

MEDIPHARM LABS CORP.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of MediPharm Labs Corp.:

Opinion

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

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statements of (loss)/income for the years then ended
- The consolidated statements of comprehensive (loss)/income for the years then ended
- the consolidated statements of changes in equity for the years then ended.
- the consolidated statements of cash flows for the years then ended.
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditors' report.

Evaluation of the impairment of non-financial assets of the Canadian cash generating unit

Description of the matter

We draw attention to Notes 2.3(iii), 3.7 and 11 to the consolidated financial statements. Non-financial assets (other than inventories) are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. During the year, the Entity recorded an impairment charge of \$2,042 thousand related to the Canadian Cash Generating Unit ("CGU"). The process to calculate the recoverable amount of each cash generating unit requires use of valuation methods such as a market approach or a discounted cash flow method which uses assumptions of key variables including estimated cash flows, discount rates and terminal value growth rates.

Why the matter is a key audit matter

We identified the evaluation of the impairment of non-financial assets of the Canadian CGU as a key audit matter. This matter represented a significant risk of material misstatement given the magnitude of the asset values and the high degree of estimation uncertainty in assessing the Entity's significant assumptions including estimated cash flow, discount rate and terminal value growth rate. Significant auditor judgment and the involvement of professionals with specialized skills and knowledge were required to evaluate the Entity's significant assumptions due to the sensitivity of the recoverable amount to minor changes in these assumptions.



How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the estimated future cash flow assumption by comparing to historical results and considering published reports of industry analysts and peer analysis.

We evaluated the terminal value growth rate assumption by comparing the rate to published inflation data.

We involved valuation professionals with specialized skills and knowledge who assisted in assessing the appropriateness of the discount rate used to determine the recoverable amount, by comparing it against a discount rate range that was independently developed using publicly available market data and company specific risk factors.

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

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

We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going



concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants, Licensed Public Accountants

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

Vaughan, Canada
March 31, 2021

MEDIPHARM LABS CORP.

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MEDIPHARM LABS CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2020 and 2019

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

	Notes	December 31, 2020	December 31, 2019
ASSETS			
Current assets:			
Cash and cash equivalents	5	19,913	38,627
Trade and other receivables	8	29,645	27,540
Other assets	10	3,230	2,048
Inventories	9	22,139	51,486
Assets held for sale	11	2,102	-
Current tax receivable		4,492	-
Total current assets		81,521	119,701
Non-current assets:			
Property, plant and equipment	11	34,144	42,233
Intangibles	11.2	228	-
Deferred tax asset	24	-	587
Non-current deposits		2,147	6,120
Other financial assets	6	191	189
Total non-current assets		36,710	49,129
Total assets		118,231	168,830

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

MEDIPHARM LABS CORP.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****As at December 31, 2020 and 2019**

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

	Notes	December 31, 2020	December 31, 2019
LIABILITIES AND EQUITY			
Current liabilities:			
Trade and other payables	15	14,793	20,946
Current employee benefit obligations	16	1,455	1,350
Due to related party	7	300	-
Loans and borrowings	12	7,697	1,823
Current tax liability	24	-	4,727
Total current liabilities		24,245	28,846
Non-current liabilities:			
Due to related party	7	300	-
Loans and borrowings	12	10,761	8,757
Warrant derivative liability	13.2	357	-
Conversion option derivative liability	13.1	4,154	-
Total non-current liabilities		15,572	8,757
Total liabilities		39,817	37,603
Equity:			
Common shares	17	138,508	122,807
Reserves		14,851	16,960
Accumulated other comprehensive loss		(403)	(31)
Accumulated deficit		(74,542)	(8,189)
Total equity attributable to equity holders of the Parent		78,414	131,547
Non-controlling interest		-	(320)
Total equity		78,414	131,227
Total liabilities and equity		118,231	168,830
Commitments and contingencies	14		
Subsequent events	28		
Approved on behalf of the Board:			
<u>/s/ "Patrick McCutcheon"</u> Pat McCutcheon Director		<u>/s/ "Keith Strachan"</u> Keith Strachan Director	

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

MEDIPHARM LABS CORP.**CONSOLIDATED STATEMENTS OF (LOSS)/INCOME****For the years ended December 31, 2020 and 2019**

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

	Notes	2020	2019
Revenue	19	36,012	129,252
Cost of sales		(79,990)	(86,338)
Gross profit		(43,978)	42,914
General administrative expenses	20	(21,904)	(15,357)
Marketing and selling expenses	20	(4,366)	(3,330)
Research and development expenses		(2,225)	(867)
Share based compensation expense	17, 22	(2,681)	(15,502)
Other operating income/(expenses), net	21	2,578	(920)
Operating (loss)/income		(72,576)	6,938
Unrealized gain in revaluation of derivative liabilities	13	8,078	-
Finance income	23	273	486
Finance expense	23	(7,875)	(672)
(Loss)/income before taxation		(72,100)	6,752
Taxation recovery/(expense)	24	4,990	(5,621)
Net (loss)/income for the year		(67,110)	1,131
Attributable to			
- Non-controlling interest	4	(757)	(514)
- Equity holders of the Parent		(66,353)	1,645
Basic (loss)/earnings per share	18	(0.48)	0.01
Diluted (loss)/earnings per share	18	(0.48)	0.01

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

MEDIPHARM LABS CORP.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME****For the years ended December 31, 2020 and 2019**

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

	Notes	2020	2019
Net (loss)/income for the year		(67,110)	1,131
Other comprehensive (loss)/income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(418)	(40)
Total comprehensive (loss)/income for the year		(67,528)	1,091
Total comprehensive (loss)/income attributable to			
- Non-controlling interest		(46)	(514)
- Equity holders of the Parent		(67,482)	1,605

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

MEDIPHARM LABS CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2020 and 2019

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

	Common Shares		Reserves			Accumulated other comprehensive	Non-controlling interest	Accumulated deficit	Non-controlling interest	Total
	Number (post stock split)	Share capital	Share-based payments	Non-controlling interest acquisition reserve	Non-controlling interest					
Balance at January 1, 2019	97,539,360	34,065	3,409	-	-	9	-	(9,834)	194	27,843
Shares issued for cash (Note 17.1)	13,514,000	75,003	-	-	-	-	-	-	-	75,003
Share issue costs	-	(2,694)	-	-	-	-	-	-	-	(2,694)
Shares issued on exercise of stock options	6,909,106	4,146	(1,636)	-	-	-	-	-	-	2,510
Shares issued on exercise of warrants	13,562,602	12,287	(315)	-	-	-	-	-	-	11,972
Share based compensation (Note 17.2)	-	-	15,502	-	-	-	-	-	-	15,502
Foreign exchange translation	-	-	-	-	-	(40)	-	-	-	(40)
Net income for the year	-	-	-	-	-	-	-	1,645	(514)	1,131
Balance at December 31, 2019	131,525,068	122,807	16,960	-	-	(31)	-	(8,189)	(320)	131,227
Balance at January 1, 2020	131,525,068	122,807	16,960	-	-	(31)	-	(8,189)	(320)	131,227
Transaction with non-controlling interest (Note 4)	2,359,603	2,000	-	(4,323)	-	-	-	-	1,123	(1,200)
Share conversion of convertible loan (Note 12.3)	13,515,392	8,773	-	-	-	-	-	-	-	8,773
Share issue costs	-	(849)	-	-	-	-	-	-	-	(849)
Shares issued on exercise of stock options	1,800	6	(3)	-	-	-	-	-	-	3
Shares issued on exercise of warrants	8,148,624	5,771	(464)	-	-	-	-	-	-	5,307
Share based compensation (Note 17.2)	-	-	2,681	-	-	-	-	-	-	2,681
Foreign exchange translation	-	-	-	-	-	(372)	-	-	(46)	(418)
Net loss for the year	-	-	-	-	-	-	-	(66,353)	(757)	(67,110)
Balance at December 31, 2020	155,550,487	138,508	19,174	(4,323)	-	(403)	-	(74,542)	-	78,414

