

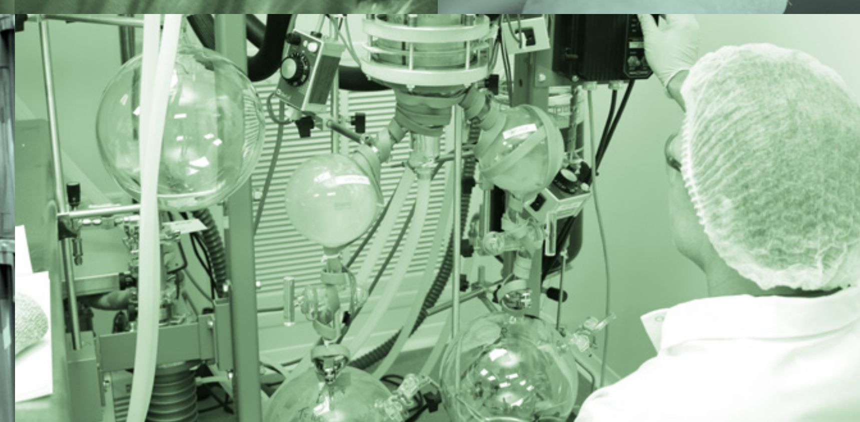


MediPharm Labs

EXTRACTING VALUE FROM OPPORTUNITY



2018 ANNUAL REPORT

MEDIPHARM LABS CORP. IS A TRUSTED GLOBAL LEADER IN SCALED, RESEARCH-DRIVEN CANNABIS EXTRACTION, DISTILLATION, PURIFICATION AND CANNABINOID ISOLATION.

Contents

Management's Discussion and Analysis

FOR THE YEARS ENDED DECEMBER 31, 2018

(All dollar amounts disclosed in the MD&A have been rounded off to the nearest thousand currency unit and are expressed in Canadian dollars unless otherwise stated.)

This management's discussion and analysis ("**MD&A**") of the financial condition and performance of MediPharm Labs Corp. (formerly POCML 4 Inc.) (the "**Company**") was prepared by management as at April 3, 2019. Throughout this MD&A, unless otherwise stated or the context indicates otherwise, the "**Company**" refers to MediPharm Labs Corp. and its subsidiaries. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018 (the "**Financial Statements**"), including the accompanying notes.

This MD&A has been prepared with reference to the MD&A disclosure requirements established under National Instrument 51-102 – *Continuous Disclosure Obligations* ("**NI 51-102**") of the Canadian Securities Administrators. Additional information regarding the Company, including the Company's most recent annual information form dated April 3, 2019 (the "**Annual Information Form**"), is available at www.medipharmlabs.com or through the SEDAR website at www.sedar.com.

This MD&A contains commentary from the Company's management regarding the Company's strategy, operating results, financial position and outlook. Management is responsible for the accuracy, integrity and objectivity of the disclosure contained in this MD&A and develops, maintains and supports the necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

The board of directors (the "**Board of Directors**") and audit committee (the "**Audit Committee**") of the Company provide an oversight role with respect to all public financial disclosures by the Company. The Board of Directors approved the Financial Statements and MD&A as of the date hereof after the completion of its review and recommendation for approval by the Audit Committee, which meets periodically to review all financial reports, prior to filing.

The Financial Statements and accompanying notes were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and interpretations of the IFRS Interpretations Committee ("**IFRIC**") and include the accounts of the Company and its subsidiaries and the Company's interests in affiliated companies. All intercompany balances and transactions have been eliminated on consolidation. All amounts are expressed in thousands of Canadian dollars unless otherwise noted.

The Company also uses certain non-IFRS financial measures to evaluate its performance. These non-IFRS measures include Adjusted Earnings before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA). Non-IFRS measures used in this MD&A are reconciled to, or calculated from, IFRS financial information as discussed further in "Reconciliation of non-IFRS Measures".

In addition to historical information, the discussion in this MD&A contains forward-looking statements. The discussion is qualified in its entirety by the "Cautionary Note Regarding Forward-Looking Statements" that follows.

The Company does not, directly or indirectly, have any business operations in jurisdictions where cannabis is not federally legal, such as the United States.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking information and forward-looking statements within the meaning of Canadian securities legislation ("forward-looking statements") including but not limited to:

- assumptions and expectations described in the Company's critical accounting policies and estimates;
- the Company's expectations regarding the adoption and impact of certain accounting pronouncements;
- the Company's expectations regarding legislation, regulations and licensing related to the import, export, processing and sale of cannabis products by the Company's subsidiaries;
- the ability to enter and participate in international market opportunities;
- product diversification and future corporate development;
- anticipated results of research and development;
- production capacity expectations including discussions of plans or potential for expansion of capacity at existing or new facilities;
- expectations with respect to future expenditures and capital activities; and
- statements about expected use of proceeds from fund raising activities.

These forward-looking statements are made as of the date of this MD&A and the Company does not intend, and does not assume, any obligation to update these forward-looking statements, except as required under applicable securities legislation. Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events. In certain cases, forward-looking statements can be identified by the use of words such as "considers", "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved", or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "will", "intends", and "estimates". By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

Risks related to forward-looking statements include, among other things, those outlined in "Risk Factors".

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements, or developments in its industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements.

Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Forward-looking statements are based on management's current plans, estimates, projections, beliefs and opinions, and the Company does not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change, except as required by applicable securities laws. The Company has also made certain macroeconomic and general industry assumptions in the preparation of such forward-looking statements. While the Company considers these factors and assumptions to be reasonable based on information available at that time, there can be no assurance that actual results will be consistent with these forward-looking statements. All of the forward-looking statements made in this MD&A are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company.

PERIOD FINANCIAL HIGHLIGHTS

The following table is a summary of financial highlights for the three and twelve-month periods ended December 31, 2018 and 2017.

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Revenue	**10,198**	–	**10,198**	–
Gross profit	**3,967**	–	**3,967**	–
Gross margin %	**39%**	–	**39%**	–
Net loss	**(3,542)**	(742)	**(8,466)**	(995)
Adjusted EBITDA[1]	**2,129**	(695)	**(875)**	(948)
Adjusted EBITDA margin %	**21%**	–	**(9%)**	–

Note:

(1) Adjusted EBITDA is a non-IFRS measure. See "Reconciliation of Non-IFRS Measures" for reconciliation to IFRS measures.

See "Discussion of Operations" for management's discussion and analysis regarding the periods.

COMPANY OVERVIEW

The Company was incorporated under the *Business Corporations Act* (Ontario) (the "**OBCA**") with its common shares (the "**Common Shares**") publicly traded on the TSX Venture Exchange (the "**TSXV**") under the symbol "LABS", on the OTCQB in the U.S. under the ticker symbol "MLCPF", and on the Frankfurt Stock Exchange ("**FSE**") trading under the ticker symbol "MLZ".

The Company is a specialized, research-driven cannabis extraction business focused on downstream extraction methodology, distillation, and cannabinoid isolation and purification. The Company's mission is to become a leader specialized in providing derivative cannabis products and to drive future cannabis product innovation.

The Company's operations are conducted through its wholly-owned subsidiary MediPharm Labs Inc. ("**MediPharm Labs**"), which is licensed under the *Cannabis Act* (Canada). Through its Australian subsidiary, MediPharm Labs Australia Pty. Ltd. ("**MediPharm Labs Australia**"), the Company has also completed its application process with the federal Office of Drug Control to extract and import medical cannabis products in Australia and commenced construction of an Australian extraction facility.

Background

The Company was incorporated under the OBCA on January 23, 2017 as "POCML 4 Inc." and classified as a capital pool company as defined in TSXV Policy 2.4. The Common Shares of the Company commenced trading on the TSXV on February 9, 2018.

On October 1, 2018, MediPharm Labs completed the reverse takeover of the Company (the "**Qualifying Transaction**"), which constituted the "Qualifying Transaction" of the Company pursuant to the policies of the TSXV.

In connection with and immediately prior to the Qualifying Transaction, on October 1, 2018, the Company filed articles of amendment to: (i) change its name from "POCML 4 Inc." to "MediPharm Labs Corp.", and (ii) consolidate the Common Shares on the basis of one "new" Common Share for every two "old" Common Shares then outstanding. The Qualifying Transaction then proceeded by way of a "three-cornered amalgamation" pursuant to which MediPharm Labs amalgamated with 2645354 Ontario Inc. ("**Newco**"), a wholly-owned subsidiary of the Company, and the Company acquired all of the issued and outstanding class A common shares of MediPharm Labs (the "**MediPharm Shares**") in exchange for Common Shares on the basis of 12.68 Common Shares for every one MediPharm Share then issued and outstanding (the "**Exchange Ratio**").

On October 4, 2018, the Common Shares commenced trading on a post-consolidation basis on the TSXV under the symbol "LABS".

Business Overview

The Company is a pioneer in the cannabis industry licensed under the *Cannabis Act* (Canada) with its wholly-owned subsidiary MediPharm Labs having the distinction of being the first company in Canada to become a licensed producer of cannabis oil under the *Access to Cannabis for Medical Purposes Regulations* (the "**ACMPR**") without first receiving a cannabis cultivation licence. This focus on producing cannabis concentrates from the Company's current Good Manufacturing Practices ("**cGMP**") built facility and having ISO standard-built clean rooms and a critical environments laboratory, allows the Company to work with its established, Health Canada-approved cultivation partners for the pharmaceutical-like production of cannabis oil. The Company specializes in (i) the production of cannabis oil, formulations and derivatives on a wholesale basis, using dried cannabis flower and trim opportunistically purchased from various licensed cultivators, and (ii) the provision of tolling services to Canadian authorized licensed cultivators of cannabis, so that they can sell cannabis oil, formulations and derivatives under their own brand. The Company also expects to supply formulations, processing and packaging for the creation of ready-to-sell advanced derivative products as it expands its processing capabilities. The Company's leading edge, industrial scale and scientific platforms have been built to evolve and adapt as the industry, consumers and applicable regulations continue to evolve.

The Company's Australian venture began in January 2017 following changes to Australia's federal legislation allowing companies to produce medicinal cannabis products in Australia. To ensure smooth operations, MediPharm Labs secured a local partner and now maintains an 80% ownership of MediPharm Labs Australia as well as control of its board of directors. MediPharm Labs Australia has completed its application process with the Australian Office of Drug Control to extract and import medical cannabis products in Australia and has commenced construction of its extraction facility. Subject to the completion of licencing, the Company expects its Australian operations to be up and running in the second half of 2019. Similar to its Canadian operations, the Company will seek to purchase dried cannabis supply from various local cultivators to produce cannabis oil for wholesale. The Company also expects to use the Australian extraction lab as an import-export hub to other lawful global markets including within the Asia Pacific region.

Operations and Facilities

As of the date of this MD&A, the Company's core business generates revenue through two primary activities: wholesale activities and tolling services related to the production of cannabis oil.

At its 70,000 sq. ft. Barrie, Ontario facility, the Company currently operates five supercritical CO_2 primary extraction lines used for the production of cannabis oil and anticipates the addition of two primary extraction lines with expected annual throughput capacity of 100,000 kg of dried cannabis bringing its total projected annual throughput capacity to 250,000 kg. Currently, on average, the Company is producing approximately 10 kg of cannabis oil per day. The facility is built to cGMP standards and the Company expects to receive its European cGMP certificate in the second half of 2019, which will facilitate its entrance into the European market.

The Company's development-stage Australian facility is expected to have annual throughput capacity of approximately 75,000 kg of dried cannabis once completed and licenced and is being built to the same cGMP standards as the Company's Canadian facility. The completion of the Australian facility remains subject to various conditions, including financing (either through the Company's operations or debt and/or equity financings) and applicable licencing.

The intended expansions, operating capacities and European cGMP certifications are forward-looking statements. See "Cautionary Note Regarding Forward Looking Statements" and "Risk Factors", including "Realization of Growth Targets" and "Reliance on Licenses and Authorizations".

Wholesale (Private and White Label) Production

The Company has historically opportunistically procured bulk shipments of dried cannabis for its wholesale production lines and expects to negotiate ongoing supply contracts with various licensed cultivators under the *Cannabis Act*. As of December 31, 2018, the Company had acquired dried cannabis inventory from nine (9) licensed cultivators under the *Cannabis Act*. As of the date of this MD&A, the Company had acquired dried cannabis inventory from fifteen (15) licensed cultivators under the *Cannabis Act*.

