressed at their fair values. In addition, these Consolidated Financial Statements have been prepared using the accrual basis of accounting, except for cash flow information.

(iii) Foreign currency translation

Functional and presentation currency

Items included in the Consolidated Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). These Consolidated Financial Statements are presented in Canadian Dollars, which is the Company's functional and presentation currency.

Foreign currency transactions and balances

Foreign currency transactions are translated into the respective Group entity's functional currency using the exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are re-measured to the functional currency at the exchange rate at the reporting date and the date they are settled. Non-monetary items that are based on historical cost in a foreign currency are translated into the functional currency using the exchange rate at the date of the transaction. Foreign currency gains and losses due to translating and settling foreign currency transactions are reported in the consolidated statement of income/(loss) on a net basis.

Group companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position
- income and expenses for each statement of income/(loss) are translated at average exchange rates and
- all resulting exchange differences are recognized in other comprehensive income/(loss).

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

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

(iv) Basis of consolidation

Subsidiaries

The proportion of voting power held by the parent company, MediPharm Labs Corp. (formerly POCML 4 Inc.) and its subsidiaries and the total proportion of ownership interests at December 31 are presented below:

	Proportion of voting power held by the Company	
Subsidiaries	**(%)**	**(%)**
	2019	**2018**
MediPharm Labs Inc.	100%	100%
MPL Property Holdings Inc.	100%	100%
MPL Manufacturing Inc.	100%	100%
2612785 Ontario Inc.	100%	100%
MediPharm Labs Australia Pty. Ltd.	80%	80%
MPL International Holdings Inc.	100%	-

Subsidiaries are companies in which MediPharm Lab Corp. (formerly POCML 4 Inc.) has the ability to control the financial and operating policies for the benefit of MediPharm Lab Corp. (formerly POCML 4 Inc.) through the power to exercise more than 50% of the voting rights relating to shares in the companies as a result of shares owned directly by itself.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income/(loss) and other comprehensive income/(loss) from the date the Company gains control of the Subsidiary until the date when the Company ceases to control the subsidiary.

Income or loss is attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income/(loss) of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full upon consolidation.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of income/(loss), statement of comprehensive income/(loss) and statement of changes in equity and statement of financial position.

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

Changes in ownership interest

A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to the non-controlling and any consideration paid or received is recognised in a separate reserve within equity attributable to the owners of the Company.

2.2 Changes in accounting policies

(i) New and revised accounting standards

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

IFRS 16, *Leases*

The Group adopted IFRS 16, *Leases*, on January 1, 2019. For the contracts entered into before January 1, 2019, the Group elected to account for lease payments as an expense on a straight-line basis over the lease term since the lease term for those leases was less than 12 months and contained 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

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

consolidated statement of income/(loss) if the carrying amount of the right-of-use asset has been reduced to zero.

The adoption of IFRS 16, Leases, did not have a significant impact on the Group's property, plant and equipment or liability balances upon transition. The effect of change on the consolidated statement of income/(loss) is $172 increase in depreciation expense and $14 increase in interest expense and $135 decrease in operating expenses.

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.

(ii) Standards, amendments and interpretations issued as of December 31, 2019 that are not yet effective

A number of new and amendments to accounting standards are effective for annual periods beginning on or after January 1, 2020 and earlier application is permitted. However, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements. The following new and amendments to standards are not expected to have a significant impact on the Company's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- IFRS 17, *Insurance Contracts*

2.3 Use of estimates and judgements

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

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

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

(i) Expected loss rate

As at December 31, 2019, the Group's estimate for the expected loss rate for its trade receivables is nominal. Management believes that this is the best estimate considering the historical and subsequent collection rates on the outstanding trade receivables.

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 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 17.2.

(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 estimate is based on the experience of the Group with similar assets. In determining the useful life of an asset, the Group also follows technical and/or commercial obsolesce arising on changes or improvements from a change in the market.

2.4 Change in estimates and judgements

(i) Revision of useful life of buildings

The estimated useful life to certain items of building improvements were revised from 5 years to 10-20 years range upon the assets becoming used for the Company's primary operation from being used as leasehold improvement in investment property. The net effect of the changes in the current period was a decrease in depreciation expense of $345. The net effect of the changes in the next three years was a decrease in depreciation expense of $691 for each year and decrease in depreciation expense of $206 for the fourth year and increase in depreciation expense of $143 in the fifth and following years.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in preparation of these consolidated financial statements are summarized below:

3.1 Cash and cash equivalents

Cash and cash equivalents includes bank deposits and other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (Note 5).

3.2 Trade receivables

Trade receivables that are originated by the Group by way of providing goods to a customer are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less loss allowance. Short term trade receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant (Note 8).

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the recorded value of the receipt and the amount of the receivable the Group expects to collect.

3.3 Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (Note 7).

A person or a close member of that person's family is related to a reporting entity if that person:

- has control or joint control over the reporting entity;
- has significant influence over the reporting entity; or
- is a member of the key management personnel of the reporting entity or of a parent of the reporting entity

An entity is related to a reporting entity if any of the following conditions applies:

- The entity and the company are members of the same group
- One entity is an associate or joint venture of the other entity
- The entity is controlled or jointly controlled by a person identified in above paragraph
- A person identified in the above paragraph has significant influence over the entity or is a member of the key management personnel of the entity

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. Related party transactions are recorded at the exchange amount and disclosed in the notes to these Consolidated Financial Statements.

