

MEDIPHARM LABS CORP.
(formerly POCML 4 Inc.)
CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2019 and 2018

MEDIPHARM LABS CORP.
(formerly POCML 4 Inc.)

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STATEMENTS
AS AT JUNE 30, 2019**

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MEDIPHARM LABS CORP.
(formerly POCML 4 Inc.)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at June 30, 2019 and December 31, 2018 (unaudited)

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

	Notes	June 30, 2019	December 31, 2018
ASSETS			
Current assets:			
Cash and cash equivalents		72,723	7,850
Trade receivables	6	25,361	6,427
Prepays and deposits		937	2,695
Inventories	7	42,424	9,404
Other financial assets	4	200	200
Other current assets	8	1,277	38
Total current assets		142,922	26,614
Non-current assets:			
Investment property		743	2,066
Property, plant and equipment	10	24,302	13,968
Other financial assets	4	189	81
Deferred tax asset	16	1,686	-
Non-current deposits	9	4,477	-
Total non-current assets		31,397	16,115
Total assets		174,319	42,729

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

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

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

	Notes	June 30, 2019	December 31, 2018
LIABILITIES AND EQUITY			
Current liabilities:			
Trade payables	6	43,675	8,094
Current employee benefit obligations		513	449
Mortgage payable	11	6,000	6,000
Current tax liability		2,380	-
Other current liabilities		633	343
Total current liabilities		53,201	14,886
Total liabilities		53,201	14,886
Equity:			
Common shares	13	120,602	34,065
Reserves		8,795	3,409
Accumulated other comprehensive income		(33)	9
Accumulated deficit		(8,345)	(9,834)
Total equity attributable to equity holders		121,019	27,649
Non-controlling interest	3	99	194
Total equity		121,118	27,843
Total liabilities and equity		174,319	42,729
Commitments	12		

Approved on behalf of the Board:

/s/ "Patrick McCutcheon"
Patrick McCutcheon
Director

/s/ "Christopher Hobbs"
Christopher Hobbs
Director

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

MEDIPHARM LABS CORP.
(formerly POCML 4 Inc.)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME/(LOSS)
For the three and six months ended June 30, 2019 and 2018 (unaudited)

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

	Notes	Three months ended June 30		Six months ended June 30	
		2019	2018	2019	2018
Revenue from contracts with customers	15	31,472	-	53,422	-
Cost of sales		(20,161)	-	(35,248)	-
Gross profit		11,311	-	18,174	-
General administrative expenses		(3,225)	(564)	(5,354)	(958)
Marketing and selling expenses		(859)	(131)	(1,766)	(142)
Share based compensation expense		(2,742)	(468)	(6,714)	(1,227)
Other operating expenses		(258)	(339)	(265)	(443)
Operating income/(loss)		4,227	(1,502)	4,075	(2,770)
Finance income		36	-	41	-
Finance expense		(180)	(99)	(358)	(179)
Income/(loss) before taxation		4,083	(1,601)	3,758	(2,949)
Taxation expense	16	(2,116)	-	(2,364)	-
Net income/(loss) for the period		1,967	(1,601)	1,394	(2,949)
Attributable to					
- Non-controlling interest		(32)	(15)	(95)	(30)
- Equity holders of the Parent		1,999	(1,586)	1,489	(2,919)
Basic earnings per share	14	0.02	(0.02)	0.01	(0.05)
Diluted earnings per share	14	0.01	(0.02)	0.01	(0.05)

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

MEDIPHARM LABS CORP.
(formerly POCML 4 Inc.)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

For the three and six months ended June 30, 2019 and 2018 (unaudited)

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

	Notes	Three months ended June 30		Six months ended June 30	
		2019	2018	2019	2018
Net income/(loss) for the period		1,967	(1,601)	1,394	(2,949)
Other comprehensive income					
<i>Items that may be reclassified to profit or loss</i>					
Exchange differences on translation of foreign operations		(19)	1	(42)	(1)
Total comprehensive income/(loss) for the period		1,948	(1,600)	1,352	(2,950)
Total comprehensive income/(loss) attributable to					
- Non-controlling interest		(36)	(15)	(103)	(30)
- Equity holders of the Parent		1,984	(1,585)	1,455	(2,920)

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

MEDIPHARM LABS CORP.
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CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended June 30, 2019 and 2018 (unaudited)