During the fiscal year ended December 31, 2018, the Company processed its inventory of dried cannabis through its primary extraction lines and sold bulk cannabis oil to its licensed clients. The Company's clients can then formulate and package the final cannabis products for sale, most typically to either their own medicinal clients or provincially authorized retail distributors, under their own brands. See "Recent Developments for the Year Ended December 31, 2018 – Production and Operational Highlights" and "Subsequent Events" for an overview of current private label contracts.

Upon receiving Health Canada authorization to sell formulated tincture bottles and soft gels directly to provincial distributors throughout Canada, the Company also expects to commence shipping consumer packaged private label and white label products on behalf of the Company's licenced and non-licenced clients. In anticipation of such changes, the Company has already commenced producing various formulated tincture bottles for its private label clients and has procured equipment for its soft gel line.

See "Subsequent Events" for details on the Company's first white label contract.

Tolling Services

The Company provides tolling services to various licensed cultivators throughout Canada. As part of this program, the Company receives dried cannabis from its clients and then processes the cannabis through its extraction lines on their behalf. It collects a tolling fee for its services and does not take ownership of the source or refined product at any time. To date, the Company has signed five (5) processing agreements with three-year terms providing predictable, regular production volume that contributes to operational efficiency and regular revenue.

See "Highlights for the Year Ended December 31, 2018 – Production and Operational Highlights" for an overview of current tolling contracts.

New Product Offerings and R&D

The Company expects to continue up the value-chain through the addition of additional products utilizing its primary extraction capabilities (such as tincture bottles and soft gels) and further along to secondary extraction and associated products.

The Company has already commenced bottling cannabis oil formulations into tincture bottles in anticipation of receiving the applicable regulatory authorization. In addition, the Company has procured equipment for its soft gel line and expects to have such products ready for commercial sale by the third quarter of 2019.

As the regulations under the *Cannabis Act* continue to evolve, including the expected legalization of vapeables, edibles, beverages and topicals in October 2019, the Company anticipates its potential client-base will expand (such as to consumer packaged goods (CPG) companies) and its product offerings will continue to diversify. In anticipation of these regulatory changes and to meet these coming opportunities, the Company has already begun building its team, potential client base and product capabilities, in particular with respect to vapeables. The Company has already completed R&D related to the formulating, manufacturing and filling of multiple vape pens. Required equipment for vapeables has been deployed and commercial activities will be initiated as soon as Health Canada regulations are finalized.

The Company has been completing internal research and development with its team of scientists and technical specialists for the development of industrial scale distillation and chromatography capabilities. The isolation and fractioning of specific cannabinoids have successfully been conducted at the Company's facility. These activities have been completed at a research and development (R&D) scale with the intention to commercialize these actives in the second half of 2019.

Further, The Company expects that industrial scale chromatography capabilities will permit the Company to address the market for active pharmaceutical ingredients (APIs) that require cannabinoid purity of at least 99.9%. The Company has ordered an industrial scale chromatography unit, which it intends to have installed for trial runs by the second half of 2019.

The planned development and licencing of new product lines and capabilities and commercialization of R&D are forward-looking statements. See "Cautionary Note Regarding Forward Looking Statements" and "Risk Factors", including "Realization of Growth Targets", "Reliance on Licenses and Authorizations" and "Research and Development".

Highlights for the Year Ended December 31, 2018

During the year ended December 31, 2018, the Company succeeded in accomplishing numerous milestones, including its listing on the TSXV, raising over $25 million in equity financings, purchasing the property on which its Barrie, Ontario facility is located, receiving its production and sales licence for cannabis oil and entering into numerous contracts for its private label and tolling operations.

Qualifying Transaction and TSXV Listing

On October 1, 2018, MediPharm Labs completed the reverse takeover of the Company pursuant to the Qualifying Transaction.

In connection with and prior to the Qualifying Transaction, on October 1, 2018, the Company filed articles of amendment to: (i) change its name from "POCML 4 Inc." to "MediPharm Labs Corp."; and (ii) consolidate its Common Shares on the basis of one "new" Common Share for every two "old" Common Shares then outstanding. The Qualifying Transaction then proceeded by way of a "three-cornered amalgamation" pursuant to which MediPharm Labs amalgamated with 2645354 Ontario Inc, a wholly-owned subsidiary of the Company, and the Company acquired all the issued and outstanding MediPharm Shares in exchange for Common Shares on the basis of 12.68 Common Shares for every one MediPharm Share then issued and outstanding (the "**Exchange Ratio**").

Immediately following completion of the Qualifying Transaction, an aggregate of 96,866,628 Common Shares were issued and outstanding (non-diluted), and an aggregate of 33,214,619 Common Shares were reserved for issuance upon the exercise of outstanding convertible securities of the Company.

On October 4, 2018, the Common Shares commenced trading on a post-consolidation basis on the TSXV under the symbol "LABS".

Financings

As all issued and outstanding securities of MediPharm Labs were exchanged pursuant to the Amalgamation Agreement for securities of the Company at the Exchange Ratio, all references to numbers and prices of securities in this section are presented on a post-Exchange Ratio basis unless otherwise noted.

On March 22, 2018, MediPharm Labs completed a private placement (the "**March Private Placement**") of 10,102,270 units at a price of $0.293 per unit for aggregate gross proceeds of $2,964, each unit comprising one Common Share and one common share purchase warrant (each, a "**March Warrant**"). Each March Warrant entitles the holder to acquire one Common Share at an exercise price of $0.473 until October 1, 2020. In connection with the March Private Placement, certain finders received a cash fee of $175 and an aggregate of 596,505 warrants in consideration for their services, each warrant entitling the holder to acquire one Common Share and one March Warrant at an exercise price of $0.293 until the date which is 24 months following completion of the Qualifying Transaction.

On June 1, 2018 and June 29, 2018, MediPharm Labs completed private placements (the "**June Private Placements**") for an aggregate of 26,254,840 units at a price of $0.85 per unit for aggregate gross proceeds of $22,317, each unit comprising one Common Share and one-half of one common share purchase warrant (each whole warrant, a "**June Warrant**"). Each June Warrant entitles the holder to acquire one Common Share at an exercise price of $1.20 until October 1, 2020. The June Warrants are governed by a common share purchase warrant indenture dated October 1, 2018 between the Company and TSX Trust Company, as warrant agent. In connection with the brokered portion of the June Private Placements, certain agents received a cash fee of $1,282 and an aggregate of 1,508,413 broker warrants in consideration for their services, each entitling the holder to acquire one Common Share and one-half a June Warrant at an exercise price of $0.85 until the date which is 24 months following completion of the Qualifying Transaction.

Licensing

In 2016, the Company's wholly-owned subsidiary, MediPharm Labs, submitted its application to become a licensed producer (the "**Licence**") under the ACMPR to Health Canada. On March 29, 2018, MediPharm Labs became the first company in Canada to receive a production licence for cannabis oil production under the ACMPR without first receiving a cannabis cultivation licence.

On October 17, 2018, when the *Cannabis Act* came into force, MediPharm Labs' Licence was transitioned to a standard processing licence under the *Cannabis Act*. On November 9, 2018, the Licence was amended to permit the sale of cannabis oil and derivatives to other licence holders under the *Cannabis Act* and certain other authorized classes of purchasers.

On December 21, 2018, the Company received approval from Health Canada for the use of an expanded extraction facility in Barrie, increasing its total licenced extraction throughput from 100,000 kg of dried cannabis to 150,000 kg.

As of the date of this MD&A, MediPharm Labs has currently entered into supply arrangements with the Ontario Cannabis Store and the Provinces of British Columbia, Saskatchewan and Manitoba such that it expects to commence shipping of tincture bottles and soft gels under its private and white label programs shortly after applicable regulatory authorizations.

The Licence has a current term that ends on March 29, 2021. It is anticipated by management of the Company that Health Canada will extend or renew the Licence at the end of its current term. See "Risk Factors – Reliance on Licence".

See "Company Overview" for details on MediPharm Labs Australia's licensing.

Production and Operational Highlights

During the twelve-month period ended December 31, 2018, the Company procured approximately 3,800 kg of dried cannabis inventory for use in its private label and white label operations.

After the receipt of its authorization to commence sales of cannabis oil and derivatives in November 2018, MediPharm Labs completed several private label sales of crude cannabis oil prior to its December 31, 2018 year-end. The first large shipments of cannabis oil supply left the Company's dock in December 2018 and were aggregately valued at over $10 million. One such sale was to Canopy Growth Corporation ("**Canopy**") pursuant to the 18-month strategic supply agreement dated November 29, 2018 by which MediPharm Labs agreed to supply up to 900 kilograms of cannabis extract to Canopy and its subsidiaries. See "Subsequent Events" for details on an additional long-term private label agreement.

In addition, as part of its tolling strategy, the Company entered into the following contract processing agreements during fiscal 2018, each having a three-year term:

- On July 31, 2018, MediPharm Labs entered into a cannabis concentrate program agreement with James E. Wagner Cultivation Corporation ("**JWC**"), a licensed producer under the ACMPR, pursuant to which JWC agreed to provide MediPharm Labs with dried cannabis to use for the purposes of cannabis oil extraction and processing.
- On September 4, 2018, MediPharm Labs entered into a cannabis concentrate program agreement with INDIVA Limited ("**INDIVA**"), a licensed producer under the ACMPR, pursuant to which MediPharm Labs agreed to process dried cannabis for INDIVA.
- On October 5, 2018, MediPharm Labs entered into a cannabis concentrate program agreement with Emerald Health Therapeutics Canada Inc. ("**Emerald**") pursuant to which MediPharm Labs agreed to process dried cannabis for Emerald.
- On November 13, 2018, MediPharm Labs entered into a cannabis concentrate program agreement with The Supreme Cannabis Company, Inc. ("**Supreme Cannabis**"), a licensed cultivator under the *Cannabis Act*, pursuant to which MediPharm Labs agreed to process a minimum of 1,000 kg of dried cannabis per year for the next three years.

See "Subsequent Events" for details on an additional tolling agreement with TerrAscend Corp. ("**TerrAscend**").

DISCUSSION OF OPERATIONS

Overview

Revenue

During fiscal 2018, revenue was currently derived from the wholesale of cannabis oil through the Company's private label program. Though management expects to commence revenue generation through tolling activities beginning in the first quarter of 2019, wholesale of private and white label products is expected to continue to be the Company's primary revenue driver.

Cost of Sales

Cost of sales reflects the cost to extract and process the cannabis oils as well as the management of product throughput and inventory levels. Cost of sales includes the purchase of material and services such as the purchase of dried cannabis, freight expenses, sub-contractors, employee wages and benefit costs, and other operating expenses such as repairs and maintenance, plant overhead, leases of facility and equipment, as well as depreciation and amortization.

Gross Profit

Gross profit is calculated by deducting the cost of sales from revenue. The Company continues to refine its production processes and methodologies to increase production efficiency and gross profit.

Expenses

General administrative expenses include personnel expenses, consulting and professional fees, depreciation, travel and entertainment expenses, rent and occupancy cost, filing fees and shareholder communications, and other expenses related to the infrastructure required to support the Company's business.

Marketing and selling expenses include investor relations expenses, advertising and promotion expenses, personnel expenses, depreciation, travel and entertainment expenses, and other expenses incurred to win new business and retain existing clients.

Share-based compensation expense includes stock options granted.

Transaction fee includes the fair value of the equity issued to the shareholders of POCML 4 Inc. net of the fair value of the net assets acquired as disclosed in Note 17.4 in the Financial Statements.

Other operating expenses include start-up and pre-manufacturing costs incurred prior to the commencement of production in September 2018 (research and development of products, personnel expenses, depreciation, supplies and small equipment, machinery maintenance, and other) and foreign exchange loss, and bank and financial instituion service fees, which are costs that do not depend on sales or production quantities.

Included in other operating expenses, R&D expenses comprise costs incurred in performing R&D activities, including product testing and related manufacturing costs, materials and supplies, salaries and benefits, contract research costs, patent procurement costs, and occupancy costs.

Finance income

Finance income comprises interest income earned on cash balance and short-term investments.