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

MEDIPHARM LABS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2020 and 2019

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

	Notes	2020	2019
Cash flows from operating activities:			
Net (loss)/income for the year		(67,110)	1,131
Share based compensation		2,681	15,502
Unrealized gain in revaluation of derivative liabilities	13	(8,078)	-
Write down of non-current deposits	22	3,127	-
Impairment of property, plant and equipment and intangibles	11	2,042	-
Depreciation and amortization		10,807	2,531
Loss on disposal of property, plant and equipment		146	-
Finance fee income and expense, net		7,602	186
Unrealized foreign exchange difference		(1,180)	89
Taxation (recovery)/expense		(4,990)	5,621
Tax refund		117	-
Change in current tax receivable		(4,610)	-
Change in trade and other receivables including expected credit loss		(2,089)	(21,075)
Change in inventories including write down of inventory to net realizable value		29,408	(42,082)
Change in other assets		(1,160)	647
Change in restricted cash		-	200
Change in trade and other payables		(4,570)	11,239
Change in current benefit obligations		84	835
Net cash used in operating activities		(37,773)	(25,176)
Cash flows from investing activities:			
Capital expenditures		(7,503)	(32,438)
Proceeds from disposal of property, plant and equipment		59	-
Acquisition of financial assets		(2)	(108)
Net cash used in investing activities		(7,446)	(32,546)
Cash flows from financing activities:			
Issuance of shares for cash less issuance costs		-	70,827
Proceeds from issuance of convertible debt, net of fee	12.3	36,138	-
Payment of convertible debt installment	12.3	(3,945)	-
Repayment of bank loans	12.2	(9,700)	(6,000)
Exercise of warrants		5,307	11,972
Exercise of stock options		3	2,510
Interest and finance fee paid		(638)	(797)
Interest received		273	486
Proceeds from loans and borrowings		-	9,700
Non-controlling interest acquisition	4	(600)	-
Payment of lease liabilities		(416)	(199)
Net cash provided by financing activities		26,422	88,499
Effects of exchange rate change on cash and cash equivalents		83	-
(Decrease)/increase in cash and cash equivalents		(18,714)	30,777
Cash and cash equivalents at the beginning of the year	5	38,627	7,850
Cash and cash equivalents at the end of the year	5	19,913	38,627

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

MEDIPHARM LABS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2020 and 2019

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

NOTE 1 - NATURE OF OPERATIONS

MediPharm Labs Corp. (the “Company”) was incorporated under the Business Corporations Act (Ontario) on January 23, 2017 as “POCML 4 Inc.” pursuant to the policies of the TSX Venture Exchange. Subsequent to a reverse takeover transaction, the common shares in the capital of the Company (the “Common Shares”) began trading on the TSX Venture Exchange on October 4, 2018 under the trading symbol “LABS”. On July 29, 2019, the Common Shares were voluntarily delisted from the TSX Venture Exchange and began trading on the Toronto Stock Exchange under the symbol “LABS”.

The Company produces purified, pharmaceutical-like cannabis extracts and related derivative products and its operating subsidiaries are the holders of a standard processing licence and a research licence under the *Cannabis Act* (Canada) (the “**Canadian Licences**”), and a manufacturing licence under the *Australian Narcotics Drug Act 1967* authorizing the manufacture and supply of certain limited cannabis products (the “**Australian Licence**”). The Canadian Licences allow for the sale and distribution of cannabis oil, cannabis extracts, cannabis edibles, cannabis topicals, and derivatives to authorized classes of purchasers, as well as controlled human administration trials for sensory testing of cannabis extracts and derivative products. The Australian Licence allows for the manufacturing of extracts and tinctures of cannabis and cannabis resin only for the purpose of a clinical trial or prescribed as medical cannabis products.

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

These consolidated financial statements of the Company as at and for the year ended December 31, 2020 (“Consolidated Financial Statements”), include the financial statement of the Company and its subsidiaries.

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

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

(1) MediPharm Labs Inc. (“MPL”), incorporated on January 26, 2015, is located in Barrie, Ontario. The nature of MPL’s operations is to formulate, process, package and distribute cannabis extracts and advanced cannabinoid based products for domestic and international markets.

(2) MediPharm Labs Australia Pty. Ltd. (“MPL-AU”), incorporated on January 18, 2017, is located in Wonthaggi, Australia. The nature of MPL AUS’s operations is to manufacture extracts and tinctures of medical cannabis products for domestic and international markets. As of December 31, 2020, MPL-AU is wholly owned subsidiary of the Group (2019: 80% of MPL-AU shares owned by MPL) (Note 4).

MEDIPHARM LABS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2020 and 2019

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

NOTE 1 - NATURE OF OPERATIONS (Continued)

(3) MPL Property Holdings Inc (“MPL-P”), incorporated on June 5, 2018, owns a building located in Barrie, Ontario and leases the building to the Group’s companies. During the year ended December 31, 2019, MPL-P leased a portion of this building to third party companies. As at December 31, 2019 and during the year ended December 31, 2020, the entire building was occupied by subsidiaries within the Group.

(4) These subsidiaries are inactive companies.

NOTE 2 - BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation

(i) Statement of compliance

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

On March 31, 2021, the Board of Directors approved these Consolidated Financial Statements.

(ii) Historical cost convention

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

(iii) Foreign currency translation

Functional and presentation currency

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

Foreign currency transactions and balances

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

MEDIPHARM LABS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2020 and 2019

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

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

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 are translated at the closing rate at the date of that statement of financial position
- income and expenses are translated at exchange rates at transaction dates and
- all resulting exchange differences are recognized in other comprehensive income/(loss).

(iv) Basis of consolidation

Subsidiaries

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

Subsidiaries	Proportion of voting power held by the Company	
	(%)	(%)
	2020	2019
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.	100%	80%
MPL International Holdings Inc.	100%	100%

Subsidiaries are companies in which MediPharm Lab Corp. has the ability to control the financial and operating policies for the benefit of MediPharm Lab Corp. 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 (loss)/income and consolidated statement of comprehensive (loss)/income from the date the Company gains control of the subsidiary until the date when the Company ceases to control the subsidiary.

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

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

MEDIPHARM LABS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2020 and 2019

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

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

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

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

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 interest 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 accounting pronouncements or policies adopted in 2020

The Group adopted the following new standards and amendments to standards that were effective January 1, 2020. These changes did not have a material impact on these Consolidated Financial Statements.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform – Phase 1 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The Group adopted a new accounting policy with respect to government grants (Note 3.15).

(ii) Standards, amendments and interpretations issued as of December 31, 2020 that are not yet effective

The following new accounting standard will become effective in a future year and is not expected to have a significant impact on these Consolidated Financial Statements.

- IFRS 17, Insurance Contracts
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

2.3 Use of estimates and judgements

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

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

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

Information about significant areas of estimation, uncertainty, and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in these Consolidated Financial Statements are described below:

(i) Expected credit loss

The expected credit losses for trade receivables and contract assets are based on assumptions about risk of default. The Group uses judgement in making these assumptions and selecting the inputs to the expected credit loss calculation based on the Group's past history and existing market conditions at the end of each reporting period (Note 25.1).

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

The Group issues share-based warrants and stock options. In estimating the fair value of the share-based warrants and stock options, the Group uses the Black Scholes option pricing model with inputs such as expected life, expected forfeiture rate and volatility of the stock option, based on their best estimate. The assumptions used for estimating fair value for share based payment transactions with respect to stock options and warrants are disclosed in Note 17.

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

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

Judgement is required to identify the cash generating units ("CGU") within the Group for purposes of testing non-financial assets for impairment. The assessment of any impairment of the Group's property, plant and equipment is dependent upon estimate of the recoverable amounts of these assets. The process to calculate the recoverable amount of each cash generating unit requires use of valuation methods such as a market approach or a discounted cash flow method which uses assumptions of key variables including estimated cash flows, discount rates and terminal value growth rates. The Group applies judgment when determining which methods are most appropriate to estimate that value in use and fair value less costs of disposal for each CGU.

(iv) Valuation of inventories

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

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

(v) Fair value of derivative liabilities

The Group applies judgment in determining the method to determine the allocation of proceeds from issuance to debt to its various components, such as embedded derivatives, upon initial recognition. In estimating the fair value of the embedded derivatives, the Group uses the Black Scholes option pricing model with inputs such as expected life, expected forfeiture rate and volatility of the stock option, based on their best estimate. The assumptions used for estimating fair value for embedded derivatives are disclosed in Note 13.

(vi) Right to return

The Group has agreements with its customers which provide a right to return products within six months for a full refund provided that the products are not used in manufacturing or materially altered or not sold. An expected value method is used to estimate such returns at the time of sale. Since the Group has experience in selling such products, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date and adjusted as necessary to estimate returns for the sold products (Note 15).

(vii) COVID-19 estimation uncertainty

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, did not materially impact the Group's operations during the year ended December 31, 2020. The production and sale of cannabis have been recognized as essential services in Canada and across Europe. Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Group's business, consolidated financial position and consolidated operating results in the future. Additionally, it is possible that estimates in these Consolidated Financial Statements will change in the near term as a result of COVID-19. The Group is closely monitoring the impact of the pandemic on all aspects of its business.

