MEDIPHARM LABS CORP.
CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
FOR THE THREE MONTHS ENDED
MARCH 31, 2020 and 2019

MEDIPHARM LABS CORP.

CONTENTS OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) AT MARCH 31, 2020

CONTENTS **PAGE**

MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at March 31, 2020 and December 31, 2019

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

	Notes	March 31, 2020	December 31, 2019
ASSETS			
Current assets:			
Cash and cash equivalents		21,366	38,627
Trade and other receivables	6	24,836	27,540
Prepaids and deposits		2,056	2,048
Inventories	7	45,093	51,486
Total current assets		**93,351**	**119,701**
Non-current assets:			
Property, plant and equipment	8	43,962	42,233
Deferred tax asset		-	587
Non-current deposits		6,271	6,120
Other financial assets		191	189
Total non-current assets		**50,424**	**49,129**
Total assets		**143,775**	**168,830**

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

MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at March 31, 2020 and December 31, 2019

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

	Notes	March 31, 2020	December 31, 2019
LIABILITIES AND EQUITY			
Current liabilities:			
Trade and other payables	11	14,049	20,946
Current employee benefit obligations		1,216	1,350
Loans and borrowings	9	9,704	1,823
Current tax liability		160	4,727
Total current liabilities		**25,129**	**28,846**
Loans and borrowings	9	553	8,757
Total non-current liabilities		**553**	**8,757**
Total liabilities		**25,682**	**37,603**
Equity:			
Common shares	12	124,166	122,807
Reserves	12	19,715	16,960
Accumulated other comprehensive income/(loss)		61	(31)
Accumulated deficit		(25,277)	(8,189)
Total equity attributable to equity holders of the Parent		**118,665**	**131,547**
Non-controlling interest		(572)	(320)
Total equity		**118,093**	**131,227**
Total liabilities and equity		**143,775**	**168,830**
Commitments and contingencies	9, 10		

Approved on behalf of the Board of Directors of MediPharm Labs Corp.:

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

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

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

MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS
For the three months ended March 31, 2020 and 2019
(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

		Three months ended	
	Notes	**March 31, 2020**	**March 31, 2019**
Revenue	13	11,089	21,950
Cost of sales	7	(21,971)	(15,087)
Gross profit		**(10,882)**	**6,863**
General administrative expenses		(5,500)	(2,128)
Marketing and selling expenses		(799)	(907)
Research and development expenses		(1,044)	-
Share based compensation expense	14	(2,759)	(3,972)
Other operating expenses		(951)	(7)
Operating loss		**(21,935)**	**(151)**
Finance income		136	5
Finance expense		(230)	(178)
Loss before taxation		**(22,029)**	**(324)**
Taxation expense		4,666	(248)
Net loss for the period		**(17,363)**	**(572)**
Attributable to			
- Non-controlling interest		(275)	(63)
- Equity holders of the Parent		(17,088)	(509)
Basic and diluted loss per share		(0.13)	(0.01)

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

MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the three months ended March 31, 2020 and 2019
(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

	Notes	Three months ended March 31, 2020	March 31, 2019
Net loss for the period		**(17,363)**	**(572)**
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		115	(23)
Total comprehensive loss for the period		**(17,248)**	**(595)**
Total comprehensive loss attributable to			
- Non-controlling interest		(252)	(63)
- Equity holders of the Parent		(16,996)	(532)

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

MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the three months ended March 31, 2020 and 2019
(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