3.4 Inventories

Inventories are stated at the lower of cost and net realizable value (Note 9). Cost comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3.5 Financial assets

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through Other Comprehensive Income "OCI" or through profit or loss)
- those to be measured at amortized cost

The classification of the financial assets between these two categories depends on the Group's business model for managing the financial assets and the contractual terms of the relating cash flows.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Group reclassifies financial assets when and only when its business model for managing those assets changes.

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset, if the financial asset is not measured at fair value through profit or loss. Transaction costs of financial assets carried at fair value through profit or loss "FVPL" are expensed in profit or loss.

Subsequent measurement of financial assets depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its financial assets:

- Amortized cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income, if any, from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss.
- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. The Group may make irrevocable elections at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.
- FVPL: Financial assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. As of December 31, 2019, the Group does not have any financial assets classified as FVPL.

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings.

Changes in the fair value of financial assets at FVPL are recognized in other gain/(losses) in the consolidated statement of income/(loss) as applicable.

The Group assesses on a forward-looking basis the expected credit loss associated with its financial assets carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due. The Group considers a financial asset to be in default when the customer fails to make its contractual payments to the Group for a period of greater than 12 months past due.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment of its customer's outstanding balances with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off.

3.6 Investment properties

Buildings and land held to earn rent or for capital appreciation or both rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business are classified as investment property (Note 11). Investment properties are carried at cost less accumulated depreciation. Investment properties (except land) are depreciated on a straight-line basis.

The Group previously used part of the production facility in Barrie, Ontario for its own use and part to earn rental income for the portions that can be leased out separately. The rented-out portion was classified as investment property. The depreciation period for this investment property, which approximate the useful life of the production facility, is 20 years.

Investment properties are reviewed for possible impairment losses and when the carrying amount of the investment property is greater than the estimated recoverable amount, it is written down to its recoverable amount. The recoverable amount of the investment property is the higher of the asset's net selling price or value in use.

3.7 Property, plant and equipment

Property, plant and equipment are carried at acquisition costs less accumulated depreciation. Depreciation is provided using the straight-line method based on the estimated useful lives of the assets (Note 12).

The depreciation periods for property, plant and equipment, which approximate the useful live of assets concerned, are as follows:

Building and building improvements	10-20 years
Machinery, plant and equipment	5 years
Security equipment	5 years
Computers	3-5 years
Leasehold improvements	5 years
Vehicles	5 years
Office equipment	5 years
Right-of-use assets	1-5 years

Land is not depreciated due to having infinite useful lives.

Depreciation methods, useful lives and residual values are reviewed and adjusted if appropriate at the end of each reporting period.

Gains or losses on disposals of property, plant and equipment determined by comparing proceeds with carrying amounts are included in the related income and expense accounts, as appropriate.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Where the carrying amount of the asset is greater than its recoverable amount, it is written down immediately to its recoverable amount and the impairment loss is recorded in the consolidated statement of income/(loss).

The normal maintenance and repair costs incurred for property, plant and equipment are expensed as incurred. Expenditure on property, plant and equipment, which increases the future utility of the assets is added to the cost of the property, plant and equipment.

3.8 Taxes

The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Income tax expense is recognized in the consolidated statement of loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled. Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset deferred tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

3.9 Trade payables

Trade payables are unsecured liabilities for goods and services provided to the Group prior to the end of financial year which remain unpaid at year end. Trade payables (Note 15) are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using effective interest method.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVPL. A financial liability is classified as at FVPL if it is classified as held-for-trading, it is a derivative, or it is designated as such on initial recognition. Financial liabilities at FVPL are measured at fair value and net gains and losses, including any interest expense, are recognized in the consolidated statement of income/(loss). As of December 31, 2019, the Group does not have any financial liability classified at FVPL.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Fees paid on the establishment of financial liability are recognized as transaction costs. Interest expense and foreign exchange gains and losses are recognized in the consolidated statement of income/(loss).

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in the consolidated statement of income/(loss).

Financial liabilities are classified as current liabilities, if they are payable within 12 months of the reporting date, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

3.11 Provisions

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the Consolidated Financial Statements and treated as contingent assets or liabilities (Note 14).

3.12 Revenue recognition

Revenue is recognized at the amount of the transaction price that is allocated to the performance obligation. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money. Costs to obtain a contract that would have been incurred irrespective of whether the contract was obtained are recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer irrespective of whether the contract is obtained.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Group generates revenue primarily from the sale of private label production, white label production and tolling services to its customers. Other sources of revenue include rental income from owned investment property.

White label: Revenue is recognized when the finished products (vape pens, tincture bottles or capsules) are delivered and have been accepted by the customers. For contracts that permit the customer to return an item, revenue is recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Therefore, the amount of revenue recognized is adjusted for expected returns, which are estimated based on the historical data for specific types of product.

In these circumstances, a refund liability and a right to recover returned goods asset are recognized. The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The refund liability is included in other payables and the right to recover returned goods is included in inventory. The Group reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly. As of December 31, 2019, the Group did not book any refund liability and right to recover returned goods assets based on historical data.

Private label: Revenue is recognized when the finished products (bulk concentrate, bulk distillate or bulk oil) are dispatched from the Group's warehouse. Private label contracts might require advance payments by customers. Such advance receipts are included in contract liabilities. As of December 31, 2019, the Group does not have any contract liabilities. The Group also enters bill and hold arrangements with customers for its private label production. Revenue for bill and hold arrangements is recognized when the control of the finished product passes to the customer, which is when the product is ready for physical transfer to the customer and the customer accepts the product. Revenue for bill and hold arrangements is only recognized when the Group does not have the ability to use the product for other purposes and when the bill and hold arrangement is requested by the customer for substantive reasons.

