(TSX: LABS)

MEDIPHARM LABS CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2020

June 18, 2020

This Management's Discussion and Analysis ("**MD&A**") of the financial condition and performance of MediPharm Labs Corp. (formerly POCML 4 Inc.) (the "**Company**") for the three months ended March 31, 2020 was prepared by management as of June 18, 2020. Throughout this MD&A, unless the context indicates or requires otherwise, the terms "the Company", "we", "us" and "our" mean MediPharm Labs Corp. and its subsidiaries. This MD&A should be read in conjunction with our unaudited condensed interim consolidated financial statements for the three months ended March 31, 2020 (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 Financial Statements and our most recent annual information form dated March 30, 2020 (the "**Annual Information Form**"), is available on the Company's website at www.medipharmlabs.com or 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. Our 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.

Our board of directors (the "**Board of Directors**") and audit committee (the "**Audit Committee**") provide an oversight role with respect to all Company public financial disclosures. The Board of Directors approved the Financial Statements and MD&A after the completion of its review and recommendation for approval from 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 Accounting Standards IAS 34 following the same accounting policies and methods of application as those disclosed in the Company's most recent annual consolidated financial statements with the exception of new accounting policies that were subsequently adopted. The Financial Statements do not include all the notes of the type normally included in an annual financial statement. Accordingly, these Financial Statements are to be read in conjunction with the annual financial statements of the Company for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All intercompany balances and transactions have been eliminated on consolidation. All dollar 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 legislation, regulations and licensing related to the import, export, processing and sale of cannabis products by the Company, along with the market demand and pricing for such products;
- 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;
- statements about expected use of proceeds from fund raising activities, including the Bought Deal Financing (as defined below); and
- the Company's expectations regarding the adoption and impact of certain accounting pronouncements.

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" and any other factors and uncertainties disclosed from time-to-time in the Company's filings with the Canadian Securities Administrators. Although the Company has attempted to identify important factors that could cause actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events, or results to differ from those anticipated, estimated or intended. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

EXECUTIVE SUMMARY

Operational Highlights

The following is a summary of the operational highlights for the three month period ended March 31, 2020.

Near-Term Australian Commercialization: During the quarter, our Australian team secured a supply agreement with Compass Clinics Australia Pty Ltd. (Australia), and subsequent to quarter-end, supply agreements with, among others, Burleigh Heads Cannabis Pty Ltd. (Australia); Helius Therapeutics Limited (New Zealand); Cannasouth Plant Research New Zealand Limited (New Zealand); and Therismos Limited (UK). We expect to commence sales of GMP-certified formulated products pursuant to these agreements within the second quarter of 2020 and ramp up in the third quarter of 2020 and beyond. Subsequent to quarter end, the Australian facility also achieved certification under the Therapeutic Goods Administration ("**TGA**") for the Good Manufacturing Practices ("**GMP**") standard and secured a License to Manufacture Therapeutic Goods, thereby creating a global pharmaceutical-quality supply chain (the Canadian facility was TGA GMP certified in late 2019) qualified to serve new emerging medical markets internationally.

Increasing Diversification of Product Mix: During the quarter, we launched its house brand with the introduction of high-quality CBD oils and shipped topicals to a contract manufacturing customer. Subsequent to quarter end, we entered into a strategic manufacturing and intellectual property licensing agreement with Avicanna Inc. through which we intend to commercialize a diverse array of sophisticated product formats.

Canadian Medical Channel Sales: The Company announced that it was selected by Shoppers Drug Mart to supply high-quality concentrate products to medical patients through the national Medical Cannabis by Shoppers online platform. The ability to distribute through this channel gives the Company exposure to Canada's medical market, without having to establish its own medical sales infrastructure.

Finished Formulated Product Sales: By the end of the first quarter of 2020, we launched three new SKUs of finished formulated products across five provinces in Canada. Sales of finished formulated products grew to comprise 13% of first quarter revenue, up from nil in the fourth quarter of 2019. The proportion of sales comprised of finished formulated products is expected to increase as we continue to launch additional SKUs, including eight additional SKUs launched subsequent to quarter end. The continued expansion of manufacturing and distribution capabilities is expected to increase sell-through of bulk concentrate inventory into the consumer market. To date in the second quarter of 2020, we have shipped more than double the quantity of finished that we shipped in all of the first quarter of 2020.

