MediPharm Labs

(TSXV: LABS)

MEDIPHARM LABS CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2018

April 3, 2019

MediPharm Labs Corp.
(formerly POCML 4 Inc.)

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2018 (All dollar amounts disclosed in the MD&A have been rounded off to the nearest thousand currency unit and are expressed in Canadian dollars unless otherwise stated.)

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

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

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

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

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

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

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

For the year ended December 31, 2018 (All dollar amounts disclosed in the MD&A have been rounded off to the nearest thousand currency unit and are expressed in Canadian dollars unless otherwise stated.)

PERIOD FINANCIAL HIGHLIGHTS

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

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

Note:

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

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

COMPANY OVERVIEW

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

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

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

Background

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

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

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

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

Business Overview

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

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

Operations and Facilities

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

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

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

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

Wholesale (Private and White Label) Production

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

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

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

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

Tolling Services

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

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

New Product Offerings and R&D

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

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

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

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

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

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

Highlights for the Year Ended December 31, 2018

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

Qualifying Transaction and TSXV Listing

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

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

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

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

Financings

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

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

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

Licensing

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

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

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

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

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

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

Production and Operational Highlights

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

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

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

- On July 31, 2018, MediPharm Labs entered into a cannabis concentrate program agreement with James E. Wagner Cultivation Corporation ("**JWC**"), a licensed producer under the ACMPR, pursuant to which JWC agreed to provide MediPharm Labs with dried cannabis to use for the purposes of cannabis oil extraction and processing.

- On September 4, 2018, MediPharm Labs entered into a cannabis concentrate program agreement with INDIVA Limited ("**INDIVA**"), a licensed producer under the ACMPR, pursuant to which MediPharm Labs agreed to process dried cannabis for INDIVA.

- On October 5, 2018, MediPharm Labs entered into a cannabis concentrate program agreement with Emerald Health Therapeutics Canada Inc. ("**Emerald**") pursuant to which MediPharm Labs agreed to process dried cannabis for Emerald.

- On November 13, 2018, MediPharm Labs entered into a cannabis concentrate program agreement with The Supreme Cannabis Company, Inc. ("**Supreme Cannabis**"), a licensed cultivator under the *Cannabis Act*, pursuant to which MediPharm Labs agreed to process a minimum of 1,000 kg of dried cannabis per year for the next three years.

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

DISCUSSION OF OPERATIONS

Overview

Revenue

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

Cost of Sales

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

Gross Profit

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

Expenses

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

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

Share-based compensation expense includes stock options granted.

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

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

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

Finance income

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

For the year ended December 31, 2018 (All dollar amounts disclosed in the MD&A have been rounded off to the nearest thousand currency unit and are expressed in Canadian dollars unless otherwise stated.)

Finance expense

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

Other Comprehensive Income and Loss

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

Comparison of the Year Ended December 31, 2018 to 2017

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

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

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

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

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

For the year ended December 31, 2018 (All dollar amounts disclosed in the MD&A have been rounded off to the nearest thousand currency unit and are expressed in Canadian dollars unless otherwise stated.)

Comparison of Quarter Ended December 31, 2018 to 2017

	Three months ended	
	December 31, 2018	**December 31, 2017**
Revenue from contracts with customers	10,198	-
Cost of sales	(6,231)	-
Gross profit	**3,967**	**-**
General administrative expenses	(1,749)	(694)

	Three months ended	
	December 31, 2018	**December 31, 2017**
Marketing and selling expenses	(597)	-
Share-based compensation expense	(738)	-
Transaction fee	(4,230)	-
Other operating expenses	(19)	(1)
Operating loss	**(3,366)**	**(695)**
Finance income	22	16
Finance expense	(198)	(63)
Net loss for the period	**(3,542)**	**(742)**
Attributable to		
- Non-controlling interest	(32)	(5)
- Equity holders of the Parent	(3,510)	(737)

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

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

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

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

For the year ended December 31, 2018 (All dollar amounts disclosed in the MD&A have been rounded off to the nearest thousand currency unit and are expressed in Canadian dollars unless otherwise stated.)

SELECTED ANNUAL INFORMATION

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

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

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

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

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

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

For the year ended December 31, 2018 (All dollar amounts disclosed in the MD&A have been rounded off to the nearest thousand currency unit and are expressed in Canadian dollars unless otherwise stated.)

SUMMARY OF QUARTERLY RESULTS

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

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

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

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

RECONCILIATION OF NON-IFRS MEASURES

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

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

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

For the year ended December 31, 2018 (All dollar amounts disclosed in the MD&A have been rounded off to the nearest thousand currency unit and are expressed in Canadian dollars unless otherwise stated.)

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

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

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

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

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

For the year ended December 31, 2018 (All dollar amounts disclosed in the MD&A have been rounded off to the nearest thousand currency unit and are expressed in Canadian dollars unless otherwise stated.)