Finance expense

Finance expense comprises interest expenses and accretion expenses that both were incurred on the convertible debentures issued in October 2017, mortgage payable and finance fees.

Other Comprehensive Income and Loss

Other comprehensive income and loss includes exchange gains and losses on translation of foreign operations. MediPharm Labs is a majority shareholder of subsidiary MediPharm Labs Australia, which has been constructing and developing a production facility in Victoria, Australia.

Comparison of the Year Ended December 31, 2018 to 2017

	Year ended	
	December 31, 2018	December 31, 2017
Revenue from contracts with customers	10,198	–
Cost of sales	(6,231)	–
Gross profit	**3,967**	**–**
General administrative expenses	(3,556)	(947)
Marketing and selling expenses	(1,272)	–
Share-based compensation expense	(1,965)	–
Transaction fee	(4,230)	–
Other operating expenses	(996)	(1)
Operating loss	**(8,052)**	**(948)**
Finance income	64	16
Finance expense	(478)	(63)
Net loss for the period	**(8,466)**	**(995)**
Attributable to		
- Non-controlling interest	(80)	(5)
- Equity holders of the Parent	(8,386)	(990)

Discussion and Analysis of Results for the Year Ended December 31, 2018

Results of operations for the year ended December 31, 2018 as compared to the year ended December 31, 2017.

	Year ended December 31st		Change		
($000's)	**2018**	2017	$	%	Management Commentary
Revenue	$10,198	–	$10,198	N/A	The Company received sales authorization from Health Canada in November 2018 and commenced sales activities since then. Results for the year ended December 31, 2017 do not reflect any sale activities and are accordingly not comparable.
Cost of sales	$6,231	–	$6,231	N/A	
Gross profit	**$3,967**	**–**	**$3,967**	**N/A**	
General administrative expenses	$3,556	$947	$2,609	275.5%	General administrative expense increased due to the following reasons: • Increase in personnel headcount and consulting and professional fees in relation to the start of production • Depreciation related to the purchase and build out of a production facility in Barrie during 2018 • Increase in travel and entertainment expenses in relation to the commencement of production • Incurred expenses related to TSXV and OTC filings • Increase in expenses related to insurance, recruitment, office expenses, internet/phone expenses and payroll related to preparation activities to support the commencement of production
Marketing and selling expenses	$1,272	–	$1,272	N/A	Marketing and selling expenses incurred due to commencement of sales activities and following activities specifically: • Investor communications activities starting after listing on the TSXV in October 2018. • Advertising and promotional activities including marketing materials, memberships, conferences, and digital marketing • Increase in personnel headcount • Increase in travel and entertainment expenses due to start of production and sales
Share-based compensation expense	$1,965	–	$1,965	N/A	Expense incurred due to remuneration in the form of share-based payments granted to employees (including senior executives).
Transaction fee (excludes legal fees)	$4,230	–	$4,230	N/A	Expense incurred due to the Qualifying Transaction in October 2018.

($000's)	Year ended December 31st 2018	2017	Change $	%	Management Commentary
Other operating expenses	$996	$1	$995	99,500%	Other expenses included start-up and pre-manufacturing cost incurred prior to the commencement of production in September 2018. Other expenses increased due to following reasons: • Incurred indirect personnel expense regarding training, testing and implementation of processes in advance of the commencement of production • Incurred depreciation expense of property, plants and equipment • Incurred maintenance, repair, cleaning, and freight expense • Incurred research and development expense including procurement of raw materials and research activities for testing purposes
Operating loss	**$8,052**	**$948**	**$7,104**	**749.4%**	See comments above.
Adjusted EBITDA (non-IFRS measure)	**$(875)**	**$(948)**	**$73**	**–**	The increase in Adjusted EBITDA is mainly attributable to the commencement of production in September 2018 and receipt of sales licence in November 2018. This resulted in increased sales and gross profit, offset by the increase in general and administrative expenses, and marketing and selling expenses. Adjusted EBITDA is a non-IFRS measure. See "Reconciliation of Non-IFRS Measures" for reconciliation to IFRS measures.
Finance income	$64	$16	$48	300.0%	Finance income related to interest income recognized on balance of cash and short-term investment, which increased due to increase in balances of cash and short-term investment balances.
Finance expense	$478	$63	$415	658.7%	Finance expenses increased due to increase in interest expenses and accretion expenses on the convertible debentures and mortgage payable.
Net loss for the year	**$8,466**	**$995**	**$7,471**	**750.9%**	See comments above.

Comparison of Quarter Ended December 31, 2018 to 2017

	Three months ended	
	December 31, 2018	December 31, 2017
Revenue from contracts with customers	10,198	–
Cost of sales	(6,231)	–
Gross profit	**3,967**	**–**
General administrative expenses	(1,749)	(694)
Marketing and selling expenses	(597)	–
Share-based compensation expense	(738)	–
Transaction fee	(4,230)	–
Other operating expenses	(19)	(1)
Operating loss	**(3,366)**	**(695)**
Finance income	22	16
Finance expense	(198)	(63)
Net loss for the period	**(3,542)**	**(742)**
Attributable to		
- Non-controlling interest	(32)	(5)
- Equity holders of the Parent	(3,510)	(737)

Discussion and Analysis of the Results for the Quarter Ended December 31, 2018

Results of operations for the three months ended December 31, 2018 as compared to the three months ended December 31, 2017.

	Three months ended December 31		Change		
($000's)	**2018**	2017	$	%	Management Commentary
Revenue	$10,198	–	$10,198	N/A	After receiving Health Canada sales authorization in November 2018, the Company commenced private label wholesales activities. Results for the three months ended December 31, 2017 do not reflect any sale activities and are accordingly not comparable.
Cost of sales	$6,231	–	$6,231	N/A	
Gross profit	**$3,967**	**–**	**$3,967**	**N/A**	
General administrative expenses	$1,749	$694	$1,055	152.0%	General administrative expenses increased due to the following reasons: • Increase in personnel headcount and consulting and professional fees related to the start of production • Depreciation related to the build out and purchase of a production facility in Barrie in the fourth quarter of 2018 • Increase in travel and entertainment expenses due to the start of production and sales • Incurred expenses related to TSXV and OTC filings
Marketing and selling expenses	$597	–	$597	N/A	Marketing and selling expenses incurred due to commencement of sales activities and following activities specifically: • Investor communication activities started after commencing trading on the TSXV in October 2018 • Advertising and promotional activities including marketing materials, memberships, conferences, and digital marketing • Increase in personnel headcount attributable to marketing and selling activities • Increase in travel and entertainment expenses due to the start of production and sales
Share-based compensation expenses	$738	–	$738	N/A	Expense incurred due to remuneration in the form of share-based payments granted to employees (including senior executives)
Transaction fee (excluding legal fees)	$4,230	–	$4,230	N/A	Expense incurred due to Qualifying Transaction on October 1, 2018.

	Three months ended December 31		Change		
($000's)	**2018**	2017	$	%	Management Commentary
Other operating expenses	$19	$1	$18	1,821.3%	Other operating expenses increased due to foreign exchange loss based on foreign currency denominated cash & cash equivalents
Operating loss	**$3,366**	**$695**	**$2,671**	**384.3%**	
Adjusted EBITDA (non-IFRS measure)	**$2,129**	**$(695)**	**$2,824**	**–**	The increase in Adjusted EBITDA is mainly attributable to the commencement of production and sales, which resulted in an increase of revenue and gross profit, offset by the increase in general and administrative expenses and marketing and selling expenses. Adjusted EBITDA is a non-IFRS measure. See "Reconciliation of Non-IFRS Measures" for reconciliation to IFRS measures.
Finance income	$22	$16	$6	37.5%	Finance income related to interest income recognized on balance of cash and short-term investment, which increased due to increase in balances of cash and short-term investment balances.
Finance expense	$198	$63	$135	214.3%	Finance expenses increased due to increase in interest expenses and accretion expenses on the convertible debentures and mortgage payable.
Net loss for the year	**$3,542**	**$742**	**$2,800**	**377.4%**	See comments above.

SELECTED ANNUAL INFORMATION

The following is a summary of the Company's selected annual financial information as at December 31, 2018, December 31, 2017 and December 31, 2106:

	Year-ended December 31, 2018	Year-ended December 31, 2017	Year-ended December 31, 2016
Cash and cash equivalents	**7,850**	2,493	262
Current assets	**26,614**	3,199	262
Total assets	**42,729**	5,393	262
Current and total liabilities	**14,886**	2,524	47
Share capital and reserves	**37,483**	4,043	394

	Year-ended December 31, 2018	Year-ended December 31, 2017	Year-ended December 31, 2016
Accumulated deficit	**(9,834)**	(1,169)	(179)
Revenue	**10,198**	–	–
Net loss attributable to equity holders of parent	**(8,386)**	(990)	(134)
Basic and diluted loss per share (attributable to the equity holders of parent)	**(0.12)**	(0.03)	(0.01)
Dividends	**–**	–	–

Increased current assets are the result of increased cash, accounts receivable and inventory at December 31, 2018, resulting from financing activities and the Company beginning production and sales in 2018. The increase in total assets is the result of the current assets discussed above and the build out and purchase of the Company's land and building during the year-ended December 31, 2018.

The increase in accumulated deficit is the result of losses incurred during the Company's first three years of operations prior to the Company obtaining its sales licence in the fourth quarter of 2018.

For discussions on revenue and net loss see "Results of Operations"; cash and cash equivalents see "Liquidity and Capital Resources"; and liabilities and share capital, and reserves see "Capital Structure".

SUMMARY OF QUARTERLY RESULTS

The following table sets out the Company's selected quarterly consolidated financial information:

	Three months ended		
	December 31, 2018 (Unaudited)	**September 30, 2018 (Unaudited)**	**June 30, 2018 (Unaudited)**
Total revenue	**10,198**	**Nil**	**Nil**
Net loss	**(3,542)**	**(1,973)**	**(1,605)**
Basic and diluted loss per share	**(0.05)**	**(0.29)**	**(0.32)**

	Three months ended		
	December 31, 2017 (Unaudited)	September 30, 2017 (Unaudited)	June 30, 2017 (Unaudited)
Total revenue	Nil	Nil	Nil
Net loss	(742)	(40)	(31)
Basic and diluted loss per share	(0.01)	(0.02)	(0.01)

The Company received authorization to produce and sell cannabis oil from Health Canada in 2018 and has since commenced production and sales activities. The increase in net loss in the three-month period ended September 30, 2018 reflects the Company's commencement of operations. The increase in revenue and net loss for the three-month period ended December 31, 2018 reflect the Company's continued scaling of its production and commencement of sales.

RECONCILIATION OF NON-IFRS MEASURES

The information presented within this MD&A includes certain financial measures, such as "Adjusted EBITDA", which are not defined terms under IFRS.

These non-IFRS financial measures and key performance indicators should be read in conjunction with the Company's Financial Statements. See reconciliations below of non-IFRS financial measures to the most directly comparable IFRS measure.

Management believes these supplementary financial measures provide useful additional information related to the operating results of the Company. These measures are used by management to assess financial performance of the business and are a supplement to the Financial Statements. Investors are cautioned that these measures should not be construed as an alternative to using net income as a measure of profitability or as an alternative to the Company's IFRS-based Financial Statements.

These measures do not have any standardized meaning and the Company's method of calculating each measure may not be comparable to calculations used by other companies bearing the same description.

Adjusted EBITDA is defined as net loss excluding interest, taxes, depreciation and amortization, and share-based compensation and listing expense. Adjusted EBITDA has limitations as an analytical tool as it does not include depreciation and amortization expense, interest income and expense, taxes, share-based compensation and transaction fees. Because of these limitations, Adjusted EBITDA should not be considered as the sole measure of the Company's performance and should not be considered in isolation from, or as a substitute for, analysis of the Company's results as reported under IFRS.

The following tables reconcile the Company's Adjusted EBITDA and loss from operations (as reported) for the years ended December 31, 2018, and December 31, 2017.