2.4 Change in estimates and judgements

(i) Revision of useful life of buildings and machinery

The estimated useful life to certain components of building assets and certain production equipment were revised during the year ended December 31, 2020, from 20 years to 40 years and from 5 years to 8 years, respectively, as they are expected to remain in service beyond their initial estimates.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in preparation of these Consolidated Financial Statements are summarized below:

3.1 Cash and cash equivalents

Cash and cash equivalents include 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 Inventories

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

3.3 Financial assets

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

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

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

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 (“FVPL”). Transaction costs of financial assets carried at FVPL are expensed upon recognition in the consolidated statement of (loss)/income.

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

- Amortized cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income, if any, from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Fair value through other comprehensive income ("FVOCI"): Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest are classified as FVOCI and are measured at fair value subsequent to initial recognition with changes in fair value recognized in the consolidated statement of other comprehensive (loss)/income. The Group may make irrevocable elections at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.
- FVPL: Financial assets that do not meet the criteria for amortized cost or FVOCI are classified as FVPL and are measured at fair value subsequent to initial recognition with changes in fair value recognized in the consolidated statement of (loss)/income. As of December 31, 2020, the Group does not have any financial assets classified as FVPL.

The Group measures all equity investments at fair value subsequent to initial recognition. 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.

The Group assumes that the credit risk on an amount due from a customer has increased significantly if it is more than 180 days past due, unless there is an agreed payment plan or collateral. The Group considers a financial asset to be in default when the customer fails to make its contractual payments to the Group for a period of greater than 12 months past due; however, this excludes the ones which are subject to legal proceedings and are expected to be fully collected.

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

3.4 Assets held for sale

Non-current assets are classified as held-for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

3.5 Property, plant and equipment

Property, plant and equipment are carried at acquisition costs less accumulated depreciation. Depreciation is recognized using the straight-line method based on the estimated useful lives of the assets (Note 11).

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

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Building and building improvements	10-40 years
Machinery, plant and equipment	5-8 years
Security equipment	5 years
Computers	3-5 years
Leasehold improvements	shorter of lease or 10 years
Vehicles	5 years
Office equipment	5 years
Right-of-use assets	1-5 years

Land is not depreciated due to having infinite useful life.

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 are measured by comparing proceeds with carrying amounts.

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)/income.

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

3.6 Intangible assets

Intangible assets include the brand acquired by the Group and are amortized with a limited useful life of 10 years using straight line method. Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Amortization methods, useful lives and residual values are reviewed at each reporting period date and adjusted, if appropriate.

3.7 Impairment of non-financial assets

Non-financial assets (other than inventories) are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Impairment losses are allocated to reduce the carrying amounts of the other non-financial assets in the CGU, excluding inventories, right of use assets and non-current deposits, on a pro-rata basis. An impairment loss is subsequently reversed only to an amount that is the lesser of the revised

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

estimate of recoverable amount, and the carrying amount, net of depreciation or amortization, that would have been recorded at the date of the reversal had no impairment loss been recognized previously. The Group currently has two CGUs being (i) cannabis operations in Canada, ("Canadian CGU"); and (ii) cannabis operations in Australia ("Australian CGU").

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 recovery/(expense) is recognized in the consolidated statement of (loss)/income, 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 (loss)/income or directly in equity, respectively.

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

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

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

3.9 Trade payables

Trade payables are unsecured liabilities for goods and services provided to the Group prior to the end of the financial year which remain unpaid at year end. Trade payables (Note 15) are presented as current liabilities unless payment is not due within 12 months after the reporting period.

3.10 Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVPL. A financial liability is classified as at FVPL if it is classified as held-for-trading, it is a derivative, or it is designated as such on initial recognition. At initial recognition, the Group measures financial liabilities at its fair value plus transaction costs that are directly attributable to the acquisition of the financial liability, if the financial liability is not measured at fair value through profit or loss. Transaction costs of financial liability carried at FVPL are expensed upon recognition in the consolidated statement of (loss)/income. Subsequent to initial recognition,

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

financial liabilities at FVPL are measured at fair value and net gains and losses, including any interest expense, are recognized in the consolidated statement of (loss)/income (Note 12 and Note 13).

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

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

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

3.11 Provisions

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

Possible assets 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 (Note 14).

3.12 Revenue recognition

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

The Group generates revenue primarily from the sale of private label production, white label production and tolling services to its customers. Other sources of revenue include rental income from owned investment property. The Group did not earn rental income during the year ended December 31, 2020.

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Private label: Revenue is recognized when the bulk finished products are dispatched from the Group's warehouse. Private label contracts might require advance payments by customers. Such advance receipts are included in contract liabilities (Note 15).

Tolling services: Under the tolling service agreements, the customers supply the direct material to the Group for processing into finished goods. The customer controls all of the materials it supplies and work in progress as the products are being processed. Under the tolling service arrangements, the finished products are made to the customer's specification and if a contract is terminated by the customer, the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin. As such, revenue for tolling arrangements is recognized over time. Progress is determined based on the output method. Uninvoiced amounts are presented as contract assets (Note 8).

For contracts that permit the customer to return an item, a refund liability and a right to recover returned goods asset are recognized. The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The refund liability is included in other payables and the right to recover returned goods is included in other current assets. The Group reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly (Note 10 and Note 15).

The Group also enters bill and hold arrangements with customers for its private or white label productions. Revenue for bill and hold arrangements is recognized when the control of the finished product passes to the customer, which is when the product is ready for physical transfer to the customer and the customer accepts the product. Revenue for bill and hold arrangements is only recognized when the Group does not have the ability to use the product for other purposes and when the bill and hold arrangement is requested by the customer for substantive reasons.

3.13 Employee benefits

Short term obligations

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

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.

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Group measures cost of share-based compensation by estimating the fair value of the option 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).

Consideration paid by employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred other capital reserve to share capital.

3.14 Earnings/(loss) per share

The Group presents basic and diluted earnings/(loss) per share data for its common shares. Basic earnings/(loss) per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings/(loss) per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of Common Shares outstanding, adjusted for the effects of all dilutive potential common shares. In a period of losses, the options are excluded for the determination of dilutive net loss per share because their effect is antidilutive.

3.15 Government grants

Grants from the government are recognized at their fair value when there is reasonable assurance that the grant will be received, and the Group will comply with all conditions attached to the grant. The Group recognizes unconditional government grants that compensate the Group for expenses incurred in the consolidated statement of (loss)/income as other income on a systematic basis in the periods in which the expenses are recognized.

NOTE 4 –NON-CONTROLLING INTEREST

On October 8, 2020 (“the Closing Date”), the Group closed a share sale and purchase agreement with its local Australian partner to acquire the remaining 20% ownership interest in MediPharm Labs Australia (MPL-AU) for an amount of \$3,200, to be paid as a combination of cash and Common Shares. Immediately prior to the purchase, the carrying amount of the existing 20% non-controlling interest in MPL-AU was (\$1,123). The Group recognized a decrease in non-controlling interests of \$1,123 and a decrease in equity attributable to owners of parent of \$4,323. The effect on the equity attributable to the owners of the Company during the year is summarized as follows:

	December 31, 2020	December 31, 2019
Carrying amount of non-controlling interest acquired	(1,123)	-
Consideration paid/payable to non-controlling interest (1)	3,200	-
Excess of consideration paid recognized in the transactions with non-controlling interest reserve within equity	(4,323)	-

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NOTE 4 –NON-CONTROLLING INTEREST (Continued)

(1) The Group paid its local Australian partner \$600 of cash and issued 2,359,603 Common Shares for an amount of \$2,000. The remaining consideration owing of \$600 will be paid as \$300 of cash nine months after the Closing Date and \$300 of cash eighteen months after the Closing Date. As at December 31, 2020, such payable amounts were disclosed as due to related parties (Note 7) in the consolidated financial position.

There was no transaction with non-controlling interest in 2019.

NOTE 5 – CASH AND CASH EQUIVALENTS

	December 31, 2020	December 31, 2019
Banks		
-demand deposits	19,688	38,406
-term deposits	225	221
	19,913	38,627

NOTE 6 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	December 31, 2020	December 31, 2019
Financial assets at amortized cost		
Cash and cash equivalents (Note 5)	19,913	38,627
Trade and other receivables (Note 8)	29,645	25,979
Financial assets at fair value through other comprehensive income (FVOCI) (1)	191	189
Financial liabilities at amortized cost		
Trade and other payables (Note 15)	14,793	20,946
Due to related parties (Note 7.2)	600	-
Loans and borrowings (Note 12)	18,458	10,580
Financial liabilities at fair value through profit/loss		
Conversion option derivative liability (Note 13.1)	4,154	-
Warrant derivative liability (Note 13.2)	357	-

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

NOTE 7 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES

7.1 Key management personnel compensation

The Group has determined that key management personnel consist of directors and officers in the Group. The non-share based compensation remuneration to directors and officers during the year ended December 31, 2020 was \$2,852 (2019: \$2,072) and is included in general administrative expenses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

During the year ended December 31, 2020, the Group issued 900,000 options (2019: 3,440,000 options) at an average exercise price of \$1.20 per share (2019: \$2.10 per share) to its key management personnel and recognized total share-based compensation expense of \$1,861 (2019: \$7,216). During the year ended December 31, 2020, the key management personnel exercised no options (2019: 3,263,200 options for gross proceeds of \$1,097).