	Common Shares		Reserves				
	Number	Share capital	Share-based payments	Accumulated other comprehensive	Accumulated deficit	Non-controlling interest	Total
Balance at January 1, 2019	**97,539,360**	**34,065**	**3,409**	**9**	**(9,834)**	**194**	**27,843**
Shares issued on exercise of stock options	5,763,706	2,356	(994)	-	-	-	1,362
Shares issued on exercise of warrants	2,015,529	2,053	(244)	-	-	-	1,809
Share based compensation	-	-	3,972	-	-	-	3,972
Foreign exchange translation	-	-	-	(23)	-	-	(23)
Net loss for the period	-	-	-	-	(510)	(63)	(573)
Balance at March 31, 2019	**105,318,595**	**38,474**	**6,143**	**(14)**	**(10,344)**	**131**	**34,390**
Balance at January 1, 2020	**131,525,068**	**122,807**	**16,960**	**(31)**	**(8,189)**	**(320)**	**131,227**
Share issuance cost (tax impact)	-	(687)	-	-	-	-	(687)
Shares issued on exercise of stock options	1,800	6	(4)	-	-	-	2
Shares issued on exercise of warrants	3,196,429	2,040	-	-	-	-	2,040
Share based compensation	-	-	2,759	-	-	-	2,759
Foreign exchange translation	-	-	-	92	-	23	115
Net loss for the period	-	-	-	-	(17,088)	(275)	(17,363)
Balance at March 31, 2020	**134,723,297**	**124,166**	**19,715**	**61**	**(25,277)**	**(572)**	**118,093**

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

MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2020 and 2019

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

	Notes	Three months ended March 31, 2020	March 31, 2019
Cash flows from operating activities:			
Net loss for the period		(17,363)	(573)
Adjustments for:			
Write down of inventory to net realizable value	7	12,811	-
Depreciation		1,126	563
Interest expense and finance fee		94	141
Unrealized foreign exchange difference		115	(7)
Taxation (recovery)/expense		(4,666)	248
Share based compensation		2,759	3,972
Cash flows from operating activities before changes in working capital items		**(5,124)**	**4,344**
Change in trade and other receivables		2,573	(7,457)
Change in inventories		(6,418)	(12,642)
Change in other current assets		131	(527)
Change in prepaids and deposits		(9)	(239)
Change in trade and other payables		(6,757)	21,281
Change in other current liabilities		210	(724)
Net cash (used in)/provided by operating activities		**(15,394)**	**4,036**
Cash flows from investing activities:			
Capital expenditures		(3,490)	(6,497)
Acquisition of financial assets		(2)	(76)
Net cash used in investing activities		**(3,492)**	**(6,573)**
Cash flows from financing activities:			
Repayment of loans and borrowings		(242)	-
Exercise of warrants		2,040	1,809
Exercise of stock options		2	1,362
Interest and finance fee paid		(212)	(84)
Interest received		136	-
Payment of lease liabilities		(99)	-
Net cash provided by financing activities		**1,625**	**3,087**
(Decrease)/increase in cash and cash equivalents		**(17,261)**	**550**
Cash and cash equivalents at the beginning of the period		**38,627**	**7,850**
Cash and cash equivalents at the end of the period		**21,366**	**8,400**

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

NOTE 1 - NATURE OF OPERATIONS

MediPharm Labs Corp. (formerly POCML 4 Inc.) (the "Company") was incorporated under the Business Corporations Act (Ontario) on January 23, 2017 and prior to a reverse takeover transaction, 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 reverse takeover, 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 voluntarily delisted from the 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 its operating subsidiaries are the holders of various cannabis-related licenses in Canada and Australia.

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

These condensed interim consolidated financial statements of the Company as at and for the three months ended March 31, 2020 ("Condensed Interim Consolidated Financial Statements"), include the financial statement of the Company and its subsidiaries (together referred to as the "Group").

NOTE 2 - BASIS OF PREPARATION OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation

(i) Statement of compliance

These Condensed Interim Consolidated Financial Statements for the three-month period ended March 31, 2020 have been prepared in accordance with International Accounting Standards IAS 34, *Interim Financial Reporting* following the same accounting policies and methods of application as those disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2019 with the exception of new accounting policies that were adopted in January 1, 2020 as described in Note 2.2.

The Condensed Interim Consolidated Financial Statements do not include all the notes of the type normally included in an annual financial statement. Accordingly, these Condensed Interim Consolidated Financial Statements are to be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

On June 18, 2020, the Board of Directors of the Company approved these Condensed Interim Consolidated Financial Statements.

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

2.2 New accounting pronouncements adopted in 2020

The Group adopted the following new standards and amendments to standards that were effective January 1, 2020. These changes did not have a material impact on the Company's Condensed Interim Consolidated Financial Statements and are not expected to have a material effect on the Group's financial statements in the future.