Tolling services: Under the tolling service agreements, the customers supply the raw material to the Group for processing into finished goods. The customer controls all of the raw materials it supplies and work in progress as the products are being processed. Under the tolling service arrangements, the finished products are made to the customer's specification and if a contract is terminated by the customer, the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin. As such, revenue for tolling arrangements are recognized over time. Progress is determined based on the output method. Uninvoiced amounts are presented as contract assets.

3.13 Employee benefits

Short term obligations

Liabilities for employee compensation, including annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

Employees (including the senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments.

The cost of equity settled transactions is determined by the fair value at the date when the grant is made using the Black Scholes Valuation Model. That cost is recognized in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or the credit in the consolidated statement of income/(loss) for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without any associated service requirement are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service/performance conditions.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Bonus provisions

The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation and the Group is able to make a reliable estimate of the obligation.

3.14 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the income/(loss) attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares

NOTE 4 – NON-CONTROLLING INTEREST

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

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

As at December 31, 2019, financial information of MediPharm Australia Pty Ltd. before intercompany eliminations is as follows:

	December 31, 2019
Current assets	926
Non-current assets	7,844
Current liabilities	10,379
Accumulated deficit	(320)
Attributable to	
-Equity holders of Parent	(256)
-Non-controlling interest	(64)
Net loss	(2,568)
Attributable to	
-Equity holders of Parent	(2,054)
-Non-controlling interest	(514)

As at December 31, 2018, the financial information of MediPharm Labs Australia Pty. Ltd. was not material to the Group.

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

NOTE 5 – CASH AND CASH EQUIVALENTS

	December 31, 2019	December 31, 2018
Banks		
-demand deposits	38,406	6,463
-term deposits	221	1,387
	38,627	**7,850**

NOTE 6 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	December 31, 2019	December 31, 2018
Financial assets at amortized cost		
Cash and cash equivalents (Note 5)	38,627	7,850
Trade receivables (Note 8)	25,979	6,427
Other financial assets at amortized cost (1)	-	200
Financial assets at fair value through other comprehensive income (FVOCI) (2)	189	81
Financial liabilities at amortized cost		
Trade payables (Note 15)	19,057	7,992
Loans and borrowings (Note 13)	10,580	6,000

(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. In 2019, the restriction was released and classified under cash and cash equivalents.
(2) The Group's financial assets at FVOCI are all equity instruments which are unlisted securities.

NOTE 7 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES

7.1 Key management personnel compensation

The Group has determined that key management personnel consist of directors and officers of the Company. The remuneration to directors and officers during the year ended December 31, 2019 was $2,072 (2018: $878) included in consulting fees and salaries and benefits.

During the year ended December 31, 2019, the Group issued 3,440,000 options (2018: 3,403,200 options) at an average exercise price of $2.10 per share (2018: $0.21 per share) to its key management personnel and recognized total share-based compensation expense of $7,216 (2018: $737). During the year ended December 31, 2019, the key management personnel exercised 3,263,200 options for gross proceeds of $1,097 (2018: nil).

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

NOTE 7 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

The bonus for the year ended December 31, 2019 will be paid to the officers of the Group in stock options. As of the date of this report the options have not been granted yet and when granted, number of options will be calculated using Black Scholes option pricing model for targeted bonus of $728.

7.2 Transactions and balances with key management personnel

Several key management personnel hold positions in other companies that result in them having control or significant influence over these companies. Some of these companies transacted with the Group during the year ended December 31, 2019.

As at December 31, 2019, the Group has $4 (2018: $16) due to key management personnel and entities over which they have control or significant influence. The balance is related with reimbursement of expenses and rent expenses. The amount is non-interest bearing, unsecured and due on demand.

For the year ended December 31, 2019, the Group has incurred $24 (2018: nil) operational expenses as a result of transactions with the key management personnel's related entities.

NOTE 8 – TRADE AND OTHER RECEIVABLES

	December 31, 2019	December 31, 2018
Trade receivables (Note 6)	25,979	6,427
HST/GST receivable	1,281	-
Contract assets	238	-
Other receivable	42	38
	27,540	**6,465**

Credit risk and aging analysis related to trade receivables are included in Note 25.

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

NOTE 9 – INVENTORIES

	December 31, 2019	December 31, 2018
Raw materials	22,694	5,878
Work in progress	4,880	803
Finished goods	23,408	2,723
Consumables and packages	504	-
	51,486	**9,404**

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

NOTE 9 – INVENTORIES (Continued)

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

NOTE 10 – PREPAID AND DEPOSITS

	December 31, 2019	December 31, 2018
Deposit (1)	679	2,294
Prepaid insurance	331	110
Prepaid rent	5	68
Prepaid realty taxes	-	23
Other (2)	1,033	200
	2,048	**2,695**

(1) Deposit primarily include the deposits for city permits.
(2) Other includes the prepaid expense for software maintenance services, capital market advisory services, software licenses and marketing events and activities.

NOTE 11 – INVESTMENT PROPERTY

	January 1, 2019	Additions	Transfers(1)	December 31, 2019
Cost				
Land	453	-	(453)	-
Building	1,634	-	(1,634)	-
	2,087	**-**	**(2,087)**	**-**
Less: Accumulated depreciation				
Building	21	28	(49)	-
	21	**28**	**(49)**	**-**
Net book value	**2,066**			**-**

(1) Transfers from investment property is included in Note 12.