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

	<u>Common Shares</u>		<u>Reserves</u>		Equity component of convertible debt	Accumulated other comprehensive	Accumulated deficit	Non-controlling interest	Total
	Number (post stock split)	Share capital	Share-based payments						
Balance at January 1, 2018	42,915,057	3,850	9	184		-	(1,169)	(5)	2,869
Shares issued for cash	39,016,842	25,910	-	-	-	-	-	-	25,910
Share issue costs	-	(2,662)	1,048	-	-	-	-	-	(1,614)
Shares issued on exercise of stock options	3,170,000	34	(9)	-	-	-	-	-	25
Shares issued for services	118,000	28	-	-	-	-	-	-	28
Shares issued on equipment deposit	634,000	300	-	-	-	-	-	-	300
Share based compensation	-	-	1,227	-	-	-	-	-	1,227
Foreign exchange translation	-	-	-	-	-	(1)	-	-	(1)
Net loss for the period	-	-	-	-	-	-	(2,919)	(30)	(2,949)
Balance at June 30, 2018	85,853,899	27,460	2,275	184		(1)	(4,088)	(35)	25,795
Balance at January 1, 2019	97,539,361	34,065	3,409	-		9	(9,834)	194	27,843
Shares issued for cash	13,514,000	75,003	-	-	-	-	-	-	75,003
Share issue costs, net of tax	-	(2,505)	-	-	-	-	-	-	(2,505)
Shares issued on exercise of stock options	5,782,906	2,408	(1,013)	-	-	-	-	-	1,395
Shares issued on exercise of warrants	12,922,698	11,631	(315)	-	-	-	-	-	11,316
Share based compensation	-	-	6,714	-	-	-	-	-	6,714
Foreign exchange translation	-	-	-	-	-	(42)	-	-	(42)
Net income for the period	-	-	-	-	-	-	1,489	(95)	1,394
Balance at June 30, 2019	129,758,965	120,602	8,795	-		(33)	(8,345)	99	121,118

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

MEDIPHARM LABS CORP.
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CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2019 and 2018 (unaudited)

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

	Notes	Six months ended	
		June 30, 2019	June 30, 2018
Cash flows from operating activities:			
Net income/(loss) for the period		1,394	(2,949)
Adjustments for:			
Depreciation		1,221	257
Accretion expense on convertible debt		-	(5)
Interest accrued on convertible debt		-	145
Shares issued for services		-	28
Taxation expense		2,364	-
Interest expense		283	-
Share based compensation		6,714	1,227
Operating income/(loss) before changes in operating assets and liabilities			
		11,976	(1,297)
Change in trade receivables		(18,934)	-
Change in inventories		(33,020)	(4,061)
Change in other current assets		(1,239)	(693)
Change in prepaid and deposits		(538)	(391)
Change in trade payables		35,201	1,736
Change in restricted cash		-	(200)
Change in other current liabilities		356	8
Net cash used in operating activities		(6,198)	(4,898)
Cash flows from investing activities:			
Capital expenditures including given deposits		(12,176)	(2,645)
Acquisition of financial assets		(108)	-
Net cash used in investing activities		(12,284)	(2,645)
Cash flows from financing activities:			
Issuance of shares for cash less issuance costs		70,828	24,296
Exercise of warrants		11,316	-
Exercise of stock options		1,395	25
Interest paid		(228)	-
Advances from shareholders		-	560
Net cash provided by financing activities		83,311	24,881
Effects of exchange rate changes on cash and cash equivalents		44	(1)
Increase in cash and cash equivalents		64,873	17,337
Cash and cash equivalents at the beginning of the period		7,850	2,493
Cash and cash equivalents at the end of the period		72,723	19,830

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

MEDIPHARM LABS CORP.
(formerly POCML 4 Inc.)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the six months ended June 30, 2019 (unaudited)

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

NOTE 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 13) it was classified as a Capital Pool Corporation (“CPC”) as defined in the Policy 2.4 of the TSX Venture Exchange (the “Exchange”). Subsequent to the Transaction, the Corporation’s shares began trading on the Exchange on October 4, 2018 under the trading symbol “LABS”.

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

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

The condensed interim consolidated financial statements as at and for the six-month period ended June 30, 2019, include the Company and its subsidiaries (together referred to as the “Group”).