CAPITAL STRUCTURE

Outstanding Equity Securities

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

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

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

Dividend Policy

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

Debt Facilities

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

Mortgage Payable

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

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

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

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

For the year ended December 31, 2018 (All dollar amounts disclosed in the MD&A have been rounded off to the nearest thousand currency unit and are expressed in Canadian dollars unless otherwise stated.)

Convertible Debentures (the Notes)

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

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

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

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

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

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

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

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

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

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

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

Contractual obligations

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

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

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

Capital Resources

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

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

- On January 2, 2017, MediPharm Labs issued 570,600 Common with a fair value of $90 for consulting services.

- On January 2, 2017, MediPharm Labs closed a financing of $740 and issued 4,691,600 Common Shares.

- On October 6, 2017, MediPharm Labs issued $1,315 of convertible notes (the "**Notes**"), all of which were automatically converted into MediPharm Shares immediately prior to the completion of the Qualifying Transaction.

- On December 27, 2017, MediPharm Labs issued 1,720,387 Common Shares with a fair value of $418 for consulting services.

- On December 27, 2017, MediPharm Labs issued 10,572,470 Common Shares at $0.236 per share for proceeds of $2,502 as only a portion of the proceeds had been received. The 2,659,731 Common Shares remaining were issued in January 2018 for proceeds of $629.

- In January 2018, MediPharm Labs issued 118,000 Common Shares with a fair value of $28 for services performed.

- On March 22, 2018, MediPharm Labs closed the March Private Placement for gross proceeds of $2,964. See "Highlights for the Year Ended December 31, 2018 – Financings".

- On March 29, 2018, 3,170,000 stock options were exercised into Common Shares for proceeds of $25.

- On April 20, 2018, MediPharm Labs issued 634,000 Common Shares as a deposit for equipment. The fair value of the shares on the date of issuance was estimated at $0.473 per share for total consideration of $300.

- On June 1, 2018 and June 29, 2018, MediPharm Labs closed the June Private Placements for gross proceeds of $22,317. See "Highlights for the Year Ended December 31, 2018 – Financings".

- The mortgages on its Barrie, Ontario facility. See "Capital Structure – Debt Facilities".

Use of Funds Reconciliation

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

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

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

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

FINANCIAL INSTRUMENTS AND RELATED RISKS

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

Credit risk

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

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

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet obligations when due and to close out market positions. At the end of the reporting period, the Company held deposits at banks and financial institutions of $7,850 (2017: $2,493) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, the Company maintains flexibility in funding by maintaining a minimum cash balance at banks and financial institutions.

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

Interest rate risk

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

RISK FACTORS

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

- limited operating history;
- regulatory compliance risks;
- change of cannabis laws, regulations and guidelines;
- reliance on licences and authorizations;
- realization of growth targets including expansion of facilities and operations;
- management of growth;
- history of net losses;
- competition;
- conflicts of interest;
- legal proceedings;
- environmental regulation and risks;
- insurance risks;
- unfavourable publicity or consumer perception;
- product liability;
- product recalls;
- reliance on a single facility;
- dependence on supply of cannabis and other key inputs;
- retention and acquisition of skilled personnel;
- difficulty to forecast;
- inability to sustain pricing models;
- failure to comply with laws in all jurisdictions;
- perceived reputational risk for third parties;
- risks related to intellectual property;
- marketing constraints;
- research and development;
- shelf life of inventory;
- maintenance of effective quality control systems;
- scheduled maintenance, unplanned repairs, equipment outages and logistical disruptions;
- client risks;
- lack of long-term customer commitment risk;
- risks as a result of international expansions;
- operations in foreign jurisdictions;
- reliance upon international advisors and consultants;

- foreign currency risk;
- operations in foreign jurisdictions;
- access to capital;
- estimates or judgments relating to critical accounting policies;
- tax risks;
- market for the Common Shares;
- no history of payment of cash dividends;
- reporting issuer status;
- significant sales of Common Shares;
- analyst coverage, and
- tax issues related to the Common Shares.

CRITICAL ACCOUNTING ESTIMATES

See to Note 2.3 of the Financial Statements.

CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING CHANGES

Changes in Accounting Policies

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

IFRS 9 - Financial Instruments

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

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

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

For the year ended December 31, 2018 (All dollar amounts disclosed in the MD&A have been rounded off to the nearest thousand currency unit and are expressed in Canadian dollars unless otherwise stated.)

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

IFRS 15 – Revenue from Contracts with Customers

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

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

Future Accounting Changes

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

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

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

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

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

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

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

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

SUBSEQUENT EVENTS

Tolling Agreement

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

Long-term Private Label Wholesale Agreement

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

First Export Agreement

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

White Label Agreement

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

Issued Stock Options

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

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

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

Exercised Stock Options and Warrants

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

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