Bulk Crude Resin and Distillate Sales and COVID-19: We believe this trend is the result of oversupply in the Canadian bulk crude resin and distillate markets, given a slow expansion of retail channels in Canada, slow commercialization of specialized Cannabis 2.0 businesses and operational constraints of vertically integrated licensed producers limiting their conversion of bulk concentrates inventory into finished formulated products. The significant challenges experienced in the Canadian market for bulk concentrates were further exacerbated by the impact of the COVID-19 pandemic, including additional delays in the anticipated expansion of retail channels in Canada and increased market uncertainty leading to decreased expenditures from our bulk concentrates client-base.

See "Company Overview" for further management's discussion and analysis regarding the operational highlights for the period.

(All dollar amounts are expressed in thousands of Canadian dollars (C$'000s) unless otherwise stated.)

Financial Highlights

The following table is a summary of financial highlights for the three months ended March 31, 2020, December 31, 2019, September 30, 2019, June 30, 2019 and March 31, 2019.

	Three months ended				
	March 31, 2020	**December 31, 2019**	**September 30, 2019**	**June 30, 2019**	**March 31, 2019**
Revenue	11,089	32,444	43,386	31,472	21,950
Gross profit	(10,882)	9,987	14,754	11,311	6,862
Gross margin %	*(98%)*	*31%*	*34%*	*36%*	*31%*
Net (loss)/income before tax	(22,029)	(2,401)	5,395	4,083	(325)
Adjusted EBITDA [(1)]	(5,657)	2,661	10,066	7,700	4,310
Adjusted EBITDA margin %	*(51%)*	8%	*23%*	*24%*	*20%*

- Revenue of $11.1 million in Q1 2020, a 49.5% decrease over Q1 2019 due to a reduction in volume and average selling price of bulk concentrates sold, which was partially offset by growing sales of finished formulated products to provincial distributors throughout Canada. Going forward the Company expects its inventory procurement costs to shrink reducing overall cost of goods.
- Gross profit of ($10.9) million and gross margin of (98%) in Q1 2020. The decrease in gross margin from Q1 2019 was largely attributable to a $12.8 million write down of inventory to net realizable value owing to the continued oversupply in the Canadian domestic bulk concentrates market, and a reduction in the average selling price and volume of bulk concentrates sold, but partially offset by cheaper input dried flower costs.
- Net loss before tax of $22 million in Q1 2020 was largely attributable to a $12.8 million write down of inventory to net realizable value, reduced average selling prices and a share-based compensation expense of $2.8 million.
- Adjusted EBITDA[(1)] of ($5.7 million) in Q1 2020, a 231% decrease over Q1 2019, and Adjusted EBITDA[(1)] margin of (51%). The decrease in Adjusted EBITDA is a result of a decrease in revenue and gross profit and an increase in headcount and ERP implementation expenses relative to the Company's early stage of commercialization in Q1 2019.
- Cash and equivalents balance at the end of March 31, 2020 was $21.4 million. Subsequent to quarter end, the Company successfully completed a $37.8 million private placement, with half of such gross proceeds remaining in escrow as at the date of this MD&A.

See "Discussion of Operations" for further discussion and analysis regarding the financial highlights for the periods.

Note:

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

COMPANY OVERVIEW

We are a specialized, research-driven cannabis extraction business focused on downstream extraction methodology, distillation, and derivative product development. Our mission is to become a global leader specialized in providing pharmaceutical quality derivative cannabis products and to drive future cannabis product innovation.

Our common shares (the "**Common Shares**") trade on the Toronto Stock Exchange (the "**TSX**") under the symbol "LABS", on the OTCQX in the US under the ticker symbol "MEDIF", and on the Frankfurt Stock Exchange under the ticker symbol "MLZ".

Our operations are primarily conducted at our Barrie, Ontario facility through our wholly owned subsidiary MediPharm Labs Inc. ("**MediPharm Labs**"), which holds a standard processing licence and a research licence under the *Cannabis Act* (Canada) (the "**Cannabis Act**"). Through our 80% owned Australian subsidiary, MediPharm Labs Australia Pty. Ltd. ("**MediPharm Labs Australia**"), we also hold a manufacturing licence under the *Australian Narcotics Drugs Act 1967* (the "**Australian Act**").