Adjusted EBITDA Non-IFRS Measure

	Year ended		
	December 31, 2018 $	December 31, 2017 $	Change $
Adjusted EBITDA Reconciliation			
Loss from operations – as reported	**(8,052)**	(948)	(7,104)
Add (deduct):			
Share-based compensation expense	**1,965**	–	1,965
Depreciation	**982**	–	982
Listing expense (excluding the legal fee)	**4,230**	–	4,230
Adjusted EBITDA	**(875)**	(948)	73

Adjusted EBITDA Non-IFRS Measure

	Three months ended		
	December 31, 2018 $	December 31, 2017 $	Change $
Adjusted EBITDA Reconciliation			
Loss from operations – as reported	**(3,366)**	(695)	(2,671)
Add (deduct):			
Share-based compensation expense	**738**	–	738
Depreciation	**527**	–	527
Transaction fee (excluding the legal fee)	**4,230**	–	4,230
Adjusted EBITDA	**2,129**	(695)	2,824

CAPITAL STRUCTURE

Outstanding Equity Securities

The Company's authorized capital consists of an unlimited number of Common Shares. As at December 31, 2018, the Company had 97,539,360 Common Shares issued and outstanding and as at the date of this MD&A the Company had 105,318,595 Common Shares issued and outstanding.

As at December 31, 2018 the Company had 26,012,277 share purchase warrants outstanding and as at the date of this MD&A the Company had 24,059,748 share purchase warrants outstanding.

As at December 31, 2018 the Company had 9,459,606 stock options outstanding and as at the date of this MD&A the Company had 10,578,300 stock options outstanding.

Dividend Policy

Payment of any future dividends by us, if any, will be at the discretion of the board of directors of the Company after considering many factors, including the Company's operating results, financial condition, and current and anticipated cash needs.

Debt Facilities

The following table presents the movement in the Company's debt balances for each of the periods indicated:

Mortgage Payable

	$
Balance, December 31, 2017	–
First mortgage	3,000
Second mortgage	3,000
Balance, December 31, 2018	**6,000**

Both of the first and second mortgage are secured against the land and the building in Barrie, Ontario and a general security agreement on the assets of the Company.

- The first mortgage bears interest at floating rate at the greater of 7.5% or the TD Canada Trust Posted Bank Prime Rate of interest plus 3.80% per annum.
- The second mortgage bears interest of floating rate at the greater of 11% per annum or the TD Canada Trust Posted Bank Prime Rate of interest plus 7.30% per annum.

Both mortgages have a term of one year and can be repaid before maturity without penalty.

Convertible Debentures (the Notes)

	$
Balance, December 31, 2016	–
Convertible debentures issued	1,315
Porting attributed to equity	(184)
Equity porting accreted back to the loan	40
Interest accrued	23
Balance, December 31, 2017	**1,194**
Equity porting accreted back to the loan	138
Interest accrued	82
Converted into common shares	(1,414)
Balance, December 31, 2018	–

The Notes (as defined below) and accrued interest were converted into MediPharm Shares immediately prior to the completion of the Qualifying Transaction, and then were exchanged for 6,012,729 Common Shares (in accordance with the Exchange Ratio) pursuant to the Qualifying Transaction.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Management's objectives when managing the Company's liquidity and capital structure are to generate sufficient cash to fund the Company's operating and growth strategy. The Company constantly monitors and manages its capital resources to assess the liquidity necessary to fund operations and capacity expansion.

As at December 31, 2018, the Company had a positive working capital of $11,728 (2017 – $675). The increase in working capital was driven primarily by the March Private Placement, the June Private Placements and the mortgages, and was partially offset by increase in cash outflow used in capital expenditures and in working capital for the operations.

Management of the Company believes the Company's current resources are sufficient to settle its current liabilities, when considering inventory and trade receivables.

As at December 31, 2018 the Company had cash and cash equivalents of $7,850 and current liabilities of $14,886. The increase from last period was mainly due to the March Private Placement, the June Private Placements and obtaining the mortgages, offset by increase in cash outflow used in capital expenditures and in working capital for the operations.

The following table presents the net cash flows ('$'000s) for each of the periods presented:

	Three months ended		Year end	
	December 31, 2018 $	December 31, 2017 $	**December 31, 2018 $**	December 31, 2017 $
Net cash provided by (used in)				
Operating activities	**(1,183)**	451	**(11,113)**	166
Investing activities	**(3,547)**	(1,927)	**(14,603)**	(2,194)
Financing activities	**6,172**	3,804	**31,064**	4,259
Effects of exchange rate changes on cash	**24**	–	**9**	–
Cash and cash equivalents, beginning of period	**6,384**	165	**2,493**	262
Cash and cash equivalents, end of period	**7,850**	2,493	**7,850**	2,493

($'000s)	Three months ended December 31, 2018	2017	Change	Management Commentary
Net cash provided by (used in) operating activities	**$(1,183)**	$451	$(1,634)	Cash used in operating activities are derived from change in working capital; particularly from the increase in inventory and accounts receivable. Increase in accounts payable partially offset the impact. Increases were a result of the further ramping up of production in Q4, 2018.

($'000s)	Three months ended December 31, 2018	2017	Change	Management Commentary
Net cash provided by (used in) investing activities	**$(3,547)**	$(1,927)	$(1,620)	Cash used in investing activities are mainly driven by capital expenditure, including the purchase of machinery and construction of production facility. In 2017, part of the construction of the production facility had been reflected as leasehold improvements.
Net cash provided by (used in) financing activities	**$6,172**	$3,804	$2,368	Cash provided by financing activities are mainly driven by proceeds from mortgage. In 2017, cash provided by financing activities was driven by issuance of shares and proceeds from convertible debenture.

($'000s)	Twelve months ended December 31, 2018	2017	Change	Management Commentary
Net cash provided by (used in) operating activities	**$(11,113)**	$166	$(11,279)	Cash used in operating activities are derived from increase in operating expenditures and change in working capital; particularly from the increase in inventory and accounts receivable. Increase in accounts payable partially offset the impact. Increases were a result of the commencement of sales and production in 2018.
Net cash provided by (used in) investing activities	**$(14,603)**	$(2,194)	$(12,409)	Cash used in investing activities are mainly driven by capital expenditure, including the acquisition of building & land, building improvements such as construction of production area, and purchase of machinery. In 2017, part of the construction of the production facility had been reflected as leasehold improvements.
Net cash provided by (used in) financing activities	**$31,064**	$4,259	$26,805	Cash provided by financing activities are mainly driven by issuance of shares and proceeds from mortgage. In 2017, cash provided by financing activities was driven by issuance of shares and proceeds from convertible debenture.

Contractual obligations

The Company is committed under the terms of contractual obligations with various expiration dates. The table below outlines the Company's contractual obligations as at December 31, 2018:

Contractual commitments	Total ($'000s)	Less than 6 months ($'000s)	6-12 months ($'000s)	Beyond 12 months ($'000s)
Trade payables	8,094	8,094	–	–
Mortgage payable	6,508	277	6,231	–
Total financial liabilities	**14,602**	**8,371**	**6,231**	**–**

In addition, the Company entered into a wholesale supply agreement under which it committed to sell up to 900kg of cannabis oil to Canopy within 18 months. In the default of not delivering any or portion of committed product, the Company would be subject to a late in-kind/cash payment. For the year ended December 31, 2018, the Company fulfilled the committed amount.

Capital Resources

The Company is subject to risks including, but not limited to, its inability to raise additional funds through debt and/or equity financing to support its development, including the continued expansion and development of its Barrie facility and development of its Australian facility, and continued operations and to meet its liabilities and commitments as they come due. See "Risk Factors", including "Realization of Growth Targets".

Management expects that its existing financial resources, anticipated operating cash flows and future debt and/or equity financings will provide the Company with sufficient capital resources as its operations continue to develop. During the 12-month periods ended December 31, 2018 and December 31, 2017, MediPharm Labs completed the following financings (all such securities, subscription prices and exercise prices being adjusted for the Exchange Ratio):

- On January 2, 2017, MediPharm Labs issued 570,600 Common with a fair value of $90 for consulting services.
- On January 2, 2017, MediPharm Labs closed a financing of $740 and issued 4,691,600 Common Shares.
- On October 6, 2017, MediPharm Labs issued $1,315 of convertible notes (the "**Notes**"), all of which were automatically converted into MediPharm Shares immediately prior to the completion of the Qualifying Transaction.
- On December 27, 2017, MediPharm Labs issued 1,720,387 Common Shares with a fair value of $418 for consulting services.
- On December 27, 2017, MediPharm Labs issued 10,572,470 Common Shares at $0.236 per share for proceeds of $2,502 as only a portion of the proceeds had been received. The 2,659,731 Common Shares remaining were issued in January 2018 for proceeds of $629.
- In January 2018, MediPharm Labs issued 118,000 Common Shares with a fair value of $28 for services performed.

- On March 22, 2018, MediPharm Labs closed the March Private Placement for gross proceeds of $2,964. See "Highlights for the Year Ended December 31, 2018 – Financings".
- On March 29, 2018, 3,170,000 stock options were exercised into Common Shares for proceeds of $25.
- On April 20, 2018, MediPharm Labs 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 June 1, 2018 and June 29, 2018, MediPharm Labs closed the June Private Placements for gross proceeds of $22,317. See "Highlights for the Year Ended December 31, 2018 – Financings".
- The mortgages on its Barrie, Ontario facility. See "Capital Structure – Debt Facilities".

Use of Funds Reconciliation

Upon the completion of the Qualifying Transaction, the Company had approximately $25,306 of available funds. The following table sets forth a comparison of the disclosure regarding the Company's estimated use of funds set out in the Company's Filing Statement dated September 24, 2018 (the "**Filing Statement**"), which may be viewed under its SEDAR profile at www.sedar.com, and estimated use of proceeds as at December 31, 2018:

Principal Use of Available Funds	Estimated Use of Funds ($'000s)	Current Estimated Use of Funds ($'000s)
Capital expenditures related to: - Completion of facility expansion - Building purchase - Licensing - Capital equipment and production line - Australia expansion - Expansion into other provinces in Canada	12,300	8,572
Operating expenses related to: - Purchase of supplies - Selling, general and administrative expenses	13,006	11,113
Total	**25,306**	**19,685**

The Company has not yet completed the expansion to additional provinces or the build-out of its Australian facility, and therefore the realization of certain expenses has not yet occurred.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Management have determined that key management personnel consist of directors and, the Chief Executive Office, the Chief Financial Officer and the President of the Company. The remuneration to directors and officers during the period ended December 31, 2018 was $878 (2017 – $73) which was included in consulting fees, salaries and benefits.

During the period ended December 31, 2018, the Company issued options to purchase up to 3,403,200 Common Shares to key management personnel (2017 – nil) for total share-based compensation of $737 (2017 – $nil).

As at December 31, 2018, the Company has $16 due to key management personnel for reimbursement of expenses (2017 – $19). The amount is non-interest bearing, unsecured and due on demand.

FINANCIAL INSTRUMENTS AND RELATED RISKS

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

Credit risk

Credit risk arises from deposits with banks and financial institutions and outstanding receivables. Credit risk is managed on a group basis. For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted. As of December 31, 2018, the Company has significant concentration of credit risk on outstanding receivables; however, management considers that the customers the Company is working with have low credit risk. In addition, the Company received 50% of the sales value in advance.

As of period end, the Company did not have any past due outstanding receivables and the expected loss rate for undue balance is estimated to be nominal.

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 Company held deposits at banks and financial institutions of $7,850 (2017: $2,493) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, the Company maintains flexibility in funding by maintaining a minimum cash balance at banks and financial institutions.

Management monitor rolling forecasts of the Company's liquidity reserve and cash, and cash equivalents on the basis of expected cash flows.

Interest rate risk

The Company is exposed to interest rate risk through floating interest rates at the greater of fixed interest rate declared by the mortgages or floating interest rate. As at December 31, 2018, the fixed interest rate is greater than the floating interest rate; therefore, the Company is not currently exposed to interest rate risk. The Company has $6,000 mortgage payable and the maturity of this financial instrument is less than 1 year. Therefore, management believes that the Company's fair value interest rate risk is not significant.