7.2 Transactions and balances with key management personnel

Several key management personnel hold positions in other companies that result in them having control or significant influence over these companies. Some of these companies transacted with the Group during the year ended December 31, 2020.

As at December 31, 2020, the Group has \$600 (2019: \$4) due to key management personnel and entities over which they have control or significant influence. The balance is related to the consideration to be paid for the Group's acquisition of 20% ownership interest in MPL-AU from one of the key management personnel.

For the year ended December 31, 2020, the Group has incurred \$11 (2019: \$7) of rent expenses as a result of transactions with the key management personnel's related entities. In addition, the Group paid \$600 of cash and issued 2,359,603 Common Shares for an amount of \$2,000 as a result of the acquisition of 20% ownership interest in MPL-AU.

NOTE 8 – TRADE AND OTHER RECEIVABLES

	December 31, 2020	December 31, 2019
Trade receivables, net	27,193	25,979
Other receivable	1,743	42
Contract assets	530	238
HST/GST receivable	179	1,281
	29,645	27,540

The Group has trade receivables of \$8,531 that are over 365 days overdue and all due from one customer. The Group initiated legal proceedings to collect this trade receivable (Note 14.3) and has not recognized any expected credit loss for this trade receivable. Credit risk and aging analysis related to trade receivables are included in Note 25.

The contract assets primarily relate to the Group's rights to consideration for work completed with respect to tolling services but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional.

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NOTE 9 – INVENTORIES

	December 31, 2020	December 31, 2019
Raw materials	8,844	22,694
Work in progress	-	4,880
Finished goods	11,835	23,408
Consumables and packages	1,460	504
	22,139	51,486

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

For the year December 31, 2020, the Group recognized write downs of the carrying value of its raw materials, work in progress and finished goods of \$29,795 (December 31, 2019: \$nil) since the cost of these inventories exceeded their net realizable value due to compression of prices in the industry. The loss is included in the cost of sales in the consolidated statements of (loss)/income.

NOTE 10 – OTHER ASSETS

	December 31, 2020	December 31, 2019
Deposit and down payments (1)	2,056	679
Prepaid insurance	435	331
Right of return assets	101	-
Other (2)	638	1,038
	3,230	2,048

- (1) Deposit and down payments primarily include the deposits for city permits and down payments to suppliers for the purchase of inventory.
- (2) Other includes prepaid expense for software maintenance services, capital market advisory services, software licenses, marketing events and activities and other items.

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NOTE 11 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Cost	January 1, 2020	Additions	Disposals	Transfers (2)	Assets held for sale (3)	Impairment loss (4)	Exchange difference	December 31, 2020
Land	1,860	-	-	-	-	-	26	1,886
Building and building improvements	18,245	1,964	-	4,895	-	-	386	25,490
Leasehold improvements	-	209	-	-	-	-	-	209
Computers	1,568	172	(5)	8	-	-	37	1,780
Office equipment	196	59	(8)	-	-	-	3	250
Machinery and plant equipment	8,677	2,079	(131)	6,920	(2,139)	-	193	15,599
Motor vehicles	70	-	-	-	-	-	-	70
Security equipment	629	44	-	70	-	-	-	743
Construction in progress (1)	13,254	1,972	(114)	(11,893)	-	-	36	3,255
Right-of-use assets (Note 11.1)	1,204	41	(154)	-	-	-	-	1,091
	45,703	6,540	(412)	-	(2,139)	-	681	50,373
Less: Accumulated depreciation and impairment								
Building and building improvements	1,382	1,990	-	28	-	1,331	30	4,761
Leasehold improvements	-	10	-	-	-	16	-	26
Computers	273	554	(2)	-	-	49	14	888
Office equipment	26	47	(4)	-	-	11	1	81
Machinery and plant equipment	1,470	7,600	(42)	(28)	(37)	394	16	9,373
Motor vehicles	4	40	-	-	-	2	-	46
Security equipment	143	141	-	-	-	35	-	319
Construction in progress	-	-	-	-	-	186	-	186
Right-of-use assets	172	421	(44)	-	-	-	-	549
	3,470	10,803	(92)	-	(37)	2,024	61	16,229
Net book value	42,233							34,144

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NOTE 11 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

Cost	January 1, 2019	Additions	Disposals	Transfers (2)	Assets held for sale	Impairment loss	Exchange difference	December 31, 2019
Land	1,635	1	(25)	272	-	-	(23)	1,860
Building and building improvements	8,501	6,123	(59)	3,752	-	-	(72)	18,245
Computers	332	1,259	(21)	3	-	-	(5)	1,568
Office equipment	53	147	-	(3)	-	-	(1)	196
Machinery and plant equipment	4,038	2,796	(464)	2,308	-	-	(1)	8,677
Motor vehicles	-	70	-	-	-	-	-	70
Security equipment	370	259	-	-	-	-	-	629
Construction in progress (1)	-	17,526	-	(4,245)	-	-	(27)	13,254
Right-of-use assets (Note 11.1)	-	1,204	-	-	-	-	-	1,204
	14,929	29,385	(569)	2,087	-	-	(129)	45,703
Less: Accumulated depreciation and impairment								
Building and building improvements	466	867	-	49	-	-	-	1,382
Computers	50	231	(8)	-	-	-	-	273
Office equipment	5	21	-	-	-	-	-	26
Machinery and plant equipment	404	1,102	(36)	-	-	-	-	1,470
Motor vehicles	-	4	-	-	-	-	-	4
Security equipment	36	107	-	-	-	-	-	143
Right-of-use assets	-	172	-	-	-	-	-	172
	961	2,504	(44)	49	-	-	-	3,470
Net book value	13,968							42,233

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NOTE 11 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

- (1) Construction in progress consists of the machinery in the installation process and renovation and expansion of building. Since these assets are not ready for their intended use, no depreciation was recognized for these assets during the year.
- (2) Certain construction in progress assets were transferred to other classes within property, plant and equipment upon completion of the construction and installation. In addition, during the year ending December 31, 2019, the Group started using the whole portion of production facility for its own use; therefore, the rented-out portion of land and building classified as investment property as at December 31, 2019 was transferred to property, plant and equipment.
- (3) In December 2020, the Group identified certain production machinery assets for which the carrying value is no longer expected to be recovered through continuing use, but rather through a sale transaction. The net book value of this production machinery at the time of the decision was \$2,102. The Group has identified buyers for the production equipment and estimates that the sale of the production equipment will be complete prior to December 31, 2021. As such, these production machineries were classified as assets held for sale at December 31, 2020 and measured at the lower of their amortized cost and fair value less costs to sell. Fair value less costs to sell was determined to be greater than the amortized cost and as such, the assets are recorded at their historical costs as at December 31, 2020. The fair value of the production machinery was determined using the values agreed by the interested parties under term sheets, which are level 3 inputs in the fair value measurement hierarchy.
- (4) The Group performs test of impairment of its CGUs when there are indicators of impairment. During the year ended December 31, 2020, the Group identified the slower than anticipated increase of its private label revenues as an indicator of impairment and recognized an impairment loss of \$2,042 in its Canadian CGU. The recoverable amount of the Canadian CGU was based on its value in use, which was determined to be greater than the CGU's fair value less cost of disposal. The Canadian CGU's value in use was estimated by discounting the estimated future cash flows expected to be generated from the continuing use of the Canadian CGU using level 3 inputs.

The significant assumptions applied in the determination of the recoverable amount are described as follows:

- i. Cash flows: Estimated cash flows were projected using a traditional cash flow approach based on industry and market trends in addition to the Group's own internal sources. Estimated cash flows are primarily driven by estimated sales volumes, selling prices and operating costs;
- ii. Terminal value growth rate: A terminal value growth rate has been determined based on an inflationary rate for the country in which the CGU operates estimated by management. The terminal value growth rate used by management was calculated as 2%;
- iii. Discount rate: The discount rate is estimated based on the Company's weighted average cost of capital ("WACC") in which the Company's cost of equity and cost of debt are proportionately weighted. The inputs into the WACC are based on the yield of long-term government bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for risk

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NOTE 11 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

premiums to reflect both the increased risk of investing in equities generally, the relative risk associated with the industry, and the unsystematic risk of the specified CGU, as well as the Company's estimated cost of borrowing. The discount rate calculated and used by management in calculating the recoverable amount for the Canadian CGU during the year ended December 31, 2020 was 18.2%.