Both MediPharm Labs' Canadian facility and MediPharm Labs Australia's Australian facility hold GMP certifications from the TGA.

Background

MediPharm Labs was founded in 2015 by pharmaceutical and healthcare industry experts. While initially exploring options to cultivate cannabis plants, the founders of MediPharm Labs came to recognize the opportunity for a select focus on cannabis concentrates. Accordingly, MediPharm Labs set out to master this area of production and rely on third-party cultivation experts to provide quality raw materials for its cannabis concentrates.

The Company was incorporated under the *Business Corporations Act* (Ontario) on January 23, 2017 as "POCML 4 Inc." and classified as a capital pool company under TSX Venture Exchange (the "**TSXV**") Policy 2.4.

On October 1, 2018, MediPharm Labs completed the reverse takeover of the Company (the "**Qualifying Transaction**"), which constituted the Company's "Qualifying Transaction" pursuant to TSXV policies. In connection with and immediately prior to the Qualifying Transaction, 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., 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". On July 29, 2019, the Common Shares were voluntarily delisted from the TSXV and began trading on the TSX under the symbol "LABS".

Business Overview

Founded in 2015, we specialize in the production of purified, pharmaceutical-quality cannabis oil and concentrates and advanced derivative products utilizing GMP certified facilities and ISO standard built clean rooms. We have invested in an expert, research driven team, state-of-the-art technology, downstream purification methodologies and purpose-built facilities with primary extraction lines and finished formulated products capabilities used to deliver pure, trusted and precisely-dosable cannabis products for our customers. We formulate, process, package and distribute cannabis extracts and advanced cannabinoid-based products at our Canadian and Australian facilities for domestic and international markets.

Operations and Facilities

As of the date of this MD&A, our core business generates revenue through two primary activities, being the sale of bulk and finished formulated products and contract manufacturing services.

On March 29, 2018, MediPharm Labs received its oil production licence (the "**Licence**") pursuant to the *Access to Cannabis for Medical Purposes Regulations* ("**ACMPR**") and 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, the Cannabis Act came into force, and MediPharm Labs' Licence was transitioned from a producer's licence under the ACMPR to a standard processing licence under the Cannabis Act and *Cannabis Regulations*. On November 9, 2018, the Licence was amended to permit the sale and distribution of cannabis oil and derivatives to the following authorized classes of purchasers:

- a holder of a licence for processing under the Cannabis Act;
- a holder of a licence for analytical testing under the Cannabis Act;
- a holder of a licence for research under the Cannabis Act;
- a holder of a cannabis drug licence under the Cannabis Act;
- the Minister of Health;
- a person to which an exemption has been granted under section 140 of the Cannabis Act in relation to the cannabis or a class of cannabis that is sold or distributed; or
- certain individuals who are involved in testing cannabis at laboratories operated by the Government of Canada or accredited laboratories under the *Seeds Act*.

On June 7, 2019, the Licence was further amended to permit the sale of cannabis products to the following authorized classes of purchasers:

- a holder of a licence for sale of medicinal cannabis products under the Cannabis Act; and
- a person authorized to sell cannabis under a provincial Act, such as a provincially authorized retailer or distributor.

On October 21, 2019, MediPharm Labs' Licence was amended to permit the activity of production and sale of additional cannabis products included in the Cannabis Act, including cannabis extracts, cannabis edibles and cannabis topicals.

On October 25, 2019, MediPharm Labs received its research licence under the Cannabis Act. This licence permits MediPharm Labs to conduct controlled human administration trials for sensory testing of cannabis extracts and derivative products at its Barrie facility. Cannabis companies without this licence cannot use sensory experiments with taste, thus limiting their understanding of the taste profile of the raw material, in-process material and consumer products.

At our 70,000 sq. ft. Barrie, Ontario facility, we currently operate supercritical CO_2 primary extraction lines for crude resin production, rotary evaporation lines for distillation production and packaging and labelling lines for various finished formulated products. The facility has been built to GMP standards and received its Australian GMP certificate in the third quarter of 2019 and, subject to various third-party audits being scheduled once permissible in the COVID-19 environment, we are expecting to receive a European GMP certificate. We expect that international sales will ramp-up slowly and incrementally during 2020.