- 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)

2.3 Impact of standards, amendments and interpretations issued but not yet effective

The following new accounting standard will become effective in a future year and is not expected to have an impact on the Company's consolidated financial statements in future period.

- IFRS 17, *Insurance Contracts*

2.4 Use of estimates and judgements

The preparation of these Condensed Interim 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 these Condensed Interim Consolidated Financial Statements are described below:

(i) Expected loss rate

As at March 31, 2020, 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.

(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 12.2.

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

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

(iii) Impairment assessment and estimated useful lives of property, plant and equipment

The useful lives of the Group's property, plant and equipment are estimated by management at the time the asset is acquired and regularly reviewed for appropriateness. The Group estimated the useful lives 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.

The assessment of any impairment of the Group's property, plant and equipment is dependent upon estimate of the recoverable amounts of these assets. The determination of recoverable amounts requires the use of estimates such as future cash flows, discount rates and terminal growth rate.

(iv) Valuation of inventories

The Group's inventories are carried at the lower of cost or net realizable value. The determination of net realizable value involves significant management judgement and estimates, including the estimation of future sales forecasts and future selling prices.

NOTE 3 – 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**	**2020**	**2019**
MediPharm Labs Australia Pty.Ltd.	Cannabis products	Australia	20%	20%

As at March 31, 2020, financial information of MediPharm Australia Pty Ltd. before intercompany eliminations is as follows:

	March 31, 2020	**December 31, 2019**
Current assets	772	926
Non-current assets	7,993	7,844
Current liabilities	11,646	10,379
Accumulated deficit	(4,263)	(2,889)
Attributable to		
-Equity holders of Parent	(3,668)	(2,569)
-Non-controlling interest	(572)	(320)

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

NOTE 3 – NON-CONTROLLING INTEREST (Continued)

	Three months ended	
	March 31, 2020	**March 31, 2019**
Net loss	(1,374)	(316)
Other comprehensive income/(loss)	115	(23)
Attributable to		
-Equity holders of Parent	(1,007)	(253)
-Non-controlling interest	(252)	(63)

NOTE 4 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	March 31, 2020	**December 31, 2019**
Financial assets at amortized cost		
Cash and cash equivalents	21,366	38,627
Trade receivables (Note 6)	23,406	25,979
Financial assets at fair value through other comprehensive income (FVOCI) (1)	191	189
Financial liabilities at amortized cost		
Trade and other payables (Note 11)	14,049	20,946
Loans and borrowings (Note 9)	10,257	10,580

(1) The Group's financial assets at FVOCI are all unlisted equity instruments.

NOTE 5 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES

5.1 Key management personnel compensation

The Group has determined that key management personnel consist of directors and officers in the Group. The remuneration to directors and officers during the three-month period ended March 31, 2020 was $569 (March 31, 2019: $426) and is included in general and administrative expenses.

During the three-month period ended March 31, 2020, the Group issued nil options at an average exercise price of $nil per share (March 31, 2019: 1,890,000 options at $2.00 per share) to its key management personnel and recognized total share-based compensation expense of $890 (March 31, 2019: $1,390). During the three-month period ended March 31, 2020, the Group's key management personnel exercised nil options for gross proceeds of $nil (March 31, 2019: 3,043,200 options for gross proceeds of $720).

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

NOTE 5 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

5.2 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 three-month period ended March 31, 2020.

As at March 31, 2020, the Group has $nil (December 31, 2019: $4) due to key management personnel and entities over which they have control or significant influence.

For the three-month period ended March 31, 2020, the Group has incurred $6 (March 31, 2019: $7) rent expenses as a result of transactions with the key management personnel's related entities.

NOTE 6 – TRADE AND OTHER RECEIVABLES

	March 31, 2020	December 31, 2019
Trade receivables (Note 4)	23,406	25,979
HST/GST receivable	1,279	1,281
Contract assets	151	238
Other receivable	-	42
	24,836	**27,540**

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

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 7 – INVENTORIES

	March 31, 2020	December 31, 2019
Raw materials	8,926	22,694
Work in progress	3,937	4,880
Finished goods	31,700	23,408
Consumables and packages	530	504
	45,093	**51,486**

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

NOTE 7 – 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 include MCT oil used in the production of formulated oil and packaging and product hardware materials.