NOTE 2 - BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation

(i) Statement of compliance

These condensed interim consolidated financial statements for the six-month period ended June 30, 2019 have been prepared in accordance with International Accounting Standards IAS 34 *Interim Financial Reporting*.

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

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

On August 11 2019, the Board of Directors approved the condensed interim consolidated financial statements for the six-month period ended June 30, 2019.

(ii) Historical cost convention

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

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the six months ended June 30, 2019 (unaudited)

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

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

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

2.2 Changes in accounting policies

New and revised accounting standards

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

IFRS 16, Leases

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

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

2.3 Use of estimates and judgements

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

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

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

(i) Expected loss rate

As at June 30, 2019, the Group management's estimate for the expected loss rate for the receivable balance is nominal. Management believes that this is the best estimate considering the subsequent collections on the outstanding receivable balance and the credibility of the customers.

MEDIPHARM LABS CORP.
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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the six months ended June 30, 2019 (unaudited)

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

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

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

The Group has share-based warrants and stock options. In estimating the fair value of the share-based warrants and stock options, the Group management uses the Black Scholes option pricing model with inputs such as expected life of share option, expected forfeiture rate and volatility, based on their best estimate. The assumptions used for estimating fair value for share based payment transactions are disclosed in Note 13.2.

(iii) Useful lives of assets

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

NOTE 3 – NON-CONTROLLING INTEREST

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

Name of subsidiary	Operation	Place of business	Ownership interest held by non-controlling interests	
			June 30, 2019	December 31, 2018
MediPharm Labs Australia Pty.Ltd.	Cannabis oil	Australia	20%	20%

Since the construction of extraction facility at MPL-AU is still under way and no operation has started as of June 30, 2019, non-controlling interest is not material to the Group.

NOTE 4 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	June 30, 2019	December 31, 2018
Financial assets at amortized cost		
Cash and cash equivalents	72,723	7,850
Trade receivables (Note 6)	25,361	6,427
Other financial assets at amortized cost (1)	200	200
Financial assets at fair value through other comprehensive income (FVOCI) (2)	189	81

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the six months ended June 30, 2019 (unaudited)

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

NOTE 4 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

	June 30, 2019	December 31, 2018
Financial liabilities at amortized cost		
Trade payables (Note 6)	43,675	8,094
Mortgages payable (Note 11)	6,000	6,000

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

NOTE 5 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES

5.1 Balances with related parties

As at June 30, 2019, the Group has \$9 (December 31, 2018: \$16) due to related party balance. The balance is for the reimbursement of expenses. The amount is non-interest bearing, unsecured and due on demand.

5.2 Benefits provided to top management

The Group has determined that key management personnel consist of directors and officers. The remuneration to directors and officers during the six months ended June 30, 2019 was \$752 (six months ended June 30, 2018: \$227) included in consulting fees and salaries and benefits.

During the six-month period ended June 30, 2019, the Group issued 1,890,000 options at an exercise price of \$2.00 per share to its key management personnel and the fair value of total share-based compensation is \$2,647. During the six-month period ended June 30, 2019, the key management personnel exercised 3,043,200 options for gross proceeds of \$720.

NOTE 6 – TRADE RECEIVABLES AND PAYABLES

	June 30, 2019	December 31, 2018
Trade receivables	25,361	6,427

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

MEDIPHARM LABS CORP.
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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the six months ended June 30, 2019 (unaudited)

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

NOTE 6 – TRADE RECEIVABLES AND PAYABLES (Continued)

	June 30, 2019	December 31, 2018
Payable to suppliers	43,605	7,992
Other	70	102
	43,675	8,094

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

NOTE 7 – INVENTORIES

	June 30, 2019	December 31, 2018
Raw materials	30,799	5,878
Work in progress	6,191	803
Finished goods	5,025	2,723
Consumables	409	-
	42,424	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, formulated oil and distillate product. Consumables are MCT oil used in the production of formulated oil and packaging materials.