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

NOTE 11 – INVESTMENT PROPERTY (Continued)

	January 1, 2018	Additions	Transfers	December 31, 2018
Cost				
Land	-	453	-	453
Building	-	1,634	-	1,634
	-	**2,087**	**-**	**2,087**
Less: Accumulated depreciation				
Building	-	21	-	21
	-	**21**	**-**	**21**
Net book value	**-**			**2,066**

The total rental income recognized under revenue from contracts with customers is $72 (2018: $35) (Note 19). Total direct operating expenses arising from investment property that generated rental income for the year ended December 31, 2019 is $24 (2018: $14).

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

	January 1, 2019	Additions	Disposals	Transfers (2)	Exchange difference	December 31, 2019
Cost						
Land	1,635	1	(25)	272	(23)	1,860
Building and building improvements	8,501	6,123	(59)	3,752	(72)	18,245
Computers	332	1,259	(21)	3	(5)	1,568
Office equipment	53	147	-	(3)	(1)	196
Machinery and plant equipment	4,038	2,796	(464)	2,308	(1)	8,677
Motor vehicles	-	70	-	-	-	70
Security equipment	370	259	-	-	-	629
Construction in progress (1)	-	17,526	-	(4,245)	(27)	13,254
Right-of-use assets (3)	-	1,204	-	-	-	1,204
	14,929	**29,385**	**(569)**	**2,087**	**(129)**	**45,703**
Less: Accumulated depreciation						
Building and building improvements	466	867	-	49	-	1,382
Computers	50	231	(8)	-	-	273
Office equipment	5	21	-	-	-	26
Machinery and plant equipment	404	1,102	(36)	-	-	1,470
Motor vehicles	-	4	-	-	-	4
Security equipment	36	107	-	-	-	143
Right-of-use assets	-	172	-	-	-	172
	961	**2,504**	**(44)**	**49**	**-**	**3,470**
Net book value	**13,968**					**42,233**

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

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT (Continued)

(1) Construction in progress consists of the machinery in the installation process and renovation and expansion of building. Since these assets are not ready for their intended use, no depreciation is calculated for the current year.

(2) During the year ending December 31, 2019, the Group started using the whole portion of production facility for its own use; therefore, the rented-out portion of land and building classified as investment property as at December 31, 2019 was transferred to property, plant and equipment. In addition, certain construction in progress assets were transferred to other classes within property, plant and equipment upon completion of the construction.

(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/(loss) for year ending December 31, 2019 is $487 (December 31, 2018: $12). Total expenses relating to leases of low-value assets is nil for the year ending December 31, 2019 (December 31, 2018: Nil).

	January 1, 2018	Additions	Disposals	Transfers (1)	December 31, 2018
Cost					
Land	-	1,635	-	-	1,635
Building and building improvements	-	4,716	-	3,785	8,501
Leasehold improvements	2,101	1,684	-	(3,785)	-
Computers	35	312	(15)	-	332
Office equipment	8	45	-	-	53
Machinery, plant equipment	-	4,038	-	-	4,038
Security equipment	-	370	-	-	370
	2,144	**12,800**	**(15)**	**-**	**14,929**
Less: Accumulated depreciation					
Building and building improvements	-	88	-	378	466
Leasehold improvements	-	378	-	(378)	-
Computers	-	50	-	-	50
Office equipment	-	5	-	-	5
Machinery, plant equipment	-	404	-	-	404
Security equipment	-	36	-	-	36
	-	**961**	**-**	**-**	**961**
Net book value	**2,144**				**13,968**

(1) On September 28, 2018, the Group acquired the land and the building previously under lease. All leasehold improvements have been transferred to building and building improvements on the acquisition.

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

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT (Continued)

	January 1, 2019	Additions	December 31, 2019
Cost			
Right-of-use assets			
-Land	-	74	74
-Building	-	757	757
-Equipment	-	309	309
-Vehicle	-	31	31
-IT equipment	-	33	33
	-	**1,204**	**1,204**
Less: Accumulated depreciation			
Right-of-use assets			
-Land	-	28	28
-Building	-	100	100
-Equipment	-	25	25
-Motor vehicle	-	13	13
-IT equipment	-	6	6
	-	**172**	**172**
Net book value	**-**		**1,032**

NOTE 13 – LOANS AND BORROWINGS

	December 31, 2019	December 31, 2018
Current liabilities		
Current portion of bank loans (Note 13.3)	1,459	-
Mortgage payable (Note 13.1)	-	6,000
Current portion of lease liability (Note 13.2)	364	-
	1,823	**6,000**
Non-current liabilities		
Bank loans (Note 13.3)	8,116	-
Lease liability (Note 13.2)	641	-
	8,757	**-**

13.1 Mortgage payable

On October 10, 2018, the Group entered into first and second mortgages for $6,000 which were secured against the Group's 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

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

NOTE 13 – LOANS AND BORROWINGS (Continued)

Posted Bank Prime Rate of interest plus 7.30% per annum. The mortgages had a term of one year and were repaid on October 10, 2019.

13.2 Lease liability

The Group has various lease agreements with a maturity of 1-5 years. An incremental borrowing rate of 3.1% is used to calculate the net present value of the lease liability. The maturity analysis of lease liability based on contractual undiscounted cash flow is included in Note 25.2.