For the three months ended March 31, 2020, the Group recognized a write down of the carrying value of its raw materials, work in progress and finished goods by $12,811(March 31, 2019: $nil) since the cost of these inventories exceeded their net realizable value due to compression of pricing in the industry. The loss is included in the cost of sales in the condensed interim consolidated statements of loss.

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

	January 1, 2020	Additions	Disposals	Transfers (2)	Exchange difference	March 31, 2020
Cost						
Land	1,860	-	-	-	(16)	1,844
Building and building improvements	18,245	1,053	-	2,412	(220)	21,490
Computers	1,568	82	(2)	-	(22)	1,626
Office equipment	196	21	-	-	(2)	215
Machinery and plant equipment	8,677	165	-	36	(7)	8,871
Motor vehicles	70	-	-	-	-	70
Security equipment	629	13	-	69	-	711
Construction in progress (1)	13,254	1,904	-	(2,517)	(118)	12,523
Right-of-use assets (Note 8.1)	1,204	-	-	-	-	1,204
	45,703	**3,238**	**(2)**	-	**(385)**	**48,554**
Less: Accumulated depreciation						
Building and building improvements	1,382	400	-	-	(2)	1,780
Computers	273	129	-	-	(2)	400
Office equipment	26	10	-	-	-	36
Machinery and plant equipment	1,470	446	-	-	-	1,916
Motor vehicles	4	4	-	-	-	8
Security equipment	143	31	-	-	-	174
Right-of-use assets	172	106	-	-	-	278
	3,470	**1,126**	-	-	**(4)**	**4,592**
Net book value	**42,233**					**43,962**

(1) Construction in progress consists of the machinery and equipment in the installation process and renovation and expansion of building. Since these assets are not ready for their intended use, no depreciation was recognized for these assets during the period.

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT (Continued)

(2) Certain construction in progress assets were transferred to other classes within property, plant and equipment upon completion of the construction.

8.1 Right-of-use assets

The Group leases assets including land, building, equipment, motor vehicles and IT equipment. The details of the asset types where the Group is lessee are listed below. Total amount of leases with a term of 12 months or less ("short-term leases") expensed to the consolidated statements of loss for three months ending March 31, 2020 is $93 (March 31, 2019: $67).

	January 1, 2020	Additions	March 31, 2020
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	7	35
-Building	100	79	179
-Equipment	25	15	40
-Motor vehicle	13	3	16
-IT equipment	6	2	8
	172		**278**
Net book value	**1,032**		**926**

NOTE 9 – LOANS AND BORROWINGS

	March 31, 2020	December 31, 2019
Current liabilities		
Current portion of bank loans (Note 9.2)	9,351	1,459
Current portion of lease liability (Note 9.1)	353	364
	9,704	**1,823**
Non-current liabilities		
Bank loans (Note 9.2)	-	8,116
Lease liability (Note 9.1)	553	641
	553	**8,757**

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

NOTE 9 – LOANS AND BORROWINGS (Continued)

9.1 Lease liability

The Group has various lease agreements with maturities of 1 and 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 15.2.

9.2 Bank loans

	March 31, 2020	**December 31, 2019**
Aggregate outstanding advances	9,458	9,700
Accrued interest	29	16
Less: Amortized cost impact	136	141
	9,351	**9,575**
Current portion of bank loan	9,351	1,459
Non-current portion of bank loan	-	8,116

On October 10, 2019, MediPharm Labs Inc. ("MPL"), a subsidiary of the Company, as borrower, signed a credit agreement with The Bank of Nova Scotia ("Bank"), as lender, for an aggregate up to $38,700 (together with any amendments, supplements or revisions thereto the "Credit Agreement") subject to satisfaction of various conditions. The Credit Agreement bears 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.