NOTE 8 – OTHER CURRENT ASSETS

	June 30, 2019	December 31, 2018
HST/GST receivable	1,242	-
Other	35	38
	1,277	38

MEDIPHARM LABS CORP.
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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the six months ended June 30, 2019 (unaudited)

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

NOTE 9 – NON-CURRENT DEPOSITS

	June 30, 2019	December 31, 2018
Deposit for building improvements and equipment	4,177	-
Other	300	-
	4,477	-

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT

	January 1, 2019	Additions	Disposals	Transfers (2)	Exchange difference	June 30, 2019
Cost						
Land	1,635	-	(16)	94	(21)	1,692
Building	8,501	1,944	-	1,192	(64)	11,573
Computers	332	283	(21)	3	(1)	596
Office equipment	53	46	-	(3)	-	96
Machinery and plant equipment	4,038	1,944	(153)	-	-	5,829
Security equipment	370	117	-	-	-	487
Construction in progress (1)	-	6,168	-	-	-	6,168
	14,929	10,502	(190)	1,286	(86)	26,441
Less: Accumulated depreciation						
Building	466	560	-	-	-	1,026
Computers	50	75	(8)	-	-	117
Office equipment	5	8	-	-	-	13
Machinery and plant equipment	404	505	(7)	-	-	902
Security equipment	36	45	-	-	-	81
	961	1,193	(15)	-	-	2,139
Net book value	13,968					24,302

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

(2) The Group expanded its own usage area of the production facility; therefore, the rented-out portion classified as investment property has decreased. The transfer to land and building under property, plant and equipment presents the transfer from investment property as a part of the expansion of the usage area.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the six months ended June 30, 2019 (unaudited)

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

NOTE 11 – BORROWINGS

Mortgage payable

On October 10, 2018, the Group entered into first and second mortgages for \$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 \$3,000 bears interest at a floating rate at the greater of 7.5% per annum or the TD Canada Trust Posted Bank Prime Rate of interest plus 3.80% per annum. The interest on the second mortgage of \$3,000 bears interest of floating rate at the greater of 11% per annum or the TD Canada Trust Posted Bank Prime Rate of interest plus 7.30% per annum. The mortgages have a term of one year and can be repaid before maturity without penalty. As at June 30, 2019, the balance is \$6,000.

NOTE 12 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

12.1 Commitments under supply agreements

Under the wholesale supply agreements signed with licensed producers, as of end of the reporting period, the Group commits to sell 1,100kg of cannabis oil to licensed producers within 16 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 six-month period ended June 30, 2019, the Group fulfilled the committed amount for the reporting period and no penalty provision was estimated.

12.2 Given guarantees

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

NOTE 13 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS

13.1 Common shares issued

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

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

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

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

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

During the six-month period ended June 30, 2019, 12,922,698 warrants were exercised into common shares for proceeds of \$11,316.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the six months ended June 30, 2019 (unaudited)

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

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

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

13.2 Stock options / Share based compensation

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

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

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

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.

	2019	
	Number of	Weighted average
	options	exercise price
		\$
Outstanding at January 1	9,389,606	0.69
Granted during the period	6,882,400	2.15
Forfeited/cancelled during the period	(37,500)	1.68
Exercised during the period	(5,782,906)	0.24
Outstanding at June 30	10,451,600	1.90
Exercisable at June 30	3,188,280	1.59
Weighted average remaining contractual life		4.44 years

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

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

Exercise price range	Number of outstanding options
Less than and equal to \$1.00	626,800
Between \$1.00 and \$3.00	9,033,800
More than and equal to \$3.00	791,000
	10,451,600

13.3 Share purchase warrants

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

	Number of warrants	2019 Weighted average exercise price \$
As at January 1	26,082,277	0.86
Exercised during the period	(12,922,698)	0.88
As at June 30	13,159,579	0.85

Weighted average remaining contractual life 1.37 years

13.4 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.

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

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

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

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

NOTE 14 – EARNINGS PER SHARE (EPS)

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

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

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

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

	Three months ended		Six months ended	
	June 30		June 30	
	2019	2018	2019	2018
Profit/(loss) attributable to ordinary equity holders of the Company	1,967	(1,601)	1,394	(2,949)
Weighted average number of shares for basic EPS	114,859,987	68,350,796	109,296,617	56,916,188
Effects of dilution from:				
Share options	5,979,192	-	4,659,068	-
Warrants	11,039,620	-	10,370,159	-
Weighted average number of shares adjusted for the effect of dilution	131,878,799	68,350,796	124,325,844	56,916,188
Basic EPS	0.02	(0.02)	0.01	(0.05)
Diluted EPS	0.01	(0.02)	0.01	(0.05)

Excluded from the calculation of dilutive shares for the six-month period ended June 30, 2019 are 791,000 share options (three-month period ended June 30, 2019: nil) that are considered anti-dilutive.