13.3 Bank loans

	December 31, 2019	December 31, 2018
Aggregate advances	9,700	-
Accrued interest	16	-
Less: Amortized cost impact	141	-
	9,575	**-**
Current portion of bank loan	1,459	-
Non-current portion of bank loan	8,116	-

On October 10, 2019, MediPharm Labs Inc., subsidiary of the Company, as borrower, signed a credit agreement with The Bank of Nova Scotia ("Bank"), as lender, for an aggregate of $38,700 ("Credit Agreement"). The Credit Agreement will bear interest at the Bank's prime lending rate plus a certain per cent per annum dependent upon the Group's debt covenants. The Credit Agreement has a general security interest in the Group's assets and can be repaid without penalty. The Company is the guarantor for the credit agreement. The Credit Agreement is comprised of a revolving term facility, a non-revolving term facility and a non-revolving delayed draw term facility.

The revolving term facility provides access to borrowings up to $25,000 subject to the Group's borrowing base, can be drawn in Canadian or Australian dollars, has a one-year term and may be used for Canadian and Australian working capital. As of December 31, 2019, the Group has no outstanding borrowing amounts in connection with the revolving credit facility.

The $5,700 non-revolving term facility was fully drawn on October 10, 2019, has a three-year term and was used to repay the Group's mortgage payable (Note 13.1). The effective annual interest rate of the borrowings under the non-revolving term facility is 6.07%. The non-revolving term facility matures on October 9, 2022 and is repayable in mandatory quarterly instalments. There is specific security interest on one of the Group's buildings.

The non-revolving delayed draw term facility provides access to borrowing up to $8,000, has a three-year term and may only be used to fund capital expenditures. As of December 31, 2019, the Group has outstanding amounts payable under the non-revolving delayed draw term facility of $4,000. The effective annual interest rate of the non-revolving delayed draw term facility is 6.12%. This non-revolving delayed draw term facility matures on October 9, 2022 and is repayable in mandatory quarterly installments.

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

NOTE 14 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

14.1 Sales commitments under supply agreements

Under the wholesale supply agreements signed within the reporting period, the Group commits to sell 720kg of cannabis oil to licensed producers within 21 months. In the default of not meeting the commitments, the Group is subject to a late in-kind/cash payments. For the year ended December 31, 2019, the Group fulfilled the committed amount for the reporting period and no penalty provision was recognized or incurred.

14.2 Purchase commitments under purchase agreements

Under the cannabis material purchase agreements signed within the reporting period, the Group commits to purchase dry cannabis flower amounting to $7,122 within 12 months. All such purchases were completed subsequent to the year end.

NOTE 15 – TRADE AND OTHER LIABILITIES

	December 31, 2019	December 31, 2018
Payable to suppliers (Note 6)	19,057	7,992
Accrued liabilities	1,793	277
Other	96	102
	20,946	**8,371**

Payable to suppliers are amounts due to vendors for unpaid goods and services received arising 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. Accrued liabilities mainly result from products and services received from third parties related to ordinary course of business for which invoices have not been received as of the reporting date.

NOTE 16 – EMPLOYEE BENEFITS

	December 31, 2019	December 31, 2018
Accrued payroll	720	137
Bonus accrual	561	300
Leave obligations	69	12
	1,350	**449**

The leave obligations cover the Group's accrued annual leave which is classified as short-term benefits. The Group expects all employees to take the full amount of accrued leave within next 12 months since the unused leave days do not defer to the next year.

NOTE 17 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS

17.1 Common shares issued

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

During the year ended December 31, 2018, the Company issued 118,000 Common Shares with a fair value of $28 for services performed and issued 634,000 Common Shares as a deposit for equipment. The fair value of the shares on the date of issuance was estimated at $0.473 per share for total consideration of $300.

On March 22, 2018, the Company closed equity financing of $2,964 and issued 10,102,270 units of the Company (the "Units"). Each Unit consisted of one share and one warrant (the "Warrants"). Each warrant entitled the holder to acquire one share of the Company at $0.473 (in full amount) until the date that is two years following a liquidity event. A liquidity event is defined as the date the Company's shares are listed or quoted on any of the TSXV or a recognized exchange. The Company paid a cash finder's fee of $175 and issued finder's warrants (the "Finder's Warrants") entitling the holder to acquire 596,505 Units of the Company at a price of $0.293 per unit (in full amount) and an additional 596,505 warrants entitling the holder to acquire 596,505 common shares of the Company at a price of $0.473 per share (in full amount). The fair value of the finder's warrants issued was estimated, using the Black Scholes option pricing model to be $150 using the following assumptions: estimated volatility of 81%, expected life of 2.5 years and a risk-free rate of 1.81%.

On June 1, 2018 and June 29, 2018, the Company closed private placements and issued 26,254,840 units (the "June Units") for gross proceeds of $22,317. Each June Unit consisted of one common share and one-half warrant (each whole warrant, a "June Warrant"). Each June Warrant will entitle the holder to acquire an additional common share of the Company at a price of $1.20 per common share (in full amount) until the date that is two years following the completion of the Transaction. The agents received a cash fee of $1,282 together with 1,508,425 broker warrants (the "Broker Warrants"). The Broker Warrants are exercisable to acquire one June Unit at a price of $0.85 (in full amount) until the date, which is two years following the completion of the Transaction. The Company also issued an additional 754,206 finder's warrants exercisable to acquire one common share of the Company at a price of $1.20 per share (in full amount) for a period that is two years after the Transaction. The fair value of the Broker Warrants issued was estimated, using the Black Scholes option pricing model to be $887 using the following assumptions: estimated volatility of 81%, expected life of 2.5 years and a risk-free rate of 1.90%.