As at March 31, 2020, the Company had pending covenant non-compliances under the Credit Agreement that existed at such date. The carrying value of the loan outstanding as at March 31, 2020 subject to these covenants was $9,351 and in accordance with IFRS this amount is classified as current. As provided for in the Credit Agreement, subsequent to March 31, 2020, the Company and the lender agreed that that the applicable financial covenants would not be tested as at such date and that the pending covenant non-compliances did not occur.

NOTE 10 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

10.1 Sales commitments under supply agreements

Under wholesale supply agreements, the Group is committed to sell 155kg of cannabis oil to licensed producers within seven months. In the default of not meeting the commitments, the Group is subject to a late in-kind/cash payments. For the three-month period ended March 31, 2020, the Group fulfilled the committed amount for which orders had been submitted and no penalty provision was recognized or incurred.

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

NOTE 10 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS (Continued)

10.2 Purchase commitments under purchase agreements

Under the cannabis material purchase agreements signed within the reporting period, the Group committed to purchase 1,240kg of dried GMP grade cannabis flower within 9 months.

10.3 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 due to MPL for products shipped to and received by the customer and deposits owed to MPL for future shipments. The outstanding amounts on the date of the claim was approximately $9,800. On February 26, 2020, the defendant in the Claim filed a statement of defence and counterclaim for $35,000. 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.

NOTE 11 – TRADE AND OTHER LIABILITIES

	March 31, 2020	**December 31, 2019**
Payable to suppliers (Note 4)	11,697	19,057
Accrued liabilities	1,975	1,793
Other	377	96
	14,049	**20,946**

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 and excise tax 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 12 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS

12.1 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.

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 costs of $2,694 (net of tax) in connection with the bought deal offering which were recorded as a reduction to share capital.

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

For the three month period ended March 31, 2020, 1,800 stock options (December 31, 2019: 6,909,106 stock options) and 3,196,429 warrants (December 31, 2019: 13,562,602 warrants) were exercised into common shares for proceeds of $6 (December 31, 2019: $2,510) and $2,040 (December 31, 2019: $11,972), respectively.

12.2 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 was $6,807 and was estimated using the Black Scholes option pricing model, 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 was $541 and was estimated using the Black Scholes option pricing model, 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 was $1,092 and was estimated using the Black Scholes option pricing model, 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 was $1,818 and was estimated using the Black Scholes option pricing model, 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 was $7,844 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 89.7%, estimated forfeiture rate of 0%-4% 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 was $2,309 and was estimated using the Black Scholes option pricing model, using the following assumptions:

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

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 was $695 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 88.8%, estimated forfeiture rate of 0%-8% expected life of 5 years and a risk-free rate of 1.58%.

On January 21, 2020, the Company issued options to purchase up to 80,000 Common Shares with an exercise price of $3.80 per share for a five-year term expiring January 21, 2025. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was $212 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 89.99%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 1.55%.

On February 21, 2020, the Company issued options to purchase up to 80,000 Common Shares with an exercise price of $2.92 per share for a five-year term expiring February 21, 2025. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was $162 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 89.75%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 1.34%.

On March 30, 2020, the Company issued options to purchase up to 60,000 Common Shares with an exercise price of $1.59 per share for a five-year term expiring March 31, 2025. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was $66 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 90.81%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 0.57%.

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.

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

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

	Number of options	2020 Weighted average exercise price $
As at January 1	11,760,020	2.93
Granted during the period	220,000	2.88
Exercised during the period	(1,800)	1.96
Forfeited/cancelled during the period	(109,620)	4.18
Outstanding at March 31	**11,868,600**	**2.91**
Exercisable at March 31	6,978,743	2.54
Weighted average remaining contractual life	3.81 years	

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

Exercise price range	Weighted average remaining contractual life 2020	Number of outstanding options 2020
Less than and equal to $1.00	3.08	56,800
Between $1.00 and $3.00	3.57 - 5	8,210,500
Between $3.00 and $5.00	4 - 4.81	1,816,050
More than and equal to $5.00	4.37	1,785,250
		11,868,600