The impairment loss was allocated on a pro rata basis to the carrying amount of each non-financial asset of the Canadian CGU, excluding inventories, right of use assets, and other assets already recorded at their approximately fair value.

The estimated useful life to certain components of building assets and certain production equipment were revised during the year ended December 31, 2020 from 20 years to 40 years and from 5 years to 8 years, respectively, as they are expected to remain in service beyond their initial estimates. The estimated useful lives of certain large mechanical components of the building and certain production equipment were reduced as they are not expected to produce economic benefits beyond 2020.

The net effect of the changes in the current period was an increase in depreciation expense of \$5,872 of which \$5,556 is included in the cost of sales, \$96 is included in the general administrative expenses, \$220 is included in the research and development expenses in the consolidated statements of (loss)/income. The net effect of the changes is expected to be a decrease in depreciation expense of \$1,445 for the year ended December 31, 2021 and the decrease in depreciation expense is expected to be \$1,363, \$1,122, and \$799 for the years 2022, 2023 and 2024, respectively.

11.1 Right-of-use assets

The Group leases assets including land, building, motor vehicles and IT equipment. The details of the asset types where the Group is lessee are listed below. Total amount of leases with a term of 12 months or less ("short-term leases") expensed to the consolidated statement of (loss)/income for year ending December 31, 2020 is \$206 (December 31, 2019: \$487).

	January 1, 2020	Additions	Disposal	December 31, 2020
Cost				
Right-of-use assets				
-Land	74	37	(12)	99
-Building	757	-	-	757
-Equipment	309	-	(142)	167
-Vehicle	31	-	-	31
-IT equipment	33	4	-	37
	1,204	41	(154)	1,091

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NOTE 11 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

	January 1, 2020	Additions	Disposal	December 31, 2020
Less: Accumulated depreciation				
Right-of-use assets				
-Land	28	54	(7)	75
-Building	100	284	-	384
-Equipment	25	62	(37)	50
-Motor vehicle	13	13	-	26
-IT equipment	6	8	-	14
	172	421	(44)	549
Net book value	1,032			542
	January 1, 2019	Additions		December 31, 2019
Cost				
Right-of-use assets				
-Land	-	74		74
-Building	-	757		757
-Equipment	-	309		309
-Vehicle	-	31		31
-IT equipment	-	33		33
	-	1,204		1,204
Less: Accumulated depreciation				
Right-of-use assets				
-Land	-	28		28
-Building	-	100		100
-Equipment	-	25		25
-Motor vehicle	-	13		13
-IT equipment	-	6		6
	-	172		172
Net book value	-			1,032

11.2 Intangible assets

	January 1, 2020	Additions	Impairment	December 31, 2020
Cost				
Brand	-	250	-	250
Less: Accumulated amortization and impairment				
Brand	-	4	18	22
Net book value	-			228

The Group had no intangible assets during the year ended or as at December 31, 2019.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 12 – LOANS AND BORROWINGS

	December 31, 2020	December 31, 2019
Current liabilities		
Current portion of bank loans (Note 12.2)	-	1,459
Current portion of convertible loan (Note 12.3)	7,375	-
Current portion of lease liability (Note 12.1)	322	364
	7,697	1,823
Non-current liabilities		
Bank loans (Note 12.2)	-	8,116
Convertible loan (Note 12.3)	10,542	-
Lease liability (Note 12.1)	219	641
	10,761	8,757

12.1 Lease liability

	2020	2019
As at January 1,	1,005	-
New leases	41	1,155
Termination of lease agreements	(116)	-
Interest	27	14
Payment of lease liability	(416)	(164)
As at December 31,	541	1,005

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

12.2 Bank loans

	December 31, 2020	December 31, 2019
Aggregate outstanding advances	-	9,700
Accrued interest	-	16
Less: Amortized cost impact	-	141
	-	9,575

On October 10, 2019, MediPharm Labs Inc. (“MPL”), a subsidiary of the Company, as borrower, signed a credit agreement with (together with any amendments, supplements or revisions thereto the “Credit Agreement”) with a Schedule 1 Bank (the “Bank”), as lender, for up to \$38,700 subject to satisfaction of

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NOTE 12 – LOANS AND BORROWINGS (Continued)

various conditions. The Credit Agreement bears interest at the Bank's prime lending rate plus a certain per cent per annum dependent upon the Group's debt covenants. The Credit Agreement included a general security interest in the Group's assets and included an option to prepay all borrowings under the Credit Agreement without penalty. The Company is the guarantor for the Credit Agreement. The Credit Agreement is comprised of a revolving term facility, a non-revolving term facility and a non-revolving delayed draw term facility.

During the year ended December 31, 2020, the Group repaid amounts of \$4,000 outstanding under the non-revolving delayed draw term facility and \$5,700 outstanding under the non-revolving term facility. As of December 31, 2020, the Group has no outstanding amounts payable under the Credit Agreement.

12.3 Convertible debt

	2020	2019
As at January 1,	-	-
Issued at amortized, net issuance cost	23,549	-
Installment payment in cash	(3,945)	-
Accelerated conversion	(8,773)	-
Accretion and unpaid interest	7,086	-
As at December 31,	17,917	-

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

\$18,911 of the 2020 Private Placement is related to the placement of a \$20,500 unsecured convertible note (the "First Note") and a warrant (the "First Warrant") to purchase up to 3,601,427 Common Shares; and the remaining \$18,911 is related to the placement of a subscription receipt, which entitled the holder to receive, a further \$20,500 unsecured convertible note (the "Second Note" and, together with the First Note, collectively, the "Notes") and a further warrant (the "Second Warrant" and, together with the First Warrant, collectively, the "Warrants") to purchase up to 3,601,427 Common Shares at a price of \$2.28 per share and expiring on October 9, 2023. The Second Note and Second Warrant were issued on August 5, 2020 following the shareholders' approval.

The Notes have a three-year term, were issued at an original issue discount of 7.75% and are convertible to Common Shares at the option of the investor at a price of \$2.28 per share (the "Conversion Price"). Commencing four months after the closing date, the Notes began to amortize through bi-monthly installment payments of approximately \$640 (the "Bi-Monthly Installment Payments"), payable in Common Shares, subject to the satisfaction of equity conditions including a minimum volume and trading price for the Common Shares, at a price per Common Share equal to 90% of the market price of the Common Shares (being the 5-day volume weighted average price of the Common Shares on the TSX) or 87% of such market price where that market price is less than \$1.00 (each an "Installment Percentage") or, at the option of the Group, in whole or in part, in cash.

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NOTE 12 – LOANS AND BORROWINGS (Continued)

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

The Group allocated the gross proceeds of \$18,911 from First Note and First Warrant for purpose of initial recognition as follows: \$10,693 to the First Note based on the discounted future cash outflows of convertible note, \$6,187 to the conversion option derivative liability (Note 13.1) and \$2,031 to the warrant derivative liability (Note 13.2).

The Group allocated the gross proceeds of \$18,911 from Second Note and Second Warrant for purpose of initial recognition as follows: \$14,540 to the Second Note based on the discounted future cash outflows of convertible note, \$3,498 to the conversion option derivative liability (Note 13.1) and \$873 to the warrant derivative liability (Note 13.2).

In connection with 2020 Private Placement, the placement agent received a cash fee equal to 5.5% of the gross proceeds of the 2020 Private Placement. The Group incurred costs and fees of \$2,604 to close the 2020 Private Placement which were allocated on a pro-rata basis to the convertible note, conversion option derivative liability (Note 13.1) and warrant derivative liability (Note 13.2) in the amounts of \$1,684, \$704 and \$216 respectively. The costs allocated to the convertible note were included in the carrying value of the convertible note upon initial recognition and the costs allocated to the option derivative liability and warrant derivative liability were expensed as incurred.

During 2020, the Group issued 13,515,392 Common Shares in connection with accelerated conversion of \$8,773 principal amount of the First Note and Second Note.

NOTE 13 – DERIVATIVE LIABILITIES

13.1 Conversion option derivative liability

	2020	2019
As at January 1,	-	-
Conversion option for First Note	6,187	-
Conversion option for Second Note	3,498	-
Gain in revaluation	(5,531)	-
As at December 31,	4,154	-

A holder of a Note has the option to accelerate or defer the Bi-Monthly Installment Payments. Common Shares issued as settlement for the accelerated payment are issued in accordance with the Installment Percentage (Note 12.3), resulting in a variable number of Common Shares issuable. As a result, a holder's acceleration right for Bi-Monthly Installment Payments was recognized as a conversion option derivative liability and had a fair value of \$9,685 at inception. Financing cost in connection with the conversion option derivative liability of \$704 were expensed at recognition.