During the year ended December 31, 2019, 6,909,106 stock options (2018: 3,170,000 stock options) and 13,562,602 warrants (2018: 672,733 warrants) were exercised into Common Shares for proceeds of $2,510 (2018: $25) and $11,972 (2018: $733), respectively.

On June 17, 2019, the Company closed its bought deal offering of 13,514,000 Common Shares at a price of $5.55 per share for aggregate gross proceeds of $75,003. The Company incurred transaction cost of $2,694 (net of tax) in connection with the bought deal offering which were recorded as a reduction to share capital.

NOTE 17 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

17.2 Stock options / Share based compensation

On January 8, 2019, the Company issued options to purchase up to 4,920,500 Common Shares with an exercise price of $2.00 per share for a five-year term expiring January 8, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued is, estimated using the Black Scholes option pricing model, $6,824 using the following assumptions: estimated volatility of 92.1%, estimated forfeiture rate of 0%-3%, expected life of 5 years and a risk-free rate of 1.89%.

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

On February 4, 2019, the Company issued options to purchase up to 790,500 Common Shares with an exercise price of $1.96 per share for a five-year term expiring February 4, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued is, estimated using the Black Scholes option pricing model, $1,094 using the following assumptions: estimated volatility of 91.7%, estimated forfeiture rate of 0%, expected life of 5 years and a risk-free rate of 1.86%.

On March 29, 2019, the Company issued options to purchase up to 791,000 Common Shares with an exercise price of $3.34 per share for a five-year term expiring March 29, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued is, estimated using the Black Scholes option pricing model, $1,830 using the following assumptions: estimated volatility of 90.6%, estimated forfeiture rate of 0%, expected life of 5 years and a risk-free rate of 1.53%.

On August 13, 2019, the Company issued options to purchase up to 1,844,980 Common Shares with an exercise price of $6.47 per share for a five-year term expiring August 13, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued is, estimated using the Black Scholes option pricing model, $8,124 using the following assumptions: estimated volatility of 89.7%, estimated forfeiture rate of 0%-2% expected life of 5 years and a risk-free rate of 1.30%.

On November 1, 2019, the Company issued options to purchase up to 725,000 Common Shares with an exercise price of $4.61 per share for a five-year term expiring November 1, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued is, estimated using the Black Scholes option pricing model, $2,309 using the following assumptions: estimated volatility of 88.8%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 1.48%.

On November 12, 2019, the Company issued options to purchase up to 242,250 Common Shares with an exercise price of $4.42 per share for a five-year term expiring November 12, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued is, estimated using the Black Scholes option pricing model, $741 using the following assumptions: estimated volatility of 88.8%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 1.58%.

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

NOTE 17 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

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		2018	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
As at January 1	9,389,606	0.70	3,170,000	0.008
Granted during the year	9,697,150	3.21	9,389,606	0.70
Exercised during the year	(6,909,106)	0.36	(3,170,000)	0.008
Forfeited/cancelled during the year	(417,630)	1.83	-	-
Outstanding at December 31	**11,760,020**	**2.93**	**9,389,606**	**0.70**

	2019		2018	
	Number of Options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Exercisable at December 31	5,165,930	2.38	6,989,606	0.36
Weighted average remaining contractual life	4.03 years		4.35 years	

The range of exercise prices for options outstanding as at December 31, is as below:

	Weighted average remaining contractual life		Number of outstanding options	
Exercise price range	**2019**	**2018**	**2019**	**2018**
Less than and equal to $1.00	3.33	4.01-4.33	56,800	6,389,606
Between $1.00 and $3.00	3.82-4.10	4.82	8,123,300	3,000,000
Between $3.00 and $5.00	4.25-4.87	-	1,741,450	-
More than and equal to $5.00	4.62	-	1,838,470	-
			11,760,020	**9,389,606**

The weighted average share price at the dates the options were exercised during the year ended December 31, 2019 was $2.59 per share (2018: nil).

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

NOTE 17 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

17.3 Share purchase warrants

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

	2019		2018	
	Number of warrants	Weighted average exercise price $	Number of warrants	Weighted average exercise price $
As at January 1	26,019,277	0.86	-	-
Issued – Private placements	-	-	23,229,381	0.88
Issued – Finder's warrants	-	-	1,193,010	0.38
Issued – Broker warrants	-	-	2,332,619	0.99
Exercised during the year	(13,499,602)	0.88	(735,733)	1.01
As at December 31	**12,519,675**	**0.84**	**26,019,277**	**0.86**
Weighted average remaining contractual life	0.86 years		1.75 years	

17.4 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.

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 income/(loss) for the year ended December 31, 2018.

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

NOTE 18 – EARNINGS PER SHARE (EPS)

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

	December 31 2019	**December 31 2018**
Profit/(loss) attributable to equity holders of the Company	1,706	(8,386)
Weighted average number of shares for basic EPS	120,001,692	72,593,212
Effects of dilution from:		
Stock options	4,538,666	-
Warrants	10,089,320	-
Weighted average number of shares adjusted for the effect of dilution	134,629,678	72,593,212
Basic EPS	0.01	(0.12)
Diluted EPS	0.01	(0.12)

Excluded from the calculation of diluted shares for the year ended December 31, 2019 are 3,076,887 stock options for which the adjusted exercise price is below the Company's average share price on TSX for the year ended December 31, 2019.

For the year ended December 31, 2018, since the Group reported a loss, the effects of stock options and warrants were considered anti-dilutive.