12.3 Share purchase warrants

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

	Number of warrants	2020 Weighted average exercise price $
As at January 1	12,519,675	0.84
Exercised during the period	(3,196,429)	0.64
As at March 31	**9,323,246**	**0.90**
Weighted average remaining contractual life		0.64 years

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

NOTE 13 – REVENUE

	Three months ended March 31 2020	Three months ended March 31 2019
Revenue from contracts with customers	11,089	21,914
Other revenue		
Investment property rental	-	36
Total revenue	**11,089**	**21,950**

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

	Three months ended March 31 2020	Three months ended March 31 2019
Domestic sales	8,417	21,914
International sales	2,672	-
	11,089	**21,914**
Private label	9,639	21,914
White label	1,392	-
Tolling process	58	-
	11,089	**21,914**
Products transferred at a point in time	11,031	21,914
Products and services transferred over time	58	-
	11,089	**21,914**

For the three months ended March 31, 2020, 77% (March 31, 2019: 89%) of total revenue is from three customers (March 31, 2019: three customers) each representing more than 10% of the Group's revenue.

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

NOTE 14 – EXPENSES BY NATURE

	Three months ended	
	March 31 2020	March 31 2019
Write down of inventory to net realizable value (Note 7)	12,811	-
Inventory and consumables recognized in cost of sales	8,279	12,722
Employee compensation	4,149	2,211
Share based compensation expense (2)	2,759	3,972
Consulting and professional fees	1,963	851
Depreciation	708	490
Supplies and small equipment	690	253
Analytical testing	414	296
Software licenses	302	60
Royalty	136	-
Other (1)	813	1,246
	33,024	**22,101**

(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 $2,759 (March 31, 2019: $3,972), general administrative expense portion is $1,885 (March 31, 2019: $2,812), marketing and selling expense portion is $310 (March 31, 2019: $582), cost of sales portion is $558 (March 31, 2019: $578) and research and development portion is $6 (March 31, 2019: $nil).

NOTE 15 –FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

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

15.1 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 $21,366 (December 31, 2019: $38,627). The cash is held with banks and financial institutions that are either Schedule 1 Canadian banks or large credit unions.

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

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

At March 31, 2020, the exposure to credit risk for trade receivables and contract assets by the type of customer is as follows:

	March 31, 2020	December 31, 2019
Business to business customers	21,778	26,105
Distributors / Retailers	1,779	112
	23,557	**26,217**

The Group limits its exposure to credit risk from trade receivables and contract assets by negotiating full or partial 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 March 31, 2020, 85% of the Group's trade receivables (December 31, 2019: 86%) is due from five customers (December 31, 2019: three customers) each representing more than 10% of the Group's trade receivables balance. The Group has legal collection proceedings with respect to $8,531 of the Group's trade receivable balance, which are all due from one customer. The past due portion of these trade receivables comprise 74% of all the Group's past due trade receivables as at March 31, 2020. The Group has not recognized an allowance for expected credit losses in connection with its trade receivables. The aging of the Group's trade receivables at March 31, 2020 is as follows:

	March 31, 2020 Gross carrying amount
Current (not past due)	11,945
1-30 days past due	180
31-60 days past due	30
61-90 days past due	3,535
90-180 days past due	7,716
	23,406

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

15.2 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet obligations when due. At the end of the reporting period the Group held deposits at banks and financial institutions of $21,366 (December 31, 2019: $38,627) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, the Group 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.

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C$'000s) except per share and exercise price amounts.)

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

The table below presents 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.

Contractual maturities of financial liabilities At March 31, 2020	**Less than 6 months**	**6-12 months**	**12-36 months**	**36-60 months**	**Total contractual cash flows**	**Carrying amount**
Trade and other payables	14,049	-	-	-	14,049	14,049
Lease liability	192	184	440	130	946	906
Non-revolving loan (1)	5,567	-	-	-	5,567	5,487
Non-revolving delayed loan (1)	3,906	-	-	-	3,906	3,850
Total financial liabilities	**23,714**	**184**	**440**	**130**	**24,468**	**24,292**

(1) The amount disclosed in the table is based on principal and interest payments. Other fees are not included in the above analysis. See Note 9.2 regarding the classification of the non-revolving loan and non-revolving delayed loan.