RISK FACTORS

There are a number of risk factors that could impact the Company's ability to successfully execute its key strategies and may materially affect future events, performance or results, including without limitation the following risk factors discussed in greater detail under the heading "Risk Factors" in the Annual Information Form available on www.sedar.com, which risk factors are incorporated by reference into this document and should be reviewed in detail by all readers:

- limited operating history;
- regulatory compliance risks;
- change of cannabis laws, regulations and guidelines;
- reliance on licences and authorizations;
- realization of growth targets including expansion of facilities and operations;
- management of growth;
- history of net losses;
- competition;
- conflicts of interest;
- legal proceedings;
- environmental regulation and risks;
- insurance risks;
- unfavourable publicity or consumer perception;
- product liability;
- product recalls;
- reliance on a single facility;
- dependence on supply of cannabis and other key inputs;
- retention and acquisition of skilled personnel;
- difficulty to forecast;
- inability to sustain pricing models;
- failure to comply with laws in all jurisdictions;
- perceived reputational risk for third parties;
- risks related to intellectual property;
- marketing constraints;
- research and development;
- shelf life of inventory;
- maintenance of effective quality control systems;
- scheduled maintenance, unplanned repairs, equipment outages and logistical disruptions;
- client risks;
- lack of long-term customer commitment risk;
- risks as a result of international expansions;
- operations in foreign jurisdictions;
- reliance upon international advisors and consultants;
- foreign currency risk;
- operations in foreign jurisdictions;
- access to capital;
- estimates or judgments relating to critical accounting policies;
- tax risks;
- market for the Common Shares;
- no history of payment of cash dividends;
- reporting issuer status;
- significant sales of Common Shares;
- analyst coverage, and
- tax issues related to the Common Shares.

CRITICAL ACCOUNTING ESTIMATES

See to Note 2.3 of the Financial Statements.

CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING CHANGES

Changes in Accounting Policies

As disclosed in Note 2.2 "*Changes in accounting policies*" to the Financial Statements, the Company adopted the following new standards and amendments that were effective for annual periods beginning on January 1, 2018:

IFRS 9 – Financial Instruments

Effective from annual period beginning on or after January 1, 2018, the standard replaces the guidance in IAS 39 "*Financial Instruments: Recognition and Measurement*". It includes requirements on classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. The Company has carried out valuation studies to determine the cumulative effect of the transition and concluded that no changes should be made to the consolidated financial statements.

The amendments to IFRS 9 regarding classification of financial assets and liabilities are summarized below. The classification differences do not have any effect on the measurement of financial assets and liabilities.

Financial assets	Previous classification according to IAS 39	New classification according to IFRS 9
Cash and cash equivalents	Amortized cost	Amortized cost
Trade receivables	Amortized cost	Amortized cost
Financial investments	Financial investments available for sale	Financial assets at fair value through other comprehensive income

Financial liabilities	Previous classification according to IAS 39	New classification according to IFRS 9
Trade payables	Amortized cost	Amortized cost
Mortgage payables	Amortized cost	Amortized cost
Convertible debentures	Amortized cost	Amortized cost

IFRS 15 – Revenue from Contracts with Customers

The Company has adopted IFRS 15, *Revenue from Contracts with Customers*, which replaced IAS 18, *Revenue*, on or after January 1, 2018. Since the revenue generation of the Company started in November 2018, IFRS 15 was adopted using the modified retrospective method and there is no impact on the accumulated deficit.

Other than the above-mentioned accounting policy changes, other accounting policy changes/amendments announced by IASB and effective from annual period beginning on or after January 1, 2018, do not have any or significant impact on the Company's consolidated financial statements.

Future Accounting Changes

The Company does not expect material impact of the below-stated new standards, amendments and interpretations on the Company's financial position and performance:

- Amendment to IAS 28, Investments in associates and joint venture
- Amendment to IFRS 9, *Financial Instruments*
- IFRS 17, Insurance Contracts
- IFRS 16, *Leases*
- Amendments to IAS 1 and IAS 8 on the definition of material
- Amendments to IAS 19, *Employee Benefits* on plan amendment, curtailment or settlement
- IFRIC 23, Uncertainty over income tax treatments

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

The information provided in this report, including the information derived from the Financial Statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

In contrast to the certificate required under National Instrument 52-109 – *Certificate of Disclosure in Issuers' Annual and Interim Filings* ("**NI 52-109**"), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("**DC&P**") and internal control over financial reporting ("**ICFR**"), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

- controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and
- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

The CEO and CFO of the Company are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis DC&P and ICFR as defined in NI 52- 109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

During the period ended December 31, 2018, no changes were made in the Company's design of internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

SUBSEQUENT EVENTS

Tolling Agreement

On January 8, 2019, the Company entered into a three-year cannabis concentrate program agreement with TerrAscend pursuant to which MediPharm Labs agreed to process dried cannabis for TerrAscend.

Long-term Private Label Wholesale Agreement

On February 12, 2019, the Company entered into a private label supply agreement with a *Cannabis Act* licensed cultivator where the Company committed to delivering an aggregate of $27 million of cannabis oil within a 12-month period. In addition, the licensed cultivator has the option to increase its purchase commitment by $13.5 million within the same period.

First Export Agreement

On February 20, 2019, the Company entered into its first international export agreement, being a private label agreement to supply purified, pharmaceutical-grade cannabis oil concentrates, or resin, to AusCann Group Holdings Ltd. in Australia, subject to satisfaction of applicable regulatory requirements.

White Label Agreement

On March 20, 2019, the Company entered into its first white label agreement to supply tincture bottles to provincial distributors and retailers on behalf of an existing consumer packaged goods brand.

Issued Stock Options

The Board of Directors granted stock options under its stock option plan to purchase an aggregate of 5,300,900 Common Shares at an exercise price of $2.00 per share for a five-year term expiring January 8, 2024. Each grant vests in five equal instalments, the first of which vests immediately with the four other instalments vesting on the dates which are six, twelve, eighteen and twenty-four months from the grant date. The stock options were granted to the directors, officers, employees and consultants of the Company.

The Board of Directors granted stock options under its stock option plan to purchase an aggregate of 790,500 Common Shares at an exercise price of $1.96 per share for a five-year term expiring February 4, 2024. Each grant vests in five equal instalments, the first of which vests immediately with the four other instalments vesting on the dates which are six, twelve, eighteen and twenty-four months from the grant date. The stock options were granted to employees of the Company.

The Board of Directors granted stock options under its stock option plan to purchase an aggregate of 791,000 Common Shares at an exercise price of $3.34 per share for a five-year term expiring March 29, 2024. Each grant vests in five equal instalments, the first of which vests immediately with the four other instalments vesting on the dates which are six, twelve, eighteen and twenty-four months from the grant date. The stock options were granted to employees of the Company.

Exercised Stock Options and Warrants

Subsequent to year-end, 5,763,706 stock options were exercised into Common Shares for proceeds of $1,365. Out of this amount, the officers and directors of the Company exercised 3,043,200 stock options with the balance exercised by employees of the Company.

Subsequent to year-end, 1,952,529 warrants were exercised for the gross proceeds of CAD$1,809.

Independent Auditor's Report

TO THE SHAREHOLDERS OF MEDIPHARM LABS CORP. (FORMERLY POCML 4 INC.)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Opinion

We have audited the consolidatedfinancial statements of MediPharm Labs Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits 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 Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do 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, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's 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 these 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company 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.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Matthew Gosden.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC
April 1, 2019

Consolidated Statements of Financial Position

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	Notes	December 31, 2018	December 31, 2017
ASSETS			
Current assets:			
Cash and cash equivalents	5	7,850	2,493
Trade receivables	8	6,427	–
Prepaids and deposits	10	2,695	418
Inventories	9	9,404	–
Other financial assets	6	200	–
Other current assets		38	288
Total current assets		**26,614**	**3,199**
Non-current assets:			
Investment property	11	2,066	–
Property, plant and equipment	12	13,968	2,144
Other financial assets	6	81	50
Total non-current assets		**16,115**	**2,194**
Total assets		**42,729**	**5,393**

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

Consolidated Statements of Financial Position

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	Notes	**December 31, 2018**	December 31, 2017
LIABILITIES AND EQUITY			
Current liabilities:			
Trade payables	8	8,094	1,209
Current employee benefit obligations	16	449	–
Convertible debentures	13.2	–	1,194
Mortgage payable	13.1	6,000	–
Due to related parties	7.1	16	19
Other current liabilities	15	327	102
Total current liabilities		**14,886**	**2,524**
Total liabilities		**14,886**	**2,524**
Equity:			
Common shares	17	34,065	3,850
Reserves		3,409	193
Accumulated other comprehensive income		9	–
Accumulated deficit		(9,834)	(1,169)
Total equity attributable to equity holders		**27,649**	**2,874**
Non-controlling interest	4	194	(5)
Total equity		**27,843**	**2,869**
Total liabilities and equity		**42,729**	**5,393**
Commitments and contingencies	14		

Approved on behalf of the Board:

Patrick McCutcheon
Director

Christopher Hobbs
Director

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

Consolidated Statements of Loss

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	Notes	**2018**	2017
Revenue from contracts with customers	18	10,198	–
Cost of sales		(6,231)	–
Gross profit		**3,967**	**–**
General administrative expenses	19	(3,556)	(947)
Marketing and selling expenses	19	(1,272)	–
Share based compensation expense	17.2	(1,965)	–
Transaction fee	17.4	(4,230)	–
Other operating expenses	20	(996)	(1)
Operating loss		**(8,052)**	**(948)**
Finance income	22	64	16
Finance expense	22	(478)	(63)
Net loss for the year		**(8,466)**	**(995)**
Attributable to			
- Non-controlling interest		(80)	(5)
- Equity holders of the Parent		(8,386)	(990)
Weighted average number of ordinary shares		72,593,212	30,752,614
Basic and diluted earnings per share (in full CAD$)		(0.12)	(0.03)

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

Consolidated Statements of Other Comprehensive Loss

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	Notes	2018	2017
Net loss for the year		**(8,466)**	**(995)**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		9	–
Total comprehensive loss for the year		**(8,457)**	**(995)**
Total comprehensive loss attributable to			
- Non-controlling interest		(80)	(5)
- Equity holders of the Parent		(8,377)	(990)

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

Consolidated Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	Common Shares		Reserves						
	Number (post stock split)	Share capital	Share-based payments	Equity component of convertible debt	Obligation to issue shares	Accumulated other comprehensive	Accumulated deficit	Non-controlling interest	Total
Balance at December 31, 2016	**25,360,000**	**100**	**9**	**–**	**285**	**–**	**(179)**	**–**	**215**
Shares issues for cash	15,264,070	3,242	–	–	(285)	–	–	–	2,957
Issuance of convertible debt	–	–	–	184	–	–	–	–	184
Foreign exchange translation	–	–	–	–	–	–	–	–	–
Shares issued for services	2,290,987	508	–	–	–	–	–	–	508
Net loss for the year	–	–	–	–	–	–	(990)	(5)	(995)
Balance at December 31, 2017	**42,915,057**	**3,850**	**9**	**184**	**–**	**–**	**(1,169)**	**(5)**	**2,869**
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 (Note 17)	118,000	28	–	–	–	–	–	–	28
Shares issued on convertible debenture (Note 13.2)	6,012,729	1,598	–	(184)	–	–	–	–	1,414
Shares to be issued upon exercise of stock options	–	13	–	–	–	–	–	–	13
RTO transaction (Note 17.4)	5,000,000	4,250	407	–	–	–	–	–	4,657
Share based compensation (Note 17.2)	–	–	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**

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

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	Notes	2018	2017
Cash flows from operating activities:			
Net loss for the year		(8,466)	(995)
Adjustments for:			
Depreciation	21	982	–
Accretion expense on convertible debt	13.2	138	40
Interest accrued on convertible debt	13.2	82	23
Accruals		726	87
Shares issued for services		28	508
Share based compensation		1,965	–
Listing expense	17.4	4,657	–
Operating income/(loss) before changes in operating assets and liabilities		**112**	**(337)**
Change in trade receivables		(6,427)	–
Change in inventories		(9,404)	–
Change in other current assets		255	(288)
Change in prepaid and deposits		(2,282)	(418)
Change in restricted cash		(200)	–
Change in trade payables		6,885	1,194
Change in other current liabilities		(52)	15
Net cash used in operating activities		**(11,113)**	**166**
Cash flows from investing activities:			
Capital expenditures		(14,572)	(2,144)
Acquisition of financial assets		(31)	(50)
Net cash used in investing activities		**(14,603)**	**(2,194)**
Cash flows from financing activities:			
Issuance of shares for cash less issuance costs		24,296	2,957
Proceeds from mortgage		6,000	–
Convertible debenture	13.2	–	1,315
Exercise of warrants		733	–
Exercise of stock options		38	–
Advances from shareholders		(3)	(13)
Net cash provided by financing activities		**31,064**	**4,259**
Effects of exchange rate changes on cash and cash equivalents	**9**	**–**	
Increase in cash and cash equivalents		**5,357**	**2,231**
Cash and cash equivalents at the beginning of the year	**5**	**2,493**	**262**
Cash and cash equivalents at the end of the year	**5**	**7,850**	**2,493**

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

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

NOTE 1 – NATURE OF OPERATIONS

MediPharm Labs Corp. (formerly POCML 4 Inc.) (the "Corporation" or "Company") was incorporated under the Ontario Business Corporation Act on January 23, 2017 and prior to the Transaction (as defined Note 17) it was classified as a Capital Pool Corporation ("CPC") as defined in the Policy 2.4 of the TSX Venture Exchange (the "Exchange"). Subsequent to the Transaction, the Corporation's shares began trading on the Exchange on October 4, 2018 under the trading symbol "LABS" and the Corporation received its sales license from Health Canada on November 12, 2018.