NOTE 19 – REVENUE

	2019	**2018**
Revenue from contracts with customers	129,180	10,163
Other revenue		
Investment property rental	72	35
Total revenue	**129,252**	**10,198**

The revenue from contracts with customers is disaggregated by geographical market, revenue streams and timing of revenue recognition.

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

NOTE 19 – REVENUE (Continued)

	2019	2018
Domestic sales	127,571	10,163
International sales	1,609	-
	129,180	**10,163**
Private label	127,715	10,163
White label	69	-
Tolling process	1,396	-
	129,180	**10,163**
Products transferred at a point in time	127,784	10,163
Products and services transferred over time	1,396	-
	129,180	**10,163**

For the year ended December 31, 2019, 77% (2018: 98%) of total revenue is from 4 customers (2018: 2 customers) each representing more than 10% of the Group's revenue.

NOTE 20 – GENERAL ADMINISTRATIVE AND MARKETING AND SELLING EXPENSES

	2019	2018
Consulting and professional fees	6,133	1,182
Employee benefits	5,474	1,600
Travel and entertainment	881	177
Depreciation	805	231
Health Canada regulatory fee	527	-
Filing fees and shareholder communications	443	69
Rent and occupancy cost	251	140
Other (1)	843	157
Total general administrative expenses	**15,357**	**3,556**

(1) Other includes office related expenses, insurance, utility expenses and subscriptions.

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

NOTE 20 – GENERAL ADMINISTRATIVE AND MARKETING AND SELLING EXPENSES (Continued)

	2019	**2018**
Employee benefits	1,344	203
Investor relations	905	517
Advertising and promotion (1)	515	229
Travel and entertainment	218	100
Depreciation	159	116
Rent and occupancy cost	47	34
Other (2)	142	73
Total marketing and selling expenses	**3,330**	**1,272**

(1) Advertising and promotion expenses cover the digital marketing, events and conferences and other advertisement related activities.
(2) Other includes sponsorships, office related expenses and utilities.

NOTE 21 – OTHER OPERATING EXPENSES

	2019	**2018**
Scrapped fixed assets	480	-
Foreign exchange loss	413	25
Start-up and pre-manufacturing cost (1)	-	964
Bank and financial institution service fees	27	7
	920	**996**

(1) The Group started its production activities towards the end of September 2018. Until this time, the Group performed testing and research into production, which includes the procurement of some sample raw materials, recruitment of indirect personnel to train, implementation of machineries to be used during production and procurement of supplies to start up the operations. All these expenses, which are classified as start-up and pre-manufacturing cost, are as follows:

	2018
Research and development of products	261
Employee benefits	253
Depreciation	246
Supplies and small equipment	147
Machinery maintenance	19
Other	38
Start-up and pre-manufacturing cost	**964**

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

NOTE 22 – EXPENSES BY NATURE

	2019	2018
Inventory and consumables recognized in cost of sales	72,081	4,850
Share based compensation expense (2)	15,502	1,965
Employee benefits	13,592	2,475
Consulting and professional fees	7,047	1,199
Analytical testing	2,371	219
Depreciation	2,297	982
Supplies and small equipment	1,939	397
Travel and entertainment	1,099	276
Machinery maintenance	992	106
Investor relations	905	517
Rent and occupancy cost	642	289
Health Canada regulatory fee	527	-
Advertising and promotion	515	229
Filing fee and shareholder communications	443	69
Other (1)	2,362	447
	122,314	**14,020**

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

(2) Out of total share based compensation expense of $15,502 (2018: $1,965), general administrative expense portion is $10,515 (2018: $1,315), marketing and selling expense portion is $1,507 (2018: $274) and cost of sales portion is $3,479 (2018: $376).

NOTE 23 – FINANCE INCOME / EXPENSES

	2019	2018
Interest income	486	64
Total finance income	**486**	**64**
Loan interest expense	421	226
Lease interest expense	14	-
Accretion expense	-	138
Finance fees	237	114
Total finance expense	**672**	**478**

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

NOTE 24 – INCOME TAX EXPENSE/RECOVERY AND DEFERRED TAX ASSETS

24.1 Income tax

The taxes on income reflected on the consolidated statement of loss for the year ended December 31 are summarized below:

	2019	2018
Current income tax expense	5,043	-
Deferred tax income/expense	578	-
Total income tax	**5,621**	**-**

Reconciliation of income tax is as below:

	2019	2018
Income/(loss) before tax	6,752	(8,466)
Tax expense/(recovery) based on statutory rate	1,789	(2,243)
Tax effect of amounts which are not deductible	4,266	1,654
Utilization of previously unrecognized tax losses	(616)	-
Other	182	589
Total income tax	**5,621**	**-**

The tax rate above is computed using the Federal and Ontario statutory Canadian tax rate of 26.5% (2018: 26.5%).

The effect of temporary differences that give rise to the deferred tax asset/liability, which was recognized during the year ended December 31, 2019 are as follows:

	January 1, 2019	Recognized in equity	Recognized in net income	December 31, 2019
Deferred tax asset/(liability)				
Share issuance cost	-	1,165	-	1,165
Property, plant and equipment	-	-	(578)	(578)
Net deferred tax	**-**	**1,165**	**(578)**	**587**

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

NOTE 24 – INCOME TAX EXPENSE/RECOVERY AND DEFERRED TAX ASSETS (Continued)

Deferred tax assets have not been recognized for losses and other deductible temporary differences as follows:

	2019	2018
Losses	3,775	3,384
Other items	493	2,600
Total unrecognized temporary differences	**4,268**	**5,984**

The tax benefit in connection with the Group's losses that may be available to reduce income tax in a taxation period subsequent to the period covered by these consolidated statements amounts to $1,097 (2018: $810).