The bank loans contain loan covenants which are monitored on a regular basis by the Group to ensure compliance with the agreement.

15.3 Market risk

Market risk is the risk that changes in market price – e.g. foreign exchange rates and interest rates – will affect 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's foreign currency exposure is due to USD and AUD foreign currency denominated transactions.

(ii) Interest rate risk

The Group's main interest rate risk arises from long-term loan with variable rates, which expose the Group to cash flow interest rate risk. The Group's long-term loan with variable rate is denominated only in Canadian Dollars.

15.4 Capital risk management

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

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

Management defines capital as the Company's shareholders' equity and debt. As at March 31, 2020, total managed capital is $128,922 (December 31, 2019: $142,127).

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund both existing and future value-added growth opportunities. 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 18).

NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Judgements and estimates are made in determining the fair values of the financial instruments that are recognized and measured at fair value in the Condensed Interim 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 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 three months ended March 31, 2020, there were no transfers between levels.

NOTE 17 – SEGMENT INFORMATION

The Group operates in one segment, the production and sales of cannabis extracts and derivative products. The carrying value of non-current assets located outside of Canada is $7,993 (December 31, 2019: $7,844) and these assets are made up of property, plant and equipment and deposits given for property, plant and equipment.

NOTE 18 – EVENTS AFTER THE REPORTING PERIOD

(i) Private Placement

On June 8, 2020, the Group closed a private placement with an institutional investor for aggregate gross proceeds of $37,822 (the "**2020 Private Placement**").

$18,911 of the 2020 Private Placement is related to the placement of a $20,500 unsecured convertible note (the "**First Note**") and a warrant (the "**First Warrant**") to purchase up to 3,601,427 Common Shares; and the remaining $18,911 is currently being held in escrow and is related to the placement of a subscription receipt (the "**Subscription Receipt**") entitling the holder to receive, upon satisfaction of certain Escrow Release Conditions (as defined below), a further $20,500 unsecured convertible note (the "**Second Note**" and, together with the First Note, collectively, the "**Notes**") and a further warrant (the "**Second Warrant**" and, together with the First Warrant, collectively, the "**Warrants**") to purchase up to 3,601,427 Common Shares at a price of $2.28 per share and expiring on October 9, 2023.

The Notes have a three-year term, were issued at an original issue discount of 7.75% and are convertible to Common Shares at the option of the Investor at a price of $2.28 per share (the "**Conversion Price**"). Commencing four months after the closing date, the Notes will begin to amortize through bi-monthly installment payments of approximately $320 (the "**Bi-Monthly Installment Payments**"), payable in Common Shares, subject to the satisfaction of equity conditions, at a price per Common Share equal to 90% of the market price of the Common Shares (being the 5-day VWAP of the Common Shares on the TSX) or 87% of such market price where that market price is less than $1.00 (each an "**Installment Percentage**") or, at the option of the Group, in whole or in part, in cash.

Upon receipt of approval of the 2020 Private Placement by the Group's shareholders in accordance with the requirements of the TSX (the "**Shareholder Approval**"), the price for such Common Shares issued pursuant to a Bi-Monthly Installment Payment shall be adjusted to the lesser of (i) the then existing Conversion Price; and (ii) the Installment Percentage.

The gross proceeds from the placement of the Subscription Receipt have been delivered to a licensed Canadian trust company, in its capacity as subscription receipt agent, and will be delivered to the Company net of certain fees and expenses upon satisfaction of the escrow release conditions, specifically, the receipt of Shareholder Approval, and there existing no event or pending event of default under the Notes (the "**Escrow Release Conditions**"). Upon satisfaction of the Escrow Release Conditions, the Subscription Receipt will convert automatically into the Second Note and the Second Warrant.

In connection with 2020 Private Placement, the placement agent will receive a cash fee equal to 5.5% of the gross proceeds of the 2020 Private Placement.

(ii) Exercised warrants

Subsequent to March 31, 2020, 712,856 warrants were exercised for gross proceeds of $714.