Our 10,000 sq. ft. development-stage Australian facility received its manufacturing licence (the "**Australian Licence**") under the Australian Act on May 21, 2019 with respect to the manufacture of extracts and tinctures of cannabis and cannabis resin. Products manufactured under the Australian Licence must be only for the purpose of a clinical trial or prescribed as medical cannabis products. The facility was built to the same GMP standards as our Canadian facility and MediPharm Labs Australia has received a GMP certificate under the Australian *Therapeutic Goods Act 1989*.

We are initially sourcing and processing dried cannabis at our TGA GMP certified Canadian facility before export of the resulting products to MediPharm Labs Australia. MediPharm Labs Australia will then distribute throughout its local, and various accessible international markets. MediPharm Labs Australia has currently also entered into several agreements with Australian licensed cultivators with respect to the supply of dried cannabis flower, and also a manufacturing agreement with respect to the production of cannabis oil and manufactured products. We currently expect MediPharm Australia to commence generating revenue in the second or third quarter of 2020.

The statements regarding intended expansions, exports, distributions and GMP certifications are forward-looking statements. The current term of the Licence and Australian Licence ends on March 29, 2021 and November 21, 2020, respectively. It is anticipated by our management that Health Canada and the Australian Office of Drug Control will extend or renew the Licence and the Australian Licence, as applicable, at the end of their respective terms. See "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors".

Product Manufacturing and Sales

As part of our business, we process our own inventory of dried cannabis and sell both the resulting bulk cannabis concentrates and finished formulated products. The Company has historically procured the majority of bulk shipments of dried cannabis for its wholesale production lines in the spot market and from various licenced cultivators under the Cannabis Act. As part of these manufacturing activities, we utilize primary supercritical CO_2 extraction lines and secondary distillation lines and various consumer product formulation, packaging and labeling lines.

The Company continues to expand its focus on the creation and distribution of finished formulated products throughout the Canadian and Australian domestic channels and into other international markets and expects the proportion of its sales mix to increasingly be comprised of finished formulated product sales as its long-term contracts for bulk concentrates expire and it continues to accelerate finished formulated product

capabilities. Finished formulated products are sold both under the Company's own MediPharm Labs family of brands, and its white label customers' brands. White label customers, such as Ace Valley, that do not hold a *Cannabis Act* or other applicable licence rely on the Company for the complete manufacturing and distribution of the product. Under these arrangements we typically pay our clients a portion of net revenues generated from sales or a fixed fee per unit sold. White label customers that hold their own licence will typically directly purchase the cannabis products from us to manage the final distribution themselves and we receive a wholesale price per product sold. The Company commenced shipping of its initial white label products in December 2019, such white label products being comprised of formulated vape cartridges and as at the date of this MD&A is currently distributing over ten SKUs direct to authorized distributors across five Canadian provinces.

Historically, the Company realized the majority of its revenue from product sales through long-term and spot sales of bulk crude resin and distillate. Purchasers would then manage the formulation, packaging and distribution of the final cannabis products, most typically to their own medicinal clients or provincially authorized retail distributors. During the fourth quarter of 2020, the expansion in the Canadian market for bulk concentrates seen in the ramp up to Cannabis 2.0 legalization during fiscal 2019 began to slow, which resulted in the smaller volumes being sold pursuant to long-term contracts and a preference for spot deals (which saw pricing pressure) as opposed to new long-term contracts from our domestic customers. During the first quarter of 2020, 58% of Canadian bulk cannabis concentrates sold were pursuant to spot sales (as compared to 46% in Q4 2019; 31% in the Q3 2019; 30% in Q2 2019; and 24% in Q1 2019). We believe these trends reflect a short-term supply and demand imbalance in the Canadian market for bulk crude and distillate, given the slower than expected roll-out of cannabis retail channels, licensing of new and specialized Cannabis 2.0 businesses, and conversion of bulk concentrates inventory into further value added goods by existing domestic market participants; trends which have all been exacerbated by the by the global COVID-19 pandemic which has increased uncertainty and disruptions for current and potential B2B customers.