NOTE 25 –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.

25.1 Credit risk

Credit risk arises from deposits with banks and financial institutions and outstanding receivables if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group holds cash of $38,627 (2018: $7,850). The cash is held with banks and financial institutions that are highly rated.

At December 31, 2019, the exposure to credit risk for trade receivables and contract assets by the type of customer is as follows:

	December 31, 2019	December 31, 2018
Business to business customers	26,105	6,427
Distributors / Retailers	112	-
	26,217	**6,427**

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

NOTE 25 –FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

The Group limits its exposure to credit risk from trade receivables and contract assets by 50% advance payment from business to business customers before the shipment of the products. Also, the Group management believes that the exposure to credit risk from distributors is very limited since most of the distributors are government organizations. As at December 31, 2019, 86% of the Group's trade receivables (December 31, 2018: 96%) is due from three customers (December 31, 2018: two customers) each representing more than 10% of the Group's trade receivables balance. Subsequent to period-end, the Group commenced legal collection proceedings with respect to $8,531 of the Group's trade receivable balance (Note 28), which are all due from one customer. The past due portion of these trade receivables comprise 90% of all the Group's past due trade receivables as at December 31, 2019. The Group has not recognized an allowance for expected credit losses in connection with its trade receivables, including those invoices for which the Group commenced legal collection for collection. The aging of the Group's trade receivables at December 31, 2019 is as follows:

	December 31, 2019 **Gross carrying amount**
Current (not past due)	17,416
1-30 days past due	4,408
31-60 days past due	3,771
61-90 days past due	165
90-180 days past due	219
	25,979

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

25.2 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 $38,627 (2018: $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.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows.

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

NOTE 25 –FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

Contractual maturities of financial liabilities At December 31, 2019	Less than 6 months	6-12 months	12-36 months	36-60 months	Total contractual cash flows	Carrying amount
Trade payables	20,946	-	-	-	20,946	20,946
Lease liability	203	186	506	156	1,051	1,005
Non-revolving loan (1)	281	268	5,151	-	5,700	5,627
Non-revolving delayed loan (1)	197	188	3,615	-	4,000	3,948
Total financial liabilities	**21,627**	**642**	**9,272**	**156**	**31,697**	**31,526**

Contractual maturities of financial liabilities At December 31, 2018	Less than 6 months	6-12 months	Total contractual cash flows	Carrying amount
Trade payables	8,094	-	8,094	8,094
Mortgage payable	277	6,231	6,508	6,000
Total financial liabilities	**8,371**	**6,231**	**14,602**	**14,094**

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

The bank loans contain loan covenant which is monitored on a regular basis by the treasury department and regularly reported to management to ensure compliance with the agreement.

25.3 Market risk

Market risk is the risk that changes in market price in 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 has fixed-rate loans and borrowings; therefore, the Group's interest rate exposure is at fixed rate. The Group does not account for any fixed rate financial liabilities at FVPL; therefore, a change in interest rate at the reporting date would not affect profit or loss.

NOTE 25 –FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

25.4 Capital risk management

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

Management defines capital as the Company's shareholders' equity and debt. As at December 31, 2019, total managed capital is $142,127 (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. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners or through debt financing.

NOTE 26 – 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 trade receivables are classified as Level 2. Carrying values of significant portion of financial assets do not differ significantly from their fair values due to their short-term nature. Equity investments at fair value through other comprehensive income are classified as Level 3 as they are not traded in an active market. Considering the significance of the equity investment amount, the fair value of these financial assets is assumed to approximate their carrying value.

The Group's loans and borrowings and other financial liabilities (trade payables) are classified as Level 2. For all financial liabilities classified as amortized cost, the carrying value approximates fair value.

During the year ended December 31, 2019, there were no transfers between levels.

NOTE 27 – 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 $7,844 (December 31, 2018: $898) and are made up of property, plant and equipment and deposits given for property, plant and equipment.

NOTE 28 – EVENTS AFTER THE REPORTING PERIOD

(i) Statement of Claim

On January 24, 2020, MPL filed a statement of claim ("Claim") in the Ontario Superior Court of Justice against one of its long-term purchasers of cannabis concentrates. The Claim relates to, among other things, the payment of outstanding amounts as of the date of the claim of approximately $9.8 million for products shipped to and received by the customer. On February 26, 2020, the defendant in the Claim filed a statement of defence and counterclaim for $35 million. The Group has served a reply and defence to the counterclaim and served a motion for summary judgment on March 27, 2020. The Group has not recognized a liability in connection with the counterclaim.

(ii) COVID-19 Outbreak

On January 30, 2020, the World Health Organization ("WHO") declared the ongoing COVID-19 outbreak a global health emergency and on March 11, 2020, the WHO expanded its classification of the outbreak to a worldwide pandemic. Federal, state, provincial and municipal governments in North America and Australia have begun enacting measures to combat the spread of COVID-19. The COVID-19 outbreak continues to rapidly evolve and is causing business disruptions across the entire global economy and society. The extent of the impact on COVID-19 on the Group's operational and financial performance will depend on various developments, including the duration and magnitude of the outbreak, and the impact on customers, employees and vendors, all of which are uncertain and cannot be predicted at this point.

(iii) Exercised stock options and warrants

Subsequent to year end, 3,196,429 warrants were exercised for gross proceeds of $2,040.