The Company produces purified, pharma-grade cannabis oil and cannabis concentrates for advanced derivative products.

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

The Company and its subsidiaries are referred to as the "Group" in these notes. The operations of the subsidiaries included in the consolidation 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

(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 10,000 sq.ft of pharma-grade manufacturing space leaving availability for future expansion. By the end of 2018, MPL received approval from Health Canada to increase its annual production capacity to process up to 150,000kg of dried cannabis (up from 100,000kg previously).

(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.

(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.

(4) They are inactive companies.

NOTE 2 – BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation

(i) Statement of compliance

The 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 April 1, 2019, the Board of Directors approved the consolidated financial statements for the year ended December 31, 2018.

(ii) Historical cost convention

These consolidated financial statements have been prepared on a historical cost basis, except the certain financial assets and liabilities which are expressed with their fair values. In addition, 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"). The consolidated financial statements are presented in Canadian Dollars (CAD$), which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in the consolidated statement of loss.

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 profit or loss and statement of comprehensive income are translated at average exchange rates and
- all resulting exchange differences are recognized in other comprehensive income.

(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	**(%) 2018**	(%) 2017
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%**	51%

Subsidiaries are companies in which MediPharm Lab Corp. (formerly POCML4 Inc.) has power to control the financial and operating policies for the benefit of MediPharm Lab Corp. (formerly POCML4 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 profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income 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 Group'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 on consolidation.

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

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 9, Financial Instruments
Effective from annual period beginning on or after January 1, 2018, the standard replaces the guidance in IAS 39 "*Financial Instruments: Recognition and Measurement*". It includes requirements on classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. The Group has carried out valuation studies to determine the cumulative effect of the transition and concluded that no changes should be made to the consolidated financial statements.

The amendments to IFRS 9 regarding classification of financial assets and liabilities are summarized below. The classification differences do not have any effect on the measurement of financial assets and liabilities.

Financial assets	Previous classification according to IAS 39	New classification according to IFRS 9
Cash and cash equivalents	Amortized cost	Amortized cost
Trade receivables	Amortized cost	Amortized cost
Financial investments	Financial investments available for sale	Financial assets at fair value through other comprehensive income

Financial liabilities	Previous classification according to IAS 39	New classification according to IFRS 9
Trade payables	Amortized cost	Amortized cost
Mortgage payables	Amortized cost	Amortized cost
Convertible debenture	Amortized cost	Amortized cost

IFRS 15, Revenue from Contracts with Customers

The Group has adopted IFRS 15, *Revenue from Contracts with Customers*, which has replaced IAS 18, *Revenue*, on or after January 1, 2018. The Group has started to its production and sales activities on November 2018; therefore, there was no recognized revenue in 2017. The Group has adopted IFRS 15 using modified retrospective method and there is no impact on the accumulated deficit.

Other than the above-mentioned accounting policy changes, other accounting policy changes/amendments announced by IASB and effective from annual period beginning on or after January 1, 2018, do not have any significant impact on the Group's consolidated financial statements.

(ii) Standards, amendments and interpretations issued as of December 31, 2018 that are not yet effective

The Group does not expect material impact of the below stated new standards, amendments and interpretations on the Group's financial position and performance:

- Amendment to IAS 28, *Investments in associates and joint venture*
- Amendment to IFRS 9, *Financial Instruments*
- IFRS 17, *Insurance Contracts*
- IFRS 16, *Leases*
- Amendments to IAS 1 and IAS 8 on the definition of material
- Amendments to IAS 19, *Employee Benefits* on plan amendment, curtailment or settlement
- IFRIC 23, *Uncertainty over income tax treatments*

2.3 Use of estimates and judgements

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

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

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

(i) Expected loss rate

As at December 31, 2018, the Group does not have any past due outstanding receivables and the Group management's estimate for the expected loss rate for undue receivable balance is nominal. Management believes that this is the best estimate considering the subsequent collections on the outstanding receivable balance and the credibility of the customers.

(ii) Fair value of share-based warrants and stock options

The Group has share-based warrants and stock options. In estimating the fair value of the share-based warrants and stock options, the Group management uses the Black Scholes option pricing model with inputs such as expected life of share option and volatility, based on their best estimate.

(iii) Useful lives of assets

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

2.4 Comparative information of prior period financial statements

Consolidated financial statements of the Group have been prepared comparatively with the prior period in order to give accurate trend analysis regarding financial position and performance. In order to maintain consistency with current year consolidated financial statements, comparative information is reclassified, and significant changes are disclosed below:

The consolidated statements of loss for the year ended December 31, 2017 was prepared based on the nature of expenses since the Group did not have operations. However, the consolidated statements of loss for the year ended December 31, 2018 is prepared based on function of expenses and in order to maintain the consistency, the comparative consolidated statement of loss is reclassified. Total operating expense of CAD$948 for the year ended December 31, 2017 is reclassified as general administrative expense of CAD$947 (Note 19) and other operating expense of CAD$1. Total interest income of CAD$16 for the year ended December 31, 2017 is reclassified as finance income (Note 22). Total interest expense of CAD$23 and accretion expense of CAD$40 are reclassified as finance expense (Note 22).

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

For the purpose of presentation in the consolidated statement of cash flows, 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 debtor 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).

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 possible amount of receivable. The recoverable amount, being the present value of all cash flows including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write down the release of the provision is credited to other operating income.

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.

3.4 Inventories

Inventories are stated at the lower of cost and net realizable value (Note 9). Cost comprises direct materials, direct labour 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 estimates costs necessary to make the sale.

3.5 Financial assets

From January 1, 2018, 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 depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group had made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (“FVOCI”).

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 expenses 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: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measure at amortized cost. Interest income 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 and presented in either gains / losses.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flow represent solely payments of principal and interest are measured at FVOCI
- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at 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 loss as applicable.

Subsequent to January 1, 2018, 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. However, as at the end of fiscal year 2018, the Group does not have any past due receivables.

The Group has applied IFRS 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

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 uses part of the production facility in Barrie, ON for its own use and part to earn rentals and the portion can be leased out separately. The rented-out portion (29%) is 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:

Buildings	5-20 years
Machinery, plant and equipment	5 years
Security equipment	5 years
Computers	3 years
Leasehold improvements	5 years
Office equipment	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.

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 loss.

The normal maintenance and repair costs incurred in the tangible asset are accounted as expense. Expenditure on property, which increases the future utility of the asset by expanding the capacity of the tangible asset 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 current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

3.9 Trade payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade payables (Note 8) 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.

3.10 Borrowings

The Group has mortgage liabilities (Note 13.1) and convertible debenture (Note 13.2) as its borrowings.

Mortgage liabilities are initially recognized at fair value, net of transaction costs incurred. The mortgage liabilities are subsequently measured at amortized cost. Any difference between the proceeds and the redemption amount is recognized in the consolidated statement of loss over the period of the mortgage using the effective interest method. Fees paid on the establishment of mortgage are recognized as transaction costs of the mortgage. The mortgage liability is removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability that has been extinguished and the consideration paid, is recognized in the consolidated statement of loss as finance costs. Mortgage liabilities are classified as current liabilities unless the Group has an unconditional right defer settlement of the liability for at least 12 months after the reporting period. All mortgage costs are expensed in the period in which they are incurred.

The liability portion of a convertible bond is recognized initially at fair value determined using a market interest rate for an equivalent non-convertible bond. Subsequent to initial recognition, this amount is measured at amortized cost using the effective interest model until extinguished on conversion or maturity of the bonds. The equity component is recognized initially at the difference between the fair value of the proceeds and the fair value of liability portion. The equity component is not remeasured subsequent to initial recognition. Interest related to the financial liability is recognized in the consolidated statement of loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

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. Provisions are not recognized for future operating losses.

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.

Regarding the cannabis concentrate sales, the Group has 2 revenue streams: White label production and tolling services. White label production requires the Group to purchase dried cannabis either through long term supply agreement or through spot purchases. The Group extracts, purifies and formulates products to the requirements of the Licensed Producers ("LP"). The Group sells the cannabis concentrates to the LP customers at wholesale prices. Revenue from white label production sales is recognized when control is transferred, being when delivered to LP customers. Tolling services work by LP partners supplying the Group with dried cannabis flower and the Group receives a tolling fee for producing cannabis concentrates. Revenue from tolling service is recognized when delivered to LP partner. Under tolling service agreements, the Group does not have any inventory risk since the control over the inventory stays at the LP and the Group's consideration is in the form of a fee.

With respect to contract liability, the Group collects cash in advance by selling cannabis oil. In such cases, the Group does not recognize revenue until the cannabis oil is delivered to the customer. By the end of fiscal year 2018, the Group does not have any contract liability.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Revenue from investment property rental is recognized at the time services are rendered.

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.

3.13 Employee benefits

Short term obligations

Liabilities for wages and salaries, including non-monetary benefits, 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.

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 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 is 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 profit attributable to owners 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, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares

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

3.15 Events after the statement of financial position

Events after the statement of financial position date represent events that have occurred in favour or in opposition of the Group between the statement of financial position date and the date financial statements were approved. The Group adjusts the consolidated financial statements when there is evidence of events existing at or after the statement of financial position date that necessitate the adjusting of the consolidated financial statements. If events after the statement of financial position date do not necessitate the adjusting of the consolidated financial statements, the Group explains the events in a corresponding note to the consolidated financial statements (Note 27).

NOTE 4 – NON-CONTROLLING INTEREST

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

Name of subsidiary	Operation	Place of business	Ownership interest held by non-controlling interests 2018	2017
MPL-AU	Cannabis oil	Australia	**20%**	49%

On August 14, 2018, the Company subscribed for an additional 145 MPL-AU ordinary shares. As a result, the Company's percentage ownership in MPL-AU increased from 51% to 80%. In exchange for the additional 145 ordinary shares, the Company paid CAD$500,000 (in full amount) in cash to MPL-AU and issued MPL-AU a promissory note for CAD$800,000 (in full amount). The difference between the amount paid for the additional shares and the net assets of MPL-AU after the additional investment was CAD$279 which was charged to deficit. The promissory note was unsecured, bared interest at 1% per annum and matured on September 30, 2018.

Since the construction of extraction facility at MPL-AU is still under way and no operation has started as of December 31, 2018, non-controlling interest is not material to the Group.

NOTE 5 – CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017
Banks		
-demand deposits	6,463	2,493
-term deposits	1,387	–
	7,850	**2,493**

The Group has term deposits with original maturities less than one month and with annual effective interest rate of 2% (2017: nil)

NOTE 6 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	December 31, 2018	December 31, 2017
Financial assets at amortized cost		
Cash and cash equivalents (Note 5)	7,850	2,493
Trade receivables (Note 8)	6,427	–
Other financial assets at amortized cost[1]	200	–
Financial assets at fair value through other comprehensive income (FVOCI)[2]	81	–
Available for sale financial asset[2]	–	50
	14,558	**2,543**
Financial liabilities at amortized cost		
Trade payables (Note 8)	8,094	1,209
Mortgages payable (Note 13.1)	6,000	–
Convertible debenture (Note 13.2)	–	1,194
	14,094	**2,403**

(1) Other financial assets at amortized cost include the restricted cash with an original maturity of one year with an effective interest rate of 0.9%. This cash amount is pledged as security for corporate credit card liabilities.