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NOTE 13 –DERIVATIVE LIABILITIES (Continued)

The fair value of the conversion option derivative liability was calculated using Black Scholes option pricing model which was determined based on company specific inputs and valuation techniques that utilized both observable and unobservable market inputs. Therefore, the estimate used for fair value of conversion option derivative liability was categorized as Level 3 measurement input (Note 26). Expected number of Common Shares which would be subject to optional conversion and volatility estimate are the significant inputs. As of December 31, 2020, with all other variables held constant, a 10% decrease/(increase) in the expected number of Common Shares would have decreased/(increased) the fair value of conversion option derivative liability by \$10 and decreased/(increased) net loss by \$10. As of

December 31, 2020, with all other variables held constant, a 5% decrease/(increase) in the volatility would have decreased/(increased) the fair value of the conversion option derivative liability by \$17 and decreased/(increased) net loss by \$17.

13.2 Warrant derivative liability

	2020	2019
As at January 1, 2020	-	-
Issued First Warrant	2,031	-
Issued Second Warrant	873	-
Gain in revaluation	(2,547)	-
As at December 31, 2020	357	-

Under the 2020 Private Placement, the Group issued a warrant to purchase up to 7,202,854 Common Shares with an exercise price of \$2.28 per share and expiring on October 9, 2023 (Note 12.3).

The warrants are classified as a liability because of the cashless exercise option which is not a fixed-for-fixed conversion. On initial recognition of the First Warrant, the warrant derivative liability was valued at \$2,031 using the Black-Scholes option pricing model using the following input data: stock price of \$1.89 per share; expected life of 3.33 years; 66.6% volatility based upon historical prices and risk-free interest rate of 0.30%. Financing cost of \$168 were expensed at recognition.

On initial recognition of the Second Warrant, the warrant derivative liability was valued at \$873 using the Black-Scholes option pricing model using the following input data: stock price of \$1.03 per share; expected life of 3.18 years; 66.17% volatility based upon historical prices and risk-free interest rate of 0.23%. Financing cost of \$48 were expensed at recognition.

The warrant derivative liability was revalued as of December 31, 2020 using the Black-Scholes option pricing model using the following input data: stock price of \$0.53 per share; expected life of 2.77 years; 66.97% volatility based upon historical prices and risk-free interest rate of 0.20%. The revaluation gain of the warrant derivative liability for the year ended December 31, 2020 was \$2,547 which was recorded in the consolidated statements of (loss)/income.

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NOTE 13 –DERIVATIVE LIABILITIES (Continued)

The fair value was determined based on company specific inputs and valuation techniques that utilized both observable and unobservable market inputs. Therefore, the estimate used for fair value of warrant derivative liability was categorized as Level 3 measurement input (Note 26). Volatility estimate is the significant input. As of December 31, 2020, with all other variables held constant, a 5% increase/(decrease) in the volatility would have increased/(decreased) the fair value of warrant derivative liability by \$101 and increased/(decreased) net loss by \$101.

NOTE 14 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

14.1 Sales commitments under supply agreements

Under supply agreements, as of December 31, 2020, the Group is committed to sell 85,500 units of tincture bottles of cannabis oil to licensed producers until November 2023. In the event the Group does not meet the commitments, the Group is not subject to any late in-kind/cash payments.

14.2 Purchase commitments under purchase agreements

Under cannabis material sales agreement, the Group is committed to purchase dry flower amounting to \$9,500 until June 30, 2021. During the year ended December 31, 2020, the Group fulfilled purchase of dry flower amounting to \$5,448.

14.3 Litigation

On January 24, 2020, MPL filed a statement of claim ("Claim") in the Ontario Superior Court of Justice against one of its long-term customers of cannabis concentrates. The Claim relates to, among other things, the payment of outstanding amounts due to MPL for products shipped to and received by the customer and deposits owed to MPL for committed amounts not yet shipped. The outstanding amounts on the date of the claim was approximately \$9,800, of which only \$8,531 was recognized by the Group as trade receivables relating to performance obligations satisfied in the previous year; the remaining \$1,269 has not been recognized by the Group as revenue or trade receivables as it relates to non-refundable deposits payable by the customer. On February 26, 2020, the defendant in the Claim filed a statement of defense and counterclaim for \$35,000. The Group is proceeding with a motion for summary judgment, which is anticipated to take place at an unspecified date within the three-months period ending September 30, 2021. The Group has not recognized a liability in connection with the counterclaim as the Group believes it is more likely than not that a present obligation does not exist that will result in a payment to be made by the Group for this claim. The Group also has not recognized an expected credit loss against the \$8,531 trade receivable subject to this claim (Note 25).

On June 16, 2020, a claim in connection with a proposed national consumer protection class-action lawsuit was filed with the Court of Queen's Bench in Alberta (as amended from time to time, the "Alberta Claim") seeking damages against several Canadian cannabis companies including MPL. The Alberta Claim does not particularize all of the claims against the companies however it makes allegations with respect to the content of THC and CBD in the companies' products. The proposed action is not certified. MPL has reported the Alberta Claim to its insurers. On August 31, 2020, a Discontinuance of Claim was filed, removing MPL from the Alberta Claim. The Group has not recognized a liability in connection with the counterclaim.

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NOTE 15 – TRADE AND OTHER LIABILITIES

	December 31, 2020	December 31, 2019
Accrued liabilities	7,792	1,793
Payable to suppliers	5,549	19,057
Contract liabilities	1,003	-
Refund liabilities (1)	84	-
Other	365	96
	14,793	20,946

Payable to suppliers are amounts due to vendors for unpaid goods and services received arising in the ordinary course of business. Trade payables are all short term in nature with due dates less than 60 days. Accrued liabilities mainly result from products and services received from third parties related to ordinary course of business for which invoices have not been received as of the reporting date. Other includes the payable to financial institutions related to credit card payables.

(1) Refund liabilities of \$84 (December 31, 2019: \$nil) are recognized for the products expected to be returned to the Group within a given period. The Group also recognized the right to the returned products of \$101 (December 31, 2019: \$nil) under other current assets for the products expected to be returned which is measured by reference to the former carrying amount of the goods. The costs to recover the products are not material.

NOTE 16 – EMPLOYEE BENEFITS

	December 31, 2020	December 31, 2019
Accrued payroll	1,050	720
Leave obligations	405	69
Bonus accrual	-	561
	1,455	1,350

The leave obligations represent the Group's accrued liability in connection with employees' annual leave which are short-term benefits.

NOTE 17 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS

17.1 Common shares issued

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

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

During the year ended December 31, 2020, 1,800 stock options (2019: 6,909,106 stock options) and 8,148,624 warrants (2019: 13,562,602 warrants) were exercised into Common Shares for proceeds of \$3 (2019: \$2,510) and \$5,307 (2019: \$11,972), respectively.

17.2 Stock options / Share based compensation

On January 8, 2019, the Company issued options to purchase up to 4,920,500 Common Shares with an exercise price of \$2.00 per share for a five-year term expiring January 8, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$6,424 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 92.1%, estimated forfeiture rate of 0%-8%, expected life of 5 years and a risk-free rate of 1.89%.

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

On February 4, 2019, the Company issued options to purchase up to 790,500 Common Shares with an exercise price of \$1.96 per share for a five-year term expiring February 4, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$521 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 91.7%, estimated forfeiture rate of 0%, expected life of 5 years and a risk-free rate of 1.86%.

On March 29, 2019, the Company issued options to purchase up to 791,000 Common Shares with an exercise price of \$3.34 per share for a five-year term expiring March 29, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$617 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 90.6%, estimated forfeiture rate of 0%-13%, expected life of 5 years and a risk-free rate of 1.53%.

On August 13, 2019, the Company issued options to purchase up to 1,844,980 Common Shares with an exercise price of \$6.47 per share for a five-year term expiring August 13, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$6,444 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 89.7%, estimated forfeiture rate of 0%-6% expected life of 5 years and a risk-free rate of 1.30%.

On November 1, 2019, the Company issued options to purchase up to 725,000 Common Shares with an exercise price of \$4.61 per share for a five-year term expiring November 1, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$1,545 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 88.8%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 1.48%.

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

On November 12, 2019, the Company issued options to purchase up to 242,250 Common Shares with an exercise price of \$4.42 per share for a five-year term expiring November 12, 2024. The stock options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$422 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 88.8%, estimated forfeiture rate of 0%-13% expected life of 5 years and a risk-free rate of 1.58%.