Contract Manufacturing and Tolling Processing

Under our existing contract manufacturing and toll processing agreements, our clients pay us a manufacturing fee for the production of a desired product. Historically, such arrangements typically focused on the production of bulk cannabis concentrates from our customers' cannabis flower, but these arrangements have shifted to the production of further value added goods, such as finished formulated products.

Currently we provide contract manufacturing and toll processing services to various licence holders throughout Canada, and have active arrangements for the manufacturing and delivery of client-branded formulated tincture bottles, topicals and vaporizers.

New Product Offerings and Research & Development (R&D)

During fiscal 2019, we continued to move up the value chain from primary extraction to the roll-out of commercial scale distillation and finished formulated products. We intend to continue developing our valued-added product line, including additional bulk and value add products. Further, in order to increase the conversion of bulk concentrates into the end-user market, we launched our own MediPharm Labs line of branded products in the first quarter of 2020.

We have successfully completed the isolation and fractionation of specific cannabinoids at our facility on an R&D scale, with the intention to commercialize some of these actives in the second half of 2020. Such isolated cannabinoids are intended to form part of both our bulk and finished formulated products offerings.

Further, we expect that industrial scale chromatography capabilities will permit the Company to address the market for active pharmaceutical ingredients (APIs) that require cannabinoid isolates and purity of at least 99.9%. Initial investigations and R&D and methodology has been completed. We have ordered additional chromatography equipment and will then continue our R&D activities in the second half of 2020.

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 Three Months Ended March 31, 2020

During the three month period ended March 31, 2020, we saw the following business developments:

Finished formulated Product Shipments

By the end of first quarter of 2020, we launched three new SKUs of finished formulated products across five provinces in Canada. Finished formulated product sales grew to comprise 13% of first quarter revenue, up from nil in the fourth quarter of 2019. The proportion of sales comprised of finished formulated products is expected to increase as we continue to launch additional SKUs, including eight additional SKUs launched subsequent to quarter end. The continued expansion of manufacturing and distribution capabilities is expected to increase sell-through of bulk concentrate inventory into the consumer market.

Australian Licence to Import Drugs

On January 31, 2020 we announced that the Australian Department of Health, Drug Control Section issued an import licence to MediPharm Labs Australia for the importation of drugs listed in Schedule 4 of the Customs (Prohibited Imports) Regulations 1956, which includes cannabis, cannabinoids and cannabis resin. Upon the receipt of the applicable import permits, this licence allows for the importation of cannabis, cannabinoids and cannabis resin from MediPharm Labs in Canada, and other global authorized exporters, for finalization into tinctures and other product forms in Australia.

Canadian Medical Channel Sales

On February 20, 2020, we announced that MediPharm Labs was selected by Shoppers Drug Mark to supply high-quality concentrate products to medical patients through the national Medical Cannabis by Shoppers online platform. The ability to distribute through this channel gives the Company exposure to Canada's long-standing medical market, without having to establish the required infrastructure for a direct medical cannabis sales channel (e.g. clinics, patients and call centres).

Agreement with Compass Clinics

On March 18, 2020, we announced that MediPharm Labs Australia had entered into a two year white label agreement with Compass Clinics Australia Pty Ltd ("**Compass Clinics**"). Under the agreement, MediPharm Labs Australia will be supplying bottles of formulated cannabis oil white labelled under

Compass Clinics' own brand. MediPharm Labs Australia will import the formulated cannabis oil products from MediPharm Labs' Canadian TGA GMP certified facility, for further distribution to Compass Clinic within Australia. Subsequent to quarter end, MediPharm Labs completed the successful import of GMP-quality formulated cannabis oil bottles to MediPharm Labs Australia.

Increasing Product Mix

On March 25, 2020, we announced that we completed our first shipments of topicals from our Canadian facility to a contract manufacturing customer.

On March 26, 2020, we announced the launch of a new family of MediPharm Labs branded products to deliver high-quality, innovative offerings to customers in the medical and adult-use markets across Canada. The first product launched within the MediPharm Labs family was MediPharm Labs CBD25 Regular Formula, a High-CBD, Low-THC regular strength formulated cannabis oil made using full spectrum cannabis concentrate processed at one of our GMP certified facilities.