(2) The Group's financial assets at FVOCI are all equity instruments which are unlisted securities. These investments were designated as available for sale in 2017 where management intended to hold them for medium to long term.

NOTE 7 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES

7.1 Balances with related parties

As at December 31, 2018, the Group has CAD$16 (2017: CAD$19) due to related party balance. The balance is related with reimbursement of expenses. The amount is non-interest bearing, unsecured and due on demand.

7.2 Benefits provided to top management

The Group has determined that key management personnel consist of directors and officers. The remuneration to directors and officers during the period ended December 31, 2018 was CAD$878 (2017: CAD$73) included in consulting fees and salaries and benefits.

During the year ended December 31, 2018, the Group issued 3,403,200 options to its related parties for total share-based compensation of CAD$737 (2017: nil).

NOTE 8 – TRADE RECEIVABLES AND PAYABLES

	December 31, 2018	December 31, 2017
Trade receivables	6,427	–
	6,427	**–**

Credit risk and aging analysis related to trade receivables are included in Note 24.

	December 31, 2018	December 31, 2017
Payable to suppliers	7,992	1,208
Other	102	1
	8,094	**1,209**

Payable to suppliers arises in the ordinary course of business. Other includes the payable to financial institutions related to credit card payables. Trade payables are all short term natured with due dates less than 30 days.

NOTE 9 – INVENTORIES

	December 31, 2018	December 31, 2017
Raw materials	5,878	–
Work in progress	803	–
Finished goods	2,723	–
	9,404	**–**

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

NOTE 10 – PREPAID AND DEPOSITS

	December 31, 2018	December 31, 2017
Deposit for building improvements and equipment[1]	2,294	364
Prepaid insurance	110	–
Prepaid rent	68	49
Prepaid realty taxes	23	–
Other[2]	200	5
	2,695	**418**

(1) Deposit for building improvements and machinery mainly include the deposit amount given for the new extraction equipment.

(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, 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**	**–**	**2,066**

The total rental income recognized under revenue from contracts with customers is CAD$35 (2017: nil).

The investment property is leased to tenants under long-term operating leases with rental payable monthly. Minimum lease payments receivable on leases of investment property are as follows:

	December 31, 2018	December 31, 2017
Minimum lease payments receivable under non-cancellable operating leases of investment property not recognized in the consolidated financial statements are as follows:		
Within one year	93	–
Later than one year but not later than 5 years	56	–
Later than 5 years	–	–
	149	**–**

The carrying amount approximates fair value as the acquisition took place in September 2018.

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

	January 1, 2018	Additions	Disposals	Transfers	**December 31, 2018**
Cost					
Land	–	1,635	–	–	1,635
Building	–	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	–	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**	**11,839**	**(15)**	**–**	**13,968**

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

	January 1, 2017	Additions	Transfers	December 31, 2017
Cost				
Leasehold improvements	–	2,101	–	2,101
Computers	–	35	–	35
Office equipment	–	8	–	8
	–	**2,144**	**–**	**2,144**
Less: Accumulated depreciation (-)				
Leasehold improvements	–	–	–	–
Computers	–	–	–	–
Office equipment	–	–	–	–
	–	–	–	–
Net book value	**–**	**2,144**	**–**	**2,144**

As at December 31, 2017, the assets were under construction and not ready for their intended use. As a result, the Group did not record any depreciation.

NOTE 13 – BORROWINGS

13.1 Mortgage payable

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

13.2 Convertible debentures

On October 6, 2017, the Company issued secured convertible debentures (the "Debentures") for gross proceeds of CAD$1,315 with an annual interest rate of 8% and a maturity date of December 31, 2018. The Debentures are convertible into shares of the Company at a price of CAD$3 per share (full amount). The Debentures and accrued interest to October 1, 2018 were converted into 6,012,729 common shares of the Company in conjunction with the Transaction.

	2018	2017
As of January 1,	1,194	–
Issued convertible debenture	–	1,315
Portion attributed to equity	–	(184)
Equity portion accreted back to the loan (Note 22)	138	40
Accrued interest	82	23
Converted into common shares	(1,414)	–
As of December 31,	**–**	**1,194**

NOTE 14 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

14.1 Commitments under supply agreements

Under the wholesale supply agreements signed within the reporting period, the Group commits to sell 450kg of cannabis oil to licensed producers within 18 months. In the default of not delivering any or portion of committed product, the Group is subject to a late in-kind/cash payment. For the year ended December 31, 2018, the Group fulfilled the committed amount for the reporting period and no penalty provision was estimated.

14.2 Given guarantees

MPL (wholly owned subsidiary of the Group) is the guarantor for the short-term mortgage financing for the land and building owned by MPL-P (wholly owned subsidiary of the Group).

NOTE 15 – OTHER LIABILITIES

	December 31, 2018	December 31, 2017
Accrued expenses	277	15
Rental deposit	50	–
Accrued rent expense	–	87
	327	**102**

Accrued expenses mainly result from products and services received from third parties related to ordinary course of business.

NOTE 16 – EMPLOYEE BENEFITS

	December 31, 2018	December 31, 2017
Bonus accrual	300	–
Accrued payroll	137	–
Leave obligations	12	–
	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

On January 2, 2017, the Company issued 570,600 shares of the Company with a fair value of CAD$90 for consulting services.

On January 2, 2017, the Company closed a financing of CAD$740 and issued 4,691,600 shares.

On December 27, 2017, the Company issued 1,720,387 shares of the Company with a fair value of CAD$418 for consulting services.

On December 27, 2017, the Company issued 10,572,470 shares at CAD$0.236 per share (in full amount) for proceeds of CAD$2,502 as only a portion of the proceeds had been received. The 2,659,731 shares remaining were issued in January 2018 for proceeds of CAD$629.

In January 2018, the Company issued 118,000 shares of the Company with a fair value of CAD$28 for services performed.

On March 22, 2018, the Company closed a financing of CAD$2,964 and issued 10,102,270 units (the "Units"). Each Unit consisting of one share and warrant (the "Warrants"), entitling the holder to acquire one share at CAD$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 CAD$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 CAD$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 CAD$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 CAD$150 using the following assumptions: estimated volatility of 81%, expected life of 2.5 years and a risk-free rate of 1.81%.

On March 29, 2018, 3,170,000 stock options were exercised into common shares for proceeds of CAD$25. Pursuant to the issuance, CAD$9 was reclassified from reserves to share capital.

On April 20, 2018, the Company issued 634,000 common shares as a deposit for equipment. The fair value of the shares on the date of issuance was estimated at CAD$0.473 per share (in full amount) for total consideration of CAD$300.

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 CAD$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 CAD$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 CAD$1,282 together with 1,508,413 broker warrants (the "Broker Warrants"). The Broker Warrants are exercisable to acquire one June Unit at a price of CAD$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

CAD$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 CAD$887 using the following assumptions: estimated volatility of 81%, expected life of 2.5 years and a risk-free rate of 1.90%.

17.2 Stock options / Share based compensation

On January 2, 2018, the Company issued 3,613,800 stock options to acquire up to 3,613,800 shares with an exercise price of CAD$0.236 (in full amount) until January 2, 2023. The fair value of the options issued is estimated using the Black Scholes option pricing model, CAD$558 using the following assumptions: estimated volatility of 81%, expected life of 5 years and a risk-free rate of 1.89%.

On April 30, 2018, the Company issued 2,275,806 stock options with an exercise price of CAD$0.236 (in full amount) until April 30, 2023. The fair value of the options issued is, estimated using the Black Scholes option pricing model, CAD$462 using the following assumptions: estimated volatility of 81%, expected life of 5 years and a risk-free rate of 2.11%.

On October 24, 2018, the Company issued 3,000,000 stock options with an exercise price of CAD$1.68 (in full amount) until October 24, 2023. The stock options vest 20% on issuance and 20% every six months thereafter. The fair value of the options issued is, estimated using the Black Scholes option pricing model, CAD$945 using the following assumptions: estimated volatility of 81%, expected life of 5 years and a risk-free rate of 2.36%.

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

	2018		2017	
	Number of options	**Weighted average exercise price CAD$(1)**	Number of options	Weighted average exercise price CAD$(1)
As at January 1	3,170,000	0.008	–	–
Granted during the year	8,889,606	0.70	3,170,000	0.008
Options of POCML 4 Inc. at the time of Transaction (Note 17.4)	570,000	0.20	–	–
Exercised during the year	(3,170,000)	0.008	–	–
As at December 31	**9,459,606**	**0.69**	**3,170,000**	**0.008**
Weighted average remaining contractual life of options outstanding at end of period		4.35 years		1 year

(1) CAD$ is in full amount

The expense recognized for employee services rendered during the year is as follows:

	2018	2017
Expense arising from equity-settled share-based payment transactions	1,965	–
	1,965	**–**

17.3 Share purchase warrants

A summary of changes in share purchase warrants outstanding is as follows:

	2018		2017	
	Number of warrants	**Weighted average exercise price CAD$[(1)]**	Number of warrants	Weighted average exercise price CAD$[(1)]
As at January 1	–	–	–	–
Issued – Private placements	23,229,381	0.88	–	–
Issued – Finder's warrants	1,193,010	0.38	–	–
Issued – Broker warrants	2,262,619	0.99	–	–
Exercised during the year	(672,733)	1.01	–	–
As at December 31	**26,012,277**	**0.86**	**–**	**–**
Weighted average remaining contractual life of options outstanding at end of period		1.75 years		–

(1) CAD$ is in full amount

17.4 Reverse takeover transaction

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

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

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

As a result, for accounting purposes, the Transaction is being accounted for as a reverse takeover asset acquisition with MediPharm Labs Inc. identified as the acquirer and the net assets of POCML 4 Inc. being treated as the acquired assets and the share-based payment under IFRS 2 related to the acquisition of the public company listing. Accordingly, the consolidated financial statements are presented as a continuation of MediPharm Labs Inc. which has a financial year end of December 31. Share and share equivalent disclosures have been restated to reflect the exchange ratio of 12.68 shares of POCML 4 Inc. issued to the shareholders of the MediPharm Labs Inc. for each share of MediPharm Labs Inc., that were outstanding immediately before the Transaction. Consideration paid by the acquirer is measured at the fair value of the equity issued to the shareholders of POCML 4 Inc., CAD$4,250 (5,000,000 shares at CAD$0.85 per share (in full amount)) with the excess amount above the fair value of the net assets acquired, treated as listing expense in the consolidated statement of loss.

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

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

NOTE 18 – REVENUE

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

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

	2018	2017
At a point in time	10,163	–
Over time	35	–
	10,198	**–**

The Group started sales of cannabis concentrates after receiving a sales license on November 12, 2018; therefore, no revenue has been recognized before this date.

The Group's sales at a point in time only consist of white label production sales for the year ending 2018. No tolling revenue was recognized for the year ending 2018. The Group has acquired the investment property on October 2018; therefore, no revenue has been recognized before this date.

Revenue of CAD$9,091 (2017: nil) is derived from a single external customer. All of the Group's revenue is domiciled in Canada.

NOTE 19 – GENERAL ADMINISTRATIVE AND MARKETING AND SELLING EXPENSES

	2018	2017
Personnel expenses	1,600	9
Consulting and professional fees	1,182	641
Depreciation	231	–
Travel and entertainment	177	81
Rent and occupancy cost	140	201
Filing fees and shareholder communications	69	–
Other(1)	157	15
Total general administrative expense	**3,556**	**947**

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

	2018	2017
Investor relations	517	–
Advertising and promotion(1)	229	–
Personnel expenses	203	–
Depreciation	116	–
Travel and entertainment	100	–
Rent and occupancy cost	34	–
Other(2)	73	–
Total marketing and selling expense	**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 20 – OTHER OPERATING EXPENSE

	2018	2017
Start-up and pre-manufacturing cost(1)	964	–
Foreign exchange loss	25	–
Bank and financial institution service fees	7	1
	996	**1**

(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	2017
Research and development of products	261	–
Personnel expense	253	–
Depreciation	246	–
Supplies and small equipment	147	–
Machinery maintenance	19	–
Other	38	–
Startup and pre-manufacturing cost	**964**	**–**

NOTE 21 – EXPENSES BY NATURE

	2018	2017
Supplies and inventory (including pre-manufacturing cost)	5,469	–
Personnel expenses	2,475	9
Consulting and professional fees(1)	1,199	619
Depreciation (Notes 11,12)	982	–
Investor relations	517	–
Rent and occupancy cost(2)	289	201
Travel and entertainment	276	81
Advertising and promotion	229	–
Machinery maintenance	106	–
Filing fee and shareholder communications	69	–
Other(3)	444	38
	12,055	**948**

(1) Consulting and professional fees are related to legal and accounting services and various consulting services used during the start up of the Group and during the Transaction.