On January 21, 2020, the Company issued options to purchase up to 80,000 Common Shares with an exercise price of \$3.80 per share for a five-year term expiring January 21, 2025. The stock options vested 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$210 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 88.5%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 1.55%.

On February 21, 2020, the Company issued options to purchase up to 80,000 Common Shares with an exercise price of \$2.92 per share for a five-year term expiring February 21, 2025. The stock options vested 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$64 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 88.3%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 1.34%.

On March 30, 2020, the Company issued options to purchase up to 60,000 Common Shares with an exercise price of \$1.59 per share for a five-year term expiring March 30, 2025. The stock options vested 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$26 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 89.5%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 0.57%.

On June 18, 2020, the Company issued options to purchase up to 83,150 Common Shares with an exercise price of \$1.46 per share for a five-year term expiring June 18, 2025. The stock options vested 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$84 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 91.2%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 0.33%.

On June 22, 2020, the Company issued options to purchase up to 300,000 Common Shares with an exercise price of \$1.35 per share for a five-year term expiring June 22, 2025. The stock options vested immediately. Total fair value of the options issued was \$281 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 91.15%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 0.34%.

On July 13, 2020, the Company issued options to purchase up to 300,000 Common Shares with an exercise price of \$1.22 per share for a five-year term expiring July 13, 2025. The stock options vested immediately. Total fair value of the options issued was \$253 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 90.78%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 0.30%.

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

On July 31, 2020, the Company issued options to purchase up to 300,000 Common Shares with an exercise price of \$1.04 per share for a five-year term expiring July 31, 2025. The stock options vested immediately. Total fair value of the options issued was \$216 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 90.57%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 0.26%.

On August 27, 2020, the Company issued options to purchase up to 560,000 Common Shares with an exercise price of \$0.93 per share for a five-year term expiring August 27, 2025. The stock options vested 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$359 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 90.2%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 0.34%.

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

	2020		2019	
	Number of	Weighted average	Number of	Weighted average
	options	exercise price	options	exercise price
		\$		\$
As at January 1	11,760,020	2.93	9,389,606	0.70
Granted during the year	1,763,150	1.34	9,697,150	3.21
Exercised during the year	(1,800)	1.96	(6,909,106)	0.36
Forfeited/cancelled during the year	(2,324,160)	3.34	(417,630)	1.83
Outstanding at December 31	11,197,210	2.59	11,760,020	2.93

	2020		2019	
	Number of	Weighted average	Number of	Weighted average
	Options	exercise price	options	exercise price
		\$		\$
Exercisable at December 31	9,309,116	2.38	5,165,930	2.38
Weighted average remaining contractual life		3.24 years		4.03 years

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

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

Exercise price range	Weighted average remaining contractual life (years)		Number of outstanding options	
	2020	2019	2020	2019
Less than and equal to \$1.00	4.44	3.33	616,800	56,800
Between \$1.00 and \$3.00	3.17	3.82-4.10	8,140,750	8,123,300
Between \$3.00 and \$5.00	3.72	4.25-4.87	972,860	1,741,450
More than and equal to \$5.00	3.62	4.62	1,466,800	1,838,470
			11,197,210	11,760,020

The weighted average share price at the dates the options were exercised during the year ended December 31, 2020 was \$2.72 per share (2019: \$2.59).

17.3 Share purchase warrants

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

	2020		2019	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
As at January 1	12,519,675	0.84	26,019,277	0.86
Expired during the year	(4,371,051)	1.18	-	-
Exercised during the year	(8,148,624)	0.65	(13,499,602)	0.88
As at December 31	-	-	12,519,675	0.84

Weighted average remaining contractual life nil years 0.86 years

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 18 – EARNINGS (LOSS) PER SHARE (EPS)

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

	December 31 2020	December 31 2019
Loss/income attributable to equity holders of the Company	(66,353)	1,645
Weighted average number of shares for basic EPS	138,549,264	120,001,692
Effects of dilution from:		
Stock options	-	4,538,666
Warrants	-	10,089,320
Weighted average number of shares adjusted for the effect of dilution	138,549,264	134,629,678
Basic EPS	(0.48)	0.01
Diluted EPS	(0.48)	0.01

For the year ended December 31, 2020, since the Group reported a loss, the effects of convertible loans, stock options and warrants were considered anti-dilutive.

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

NOTE 19 – REVENUE

	2020	2019
Revenue from contracts with customers	36,012	129,180
Other revenue		
Investment property rental	-	72
Total revenue	36,012	129,252
The revenue from contracts with customers is disaggregated by geographical market, revenue streams and timing of revenue recognition.		
	2020	2019
Canada	31,724	127,571
Australia	4,288	1,609
	36,012	129,180

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 19 – REVENUE (Continued)

	2020	2019
Private label	24,698	127,715
White label	9,085	69
Tolling process	2,128	1,396
Other	101	-
	36,012	129,180
Products transferred at a point in time	33,884	127,784
Products and services transferred over time	2,128	1,396
	36,012	129,180

For the year ended December 31, 2020, the Group's revenue to three of its customers represent 28%, 11% and 10% of total revenue attributed to cannabis extracts and derivative products (2019: four customers represent 24%, 22%, 18%, 13%).

NOTE 20 – GENERAL ADMINISTRATIVE AND MARKETING AND SELLING EXPENSES

	2020	2019
Employee benefits (2)	9,760	5,474
Consulting and professional fees	5,996	6,133
Depreciation	1,872	805
Filing fees and shareholder communications	978	443
Software and licenses	881	124
Rent and occupancy cost	709	251
Travel and entertainment	199	881
Health Canada regulatory fee	52	527
Other (1)	1,457	719
Total general administrative expenses	21,904	15,357

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

(2) Employee benefits include severance expense of \$1,088 due to organizational restructuring for the year ended December 31, 2020 (2019: \$Nil).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	2020	2019
Employee benefits (3)	2,526	1,344
Investor relations	624	905
Consulting and professional fees	512	16
Advertising and promotion (1)	424	515
Other (2)	280	550
Total marketing and selling expenses	4,366	3,330

(1) Advertising and promotion expenses cover the digital marketing, events and conferences and other advertisement related activities.

(2) Other includes filing fees, supplies, software and licenses and travel expenses.

(3) Employee benefits include severance expense of \$165 due to organizational restructuring for the year ended December 31, 2020 (2019: \$Nil).

NOTE 21 – OTHER OPERATING INCOME/(EXPENSES), NET

	2020	2019
Government grants (1)	4,507	-
Foreign exchange gain/(loss), net	1,180	(413)
Property, plant and equipment and intangible impairment (Note 11)	(2,042)	-
Impairment loss on receivables (Note 25.1)	(540)	-
Start-up and pre-manufacturing cost (2)	(363)	-
Loss from sale of property, plant and equipment	(146)	(480)
Bank and financial institution service fees	(18)	(27)
	2,578	(920)

(1) The Group applied for Canada Emergency Wage Subsidy (CEWS) and Australia JobKeeper Payment Subsidy and through these programs received government grants of \$4,507 for the year ended December 31, 2020 (2019: \$Nil). Such government grants are recognized as other operating income in the consolidated statement of (loss)/income. These grants may be subject to government review at a later date. The Group did not benefit directly from any other forms of government assistance.

(2) MPL-AU started its production and labelling activities in the second quarter of the year 2020. Until this time, the Group performed testing and research into production and labelling, which includes 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:

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NOTE 21 – OTHER OPERATING INCOME/(EXPENSES), NET (Continued)

	2020	2019
Employee benefits	249	-
Consultancy and professional fees	61	-
Supplies and small equipment	31	-
Depreciation	7	-
Other	15	-
Start-up and pre-manufacturing cost	363	-

NOTE 22 – EXPENSES BY NATURE

	2020	2019
Inventory and consumables recognized in cost of sales	30,558	72,081
Write down of inventory to net realizable value (Note 9)	29,795	-
Employee benefits	19,733	13,592
Depreciation and amortization	9,632	2,297
Consulting and professional fees	7,479	7,047
Write down of non-current deposits (3)	3,127	-
Share based compensation expense (2)	2,681	15,502
Property, plant and equipment and intangible impairment	2,042	-
Analytical testing	2,232	2,371
Supplies and small equipment	1,982	1,939
Rent and occupancy cost	1,421	642
Filing fee and shareholder communications	1,260	443
Software and licenses	1,239	650
Government grants (Note 21)	(4,507)	-
Other (1)	(86)	5,750
	108,588	122,314

(1) Other includes investor relations, travel expenses, advertising and promotion expenses, foreign exchange gain/loss, Health Canada regulatory fees and repair and maintenance expenses.