For the six-month and three-month periods ended June 30, 2018, since the Group reported a loss, the effects of share options and warrants were considered as anti-dilutive.

NOTE 15 – REVENUE

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

	Three months ended		Six months ended	
	June 30		June 30	
	2019	2018	2019	2018
Cannabis oil				
At a point in time	31,030	-	52,944	-
Tolling process				
Over time	396	-	396	-
Other				
Over time	46	-	82	-
	31,472	-	53,422	-

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NOTE 15 – REVENUE (Continued)

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

The Group has started selling cannabis concentrate outside of Canada during the reporting period. For the six-month ended June 30, 2019, 1% of revenue came from the sale of cannabis concentrate to Australia (three-month ended June 30, 2019: 2%).

For the six-month period ended June 30, 2019, 86% of total revenue is from 4 customers each representing more than 10% of the Group's revenue (six-month period ended June 30, 2018: nil). For the three-month period ended June 30, 2019, 95% of total revenue is from 5 customers each representing more than 10% of the Group's revenue (three-month period ended June 30, 2018: nil).

NOTE 16 – INCOME TAX EXPENSE

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

	Three months ended		Six months ended	
	June 30		June 30	
	2019	2018	2019	2018
Current income tax expense	2,259	-	2,507	-
Deferred tax income	(143)	-	(143)	-
Total income tax expense	2,116	-	2,364	-

For the three-month and six-month periods ended June 30, 2019, the current and deferred tax relating to items recognized directly in equity are \$127 and \$1,543, respectively (2018: nil).

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

The effect of temporary differences that give rise to the deferred tax asset, which has been recognized during the six-month period ended June 30, 2019 are as follows:

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NOTE 16 – INCOME TAX EXPENSE (Continued)

	January 1, 2019	Recognized in equity	Recognized in net income	June 30, 2019
Deferred tax asset				
Share issuance cost	-	1,543	-	1,543
Property, plant and equipment	-	-	143	143
Net deferred tax	-	1,543	143	1,686

NOTE 17 – FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

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

17.1 Credit risk

Credit risk arises from deposits with banks and financial institutions and outstanding receivables. Credit risk is managed on a group basis. For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted. As of end of June 30, 2019, the Group has significant concentration of credit risk on outstanding receivables; however, management considers that the customers that the Group is working with have low credit risk. In addition, the Group gets 50% of sales value in advance.

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

17.2 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet obligations when due and to close out market positions. At the end of the reporting period the Group held deposits at banks and financial institutions of \$72,723 (December 31, 2018: \$7,850) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, 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.

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

17.3 Market risk

Market risk is the risk that changes in market price in cannabis flower, 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 June 30, 2019, the fixed interest rate is greater than the floating interest rate; therefore, the Group is not exposed to interest rate risk. The Group has \$6,000 mortgage payable and the maturity of this financial instrument is less than 1 year. Therefore, the management believes that the Group's fair value interest rate risk is not significant to its interim consolidated financial statements.

17.4 Capital risk management

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

Management defines capital as the Company's shareholder's equity and debt. As at June 30, 2019, total managed capital is \$127,019 (December 31, 2018: \$33,649).

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

NOTE 18 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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NOTE 18 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

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

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

NOTE 19 – SEGMENT INFORMATION

The Group operates in one segment, the production and sales of cannabis oil. Non-current assets located outside of Canada is \$2,451 (December 31, 2018: \$903) and made up of property, plant and equipment.

NOTE 20 – EVENTS AFTER THE REPORTING PERIOD

20.1 Exercised stock options and warrants

Subsequent to period end, 523,200 stock options were exercised into common shares for proceeds of \$144 and 146,140 warrants were exercised for the gross proceeds of \$175.

20.2 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 1,851,700 common shares in the capital of the Company at an exercise price set as at the close of business on August 13, 2019 for a 5-year term expiring August 13, 2024. Each grant vests in 20% equal instalments, the first of which vests immediately with the four other instalments vesting on the dates which are six, twelve, eighteen and twenty-four months from the grant date. The stock options were granted to the employees and directors of the Company.

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NOTE 20 – EVENTS AFTER THE REPORTING PERIOD (Continued)

20.3 TSX Listing

On July 29, 2019, the Common Shares were voluntarily delisted from the TSXV and began trading on the TSX under the symbol “LABS”.