(2) Rent and occupancy cost include the maintenance and security cost and the incurred rent expense of the facility at Barrie until its acquisition time.

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

NOTE 22 – FINANCE INCOME / EXPENSES

	2018	2017
Interest income	64	16
Total finance income	**64**	**16**
Interest expense	226	23
Accretion expense	138	40
Finance fees	114	–
Total finance expense	**478**	**63**

NOTE 23 – INCOME TAX EXPENSE/RECOVERY AND DEFERRED TAX ASSETS

23.1 Income tax

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

	2018	2017
Current income tax expense	–	–
Deferred tax income/expense	–	–
Total income tax	**–**	**–**

Reconciliation of income tax is as below:

	2018	2017
Loss before tax	(8,466)	(995)
Tax recovery based on statutory rate	2,243	259
Tax effect of amounts which are not deductible	(1,654)	(4)
Adjustments for current tax of prior years	–	32
Difference in overseas tax rates	4	–
Change in unrecognized deferred tax assets	(593)	(287)
Total income tax	**–**	**–**

The tax rate above is computed using the Federal and Ontario statutory Canadian tax rate. The Corporation is resident in Canada but has operations in Australia. The enacted blended tax rates relevant to the computation of tax are: Canada 26.5% (2017: 26.0%) and Australia 27.5% (2017: 27.5%).

As at December 31, 2018, the total unused tax losses for which no deferred tax asset has been recognized is CAD$3,384 (2017: CAD$1,028) and the potential tax benefit is CAD$810 (2017: CAD$275). As at December 31, 2018, the total temporary difference for which no deferred tax asset has been recognized is CAD$5,984 (2017: nil) and the potential tax benefit is CAD$1,585 (2017: nil). Since the Group is in the early stage of operations, a deferred tax asset was not recognized for the unused tax losses and other temporary differences.

The Group has Canadian non-capital losses of approximately CAD$3,053 which expire in 2035 to 2038, and Australian tax losses of CAD$331 which can be carried forward indefinitely. The Group has share issuance costs of CAD$2,129 which will be deducted against taxable income over the next four years.

NOTE 24 – 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.

24.1 Credit risk

Credit risk arises from deposits with banks and financial institutions and outstanding receivables. Credit risk is managed on a group basis. For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted. As of end of December 31, 2018, the Group has significant concentration of credit risk on outstanding receivables; however, management considers that the customers that the Group is working with have low credit risk. In addition, the Group gets 50% of sales value in advance.

The Group does not have any past due outstanding receivables and the expected loss rate for undue balance is estimated to be nominal.

24.2 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet obligations when due and to close out market positions. At the end of the reporting period the Group held deposits at banks and financial institutions of CAD$7,850 (2017: CAD$2,493) 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.

Contractual maturities of financial liabilities

At December 31, 2018	Less than 6 month	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**

Contractual maturities of financial liabilities

At December 31, 2017	Less than 6 month	6-12 months	Total contractual cash flows	Carrying amount
Trade payables	1,209	–	1,209	1,209
Convertible debenture	–	1,194	1,194	1,194
Total financial liabilities	**1,209**	**1,194**	**2,403**	**2,403**

24.3 Market risk

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

(i) Foreign currency risk

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

(ii) Interest rate risk

The Group is exposed to interest rate risk through floating interest rates at the greater of fixed interest rate declared by Mortgage Agreement or floating interest rate. As at December 31, 2018, the fixed interest rate is greater than the floating interest rate; therefore, the Group is not exposed to interest rate risk. The Group has CAD$6,000 mortgage payable and the maturity of this financial instrument is less than 1 year. Therefore, the management believes that the Group's fair value interest rate risk is not significant to its consolidated financial statements.

24.4 Capital risk management

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

Management defines capital as the Company's shareholder's equity and debt. As at December 31, 2018, total managed capital is CAD$33,649 (2017: CAD$4,068).

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

NOTE 25 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

NOTE 26 – SEGMENT INFORMATION

The Group operates in one segment, the production and sales of cannabis oil. Non-current assets located outside of Canada is CAD$903 (2017: CAD$2) and made up of property, plant and equipment.

All revenues were principally generated in Canada during the year ended December 31, 2018.

NOTE 27 – EVENTS AFTER THE REPORTING PERIOD

27.1 Issued stock options

The Board of Directors of the Company has approved a grant of stock options under its stock option plan to purchase an aggregate of 791,000 common shares in the capital of the Company at an exercise price of CAD$3.34 (in full amount) per share for a five-year term expiring March 29, 2024. Each grant vests in five equal instalments, the first of which vests immediately with the four other instalments vesting on the dates which are six, twelve, eighteen and twenty-four months from the grant date. The stock options were granted to the employees of the Company.

The Board of Directors of the Company has approved a grant of stock options under its stock option plan to purchase an aggregate of 790,500 common shares in the capital of the Company at an exercise price of CAD$1.96 (in full amount) per share for a five-year term expiring February 4, 2024. Each grant vests in five equal instalments, the first of which vests immediately with the four other instalments vesting on the dates which are six, twelve, eighteen and twenty-four months from the grant date. The stock options were granted to the employees of the Company.

The Board of Directors of the Company has approved a grant of stock options under its stock option plan to purchase an aggregate of 5,300,900 common shares in the capital of the Company at an exercise price of CAD$2 (in full amount) per share for a five-year term expiring January 8, 2024. Each grant vests in five equal instalments, the first of which vests immediately with the four other instalments vesting on the dates which are six, twelve, eighteen and twenty-four months from the grant date. The stock options were granted to the directors, officers, employees and consultants of the Company.

27.2 Exercised stock options and warrants

Subsequent to year end, 5,763,706 stock options were exercised into common shares for proceeds of CAD$1,365, of which CAD$13 was received during the year ended December 31, 2018. Out of this amount, 3,043,200 stock options were exercised by the officers and directors of the Group.

Subsequent to year end, 1,952,529 warrants were exercised for the gross proceeds of CAD$1,809.

27.3 Agreements with commitments

On February 12, 2019, the Group entered into a private label supply agreement with a *Cannabis Act* licenced cultivator where the Group committed to delivering an aggregate of $27 million of cannabis oil within a 12-month period. In addition, the licenced cultivator has the option to increase its purchase commitment by $13.5 million within the same period.

Corporate Directory & Shareholder Information

Board of Directors

Pat McCutcheon[1]
Director and Chairman of the Board

Chris Hobbs[1]
Director

Miriam McDonald[2]
Director

Marufur Raza[2]
Director

Keith Strachan[1]
Director

Dr. Paul Tam[1]
Director

(1) Member of Compensation Committee.
(2) Member of Audit Committee.

Executive Officers

Pat McCutcheon
Chief Executive Officer

Chris Hobbs
Chief Financial Officer

Keith Strachan
President

Braden Fenske
Chief Strategy Officer

David Mayers
Chief Operating Officer

Sybil Taylor
Chief Marketing Officer

Warren Everitt
Managing Director
MediPharm Labs Australia

Canadian Headquarters

MediPharm Labs Corp.
151 John Street
Barrie, Ontario
Canada L4N 2L1

Australian Subsidiary

MediPharm Labs Australia Pty. Ltd.
2 Cyclone Street
Wonthaggi, Victoria
Australia 3995

Stock Exchanges Listed

TSX.V: LABS
OTCQX: MEDIF
FSE: MLZ

Transfer Agent

TSX Trust Company
100 Adelaide Street, West
Suite 301
Toronto, Ontario
Canada M5H 1S3
(416) 342-1091 or 1-866-600-5869
Email: tmxeinvestorservices@tmx.com

Investor Relations

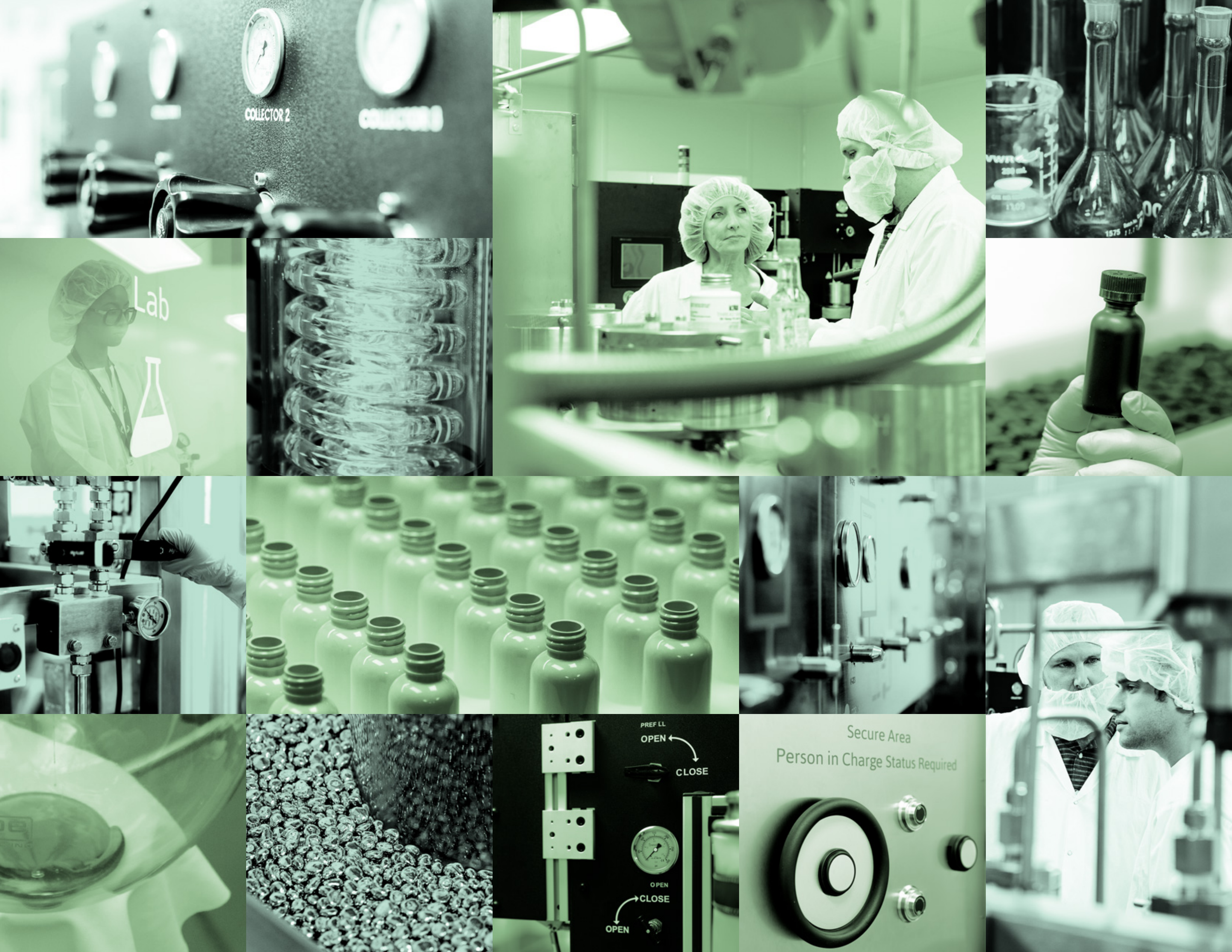
Laura Lepore
VP Investor Relations & Communications
Email: investors@medipharmlabs.com
Phone: (705) 719-7425 ext 216

Auditor

Dale Matheson Carr-Hilton LaBonte LLP
https://www.dmcl.ca

Social Media

/medipharm-labs
@medipharmlabs
@medipharmlabs
medipharmlabs


COLLECTOR 2
Lab
OPEN
CLOSE
OPEN
CLOSE
OPEN
Secure Area
Person in Charge Status Required