(2) Out of total share-based compensation expense of \$2,681 (2019: \$15,502), general administrative expense portion is \$2,071 (2019: \$10,515), marketing and selling expense portion is \$180 (2019: \$1,507) and cost of sales portion is \$441 (2019: \$3,479), research and development portion is -\$11 (2019: Nil).

(3) The Group wrote off certain non-current deposits given to its vendors for capital expenditures since the economic benefit from these deposits will not be realized. The loss is included in cost of sales in the consolidated statement of (loss)/income.

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NOTE 23 – FINANCE INCOME / EXPENSES

	2020	2019
Interest income	273	486
Total finance income	273	486
Accretion expense	7,086	-
Loan interest expense	762	421
Lease interest expense	27	14
Finance fees	-	237
Total finance expense	7,875	672

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

24.1 Income tax

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

	2020	2019
Current income tax (recovery)/expense	(4,412)	5,043
Deferred tax (income)/expense	(578)	578
Total income tax (recovery)/expense	(4,990)	5,621

Reconciliation of income tax is as below:

	2020	2019
(Loss)/income before tax	(72,100)	6,752
Tax expense/(recovery) based on statutory rate	(19,107)	1,789
Tax effect of net (non-taxable) non-deductible amount	(1,553)	4,266
Change in unrecognized deferred tax assets	16,703	-
Utilization of previously unrecognized tax losses	-	(616)
Other	(1,033)	182
Total income tax (recovery)/expense	(4,990)	5,621

The tax rate above is computed using the Canadian Federal and Ontario statutory tax rate of 26.5% (2019: 26.5%).

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

Below is a summary of the movement of recognized net deferred tax assets and liabilities during 2020 and 2019.

	January 1, 2020	Recognized in equity	Recognized in net income	December 31, 2020
Deferred tax asset/(liability)				
Share issuance cost	1,165	(1,165)	-	-
Property, plant and equipment	(578)	-	578	-
Net deferred tax	587	(1,165)	578	-

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

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

	2020	2019
Losses	51,563	3,775
Financing costs	5,531	55
Convertible debt	4,853	-
Property, plant and equipment	4,701	384
Other items	318	54
Total unrecognized temporary differences	66,966	4,268

The tax benefit in connection with the Group's losses that may be available to reduce income tax in a future taxation period amounts to \$13,938 (2019: \$1,097).

NOTE 25 – FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

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

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

25.1 Credit risk

Credit risk arises from deposits with banks and financial institutions and outstanding receivables if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group holds cash of \$19,913 (2019: \$38,627). The cash is held with banks and financial institutions that are either Schedule 1 Canadian banks or large credit unions.

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

	December 31, 2020	December 31, 2019
Business to business customers	24,972	26,105
Distributors / Retailers	3,291	112
	28,263	26,217

As at December 31, 2020, the Group holds trade receivables from two customers representing 39% and 31% of total trade receivables (December 31, 2019: three customers representing 33%, 31% and 22%).

The Group has legal collection proceedings with respect to \$8,531 of the Group's trade receivable balance, which are all due from one customer. The Group did not recognize any allowance for this trade receivable.

The Group limits its exposure to credit risk from trade receivables and contract assets by negotiating full or partial advance payment from business to business customers before the shipment of the products. Also, the Group management believes that the exposure to credit risk from distributors is very limited since most of the distributors are government organizations. The Group recognized an allowance for expected credit losses in connection with its trade receivables to an amount of \$540 (December 31, 2019: \$nil). The aging of the Group's trade receivables at December 31, 2020 is as follows:

	December 31, 2020 Gross carrying amount	December 31, 2019 Gross carrying amount
Current (not past due)	6,345	17,416
1-30 days past due	592	4,408
31-90 days past due	2,840	3,936
90-270 days past due	9,800	219
270-365 days past due	155	-
>365 days	8,531	-
	28,263	25,979

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

Expected losses on trade receivables and contract assets are presented as credit losses within other operating expense in the consolidated statement of (loss)/income. Subsequent recoveries of amounts previously written off are credited against the same line item.

25.2 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet obligations when due. As at December 31, 2020, the Group held deposits at banks and financial institutions of \$19,913 (2019: \$38,627) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, the Group management maintains flexibility in funding by maintaining a minimum cash level at banks and financial institutions.

Management monitors rolling forecasts of the Group's liquidity reserve and cash and cash equivalents on the basis of expected cash flows.

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

Contractual maturities of financial liabilities At December 31, 2020	Less than 6 months	6-12 months	12-36 months	36-60 months	Total contractual cash flows	Carrying amount
Trade and other payables	14,793	-	-	-	14,793	14,793
Lease liability	167	178	187	34	566	541
Convertible debt	7,889	7,889	13,148	-	28,926	17,917
Total financial liabilities	22,849	8,067	13,335	34	44,285	33,251

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

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

The convertible debt contains financial covenant which is monitored on a regular basis by the treasury department and regularly reported to management to ensure compliance with the agreement.

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

25.3 Market risk

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

(i) Foreign currency risk

Foreign exchange risk arises from recognized assets and liabilities denominated in a currency that is not the functional currency of the relevant Group entity. As of the end of the reporting period, the Group's foreign currency exposure is due to USD and AUD foreign currency denominated transactions.

(ii) Interest rate risk

As at December 31, 2020, the Group does not have indebtedness which will give rise to interest rate risk as its borrowings are not subject to a variable interest rate. During the year ended December 31, 2020, the Group's main interest rate risk was from variable interest rates under the Credit Agreement. The Group's indebtedness under the Credit Agreement with variable rate was denominated only in Canadian Dollars.

(iii) Price risk

The Group's price risk arises from the volatility of the Company's own market share prices which could significantly affect the fair value of the derivative liabilities (Note 13).

25.4 Capital risk management

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

Management defines capital as the Company's shareholders' equity attributable to equity holders of the Parent and debt (consisting of the Group's loans and borrowing and derivative liabilities). As at December 31, 2020, total managed capital is \$101,383 (2019: \$142,127). The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund both existing and future value-added growth opportunities. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners or through debt financing.

NOTE 26 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Judgements and estimates are made in determining the fair values of the financial instruments that are recognized and measured at fair value in these Consolidated Financial Statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels as follows:

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

The Group's loans and borrowings and trade payables are classified as Level 2. These financial liabilities are classified as amortized cost and their carrying values approximate their fair values. The derivative liabilities are classified as Level 3 since some of the significant inputs used to calculate the fair value of the derivative liabilities are subject to volatility and several factors outside of the Company's control. The sensitivity analysis for each significant input is performed in Note 13.

During the year ended December 31, 2020 there were no transfers between levels.

NOTE 27 – SEGMENT INFORMATION

The Group operates in one reportable segment, the production and sales of cannabis extracts and derivative products. The Group's Canadian and Australian operating segments are aggregated into one reportable segment based on similarities in the nature of their products and types of customers. The Group's country of domicile is Canada. The carrying value of non-current assets located in Canada and outside of Canada is \$27,781 and \$8,980 (December 31, 2019: \$41,285 and \$7,844), respectively and these assets are primarily made up of property, plant and equipment and deposits given for property, plant and equipment.

NOTE 28 – EVENTS AFTER THE REPORTING PERIOD

(i) Issued and cancelled stock options

On March 15, 2021, 1,090,000 long-term incentive plan options ("LTIPs") were issued, and 3,028,942 restricted stock units ("RSUs") were granted to the Group employees including the key management personnel of the Group.

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NOTE 28 – EVENTS AFTER THE REPORTING PERIOD (Continued)

(ii) Accelerated conversion options of First Note and Second Note

Subsequent to December 31, 2020, the holder of the Notes delivered conversion notices to the Group resulting in the repayment of \$21,914 of the principal amount of the Notes in exchange for an aggregate of 44,897,272 Common Shares. The conversion price of these conversion notices ranged from \$0.4434 to \$0.5702. The Group also repaid \$2,630 of the principal amount of the Notes in cash subsequent to December 31, 2020. After these payments, the principal amount outstanding on the Notes is \$3,945.

(iii) Bought Deal equity financing

As at March 5, 2021, the Group closed its Bought Deal offering of units of the Group for total gross proceeds of \$33,350. The Group sold 57,500,000 Units at a price of \$0.58 per Unit, including 7,500,000 Units sold pursuant to the exercise of the underwriters' over-allotment option in full at closing. Each Unit is comprised of one common share in the capital of the Group and one Share purchase warrant. Each Warrant shall be exercisable to acquire one share at an exercise price of \$0.70 per Share for a period of 24 months from the closing date of the offering.