COVID-19 Pandemic

On January 30, 2020, the World Health Organization (the "**WHO**") declared the ongoing COVID-19 outbreak a global health emergency and on March 11, 2020, the WHO expanded its classification of the outbreak to a worldwide pandemic. Federal, state, provincial and municipal governments in North America and Australia enacted measures to combat the spread of COVID-19. The COVID19 outbreak continues to rapidly evolve, and is causing business disruptions across the entire global economy and society.

We have taken various measures to prioritize the health and safety of our employees, customers and partners, including: restricted work travel and site access; improved safety & hygiene; and the requirement of non-essential staff members to work remotely. As a manufacturer of consumable and medicinal products, our practice is always to operate to global pharma-quality standards within our ISO-designed 'critical environment' facility with strict hygiene practices and mandated personal protective equipment.

The extent of the impact on COVID-19 on the Company's operational and financial performance will depend on various developments, including the duration and magnitude of the outbreak, and the impact on customers, employees and vendors, all of which are uncertain and can not be predicted at this point. During the three month period ended March 31, 2020, the Company saw the ongoing supply/demand imbalance for cannabis concentrates become exacerbated as a result of the economic uncertainty created through the COVID-19 pandemic. The increased market uncertainty resulting from the COVID-19 pandemic, coupled with the recent and ongoing oversupply of bulk concentrates, led to decreased expenditures from existing bulk concentrate customers who sought deferrals or adjustments for previously committed shipments during the quarter, but some of which have subsequently resumed purchases. In addition, one long-term contract is subject to ongoing litigation and as a result the counterparty did not fulfill its contractual obligations for committed amounts during the quarter.

Subsequent Events

Subsequent to the three months ended March 31, 2020, the following Company developments also occurred:

International White Label Supply Agreements

Subsequent to quarter-end, we secured white label supply agreements with, among others, Burleigh Heads Cannabis Pty Ltd. (Australia); Helius Therapeutics Limited (New Zealand); Cannasouth Plant Research New Zealand Limited (New Zealand); and Therismos Limited (UK). We expect to commence sales of GMP-certified products pursuant to these agreements within the second or third quarter of 2020.

MediPharm Labs Australia Achieves GMP Certification

On May 7, 2020, we announced that MediPharm Labs Australia's facility achieved TGA GMP certification and secured a License to Manufacture Therapeutic Goods, thereby creating a global pharmaceutical-quality supply chain (the Canadian facility was TGA GMP certified in late 2019) qualified to serve new emerging medical markets internationally.

The TGA is the branch of the Australian Government's Department of Health responsible for regulating therapeutic goods including prescription medicines, vaccines and medical devices. The TGA is one of 53 regulatory authority members of the Pharmaceutical Inspection Co-operation Scheme (PIC/S), an international co-operative arrangement among regulatory authorities in the field of GMP for medicinal products. The PIC/S mission is to lead the development, implementation and maintenance of harmonised GMP standards and quality systems of inspectorates in the field of medicinal products. Many PIC/S members, such as the TGA, also enter into mutual recognition agreements with other PIC/S members whereby each regulatory authority specifically recognizes certain processes and procedures of the other country to expedite the international flow of goods.

This licence confirms that MediPharm Labs Australia complies with the internationally recognized GMP requirements of the PIC/S Guide for Medicinal Products and allows the manufacture of therapeutic goods intended for export or which are exempt from registration and listing on the Australian Register of Therapeutic Goods under the provisions of Section 18(1) or Section 19 (1)(a) of the Therapeutic Goods Act.

MediPharm Labs Australia is now authorized to store cannabis resin as an Active Pharmaceutical Ingredient ("**API**") and may engage in packaging, storage and release for supply as a Medicine Manufacturer of Oral Liquids within its specialized facility in Wonthaggi, Victoria.

Avicanna

On May 14, 2020, we entered into a strategic manufacturing and intellectual property licensing agreement with Avicanna Inc. ("**Avicanna**") through which we intend to commercialize a diverse array of sophisticated product formats.

Under the agreement, which has an initial three-year term, MediPharm Labs will use the specialized contract manufacturing capabilities resident at its state-of-the-art Canadian production facility to produce Avicanna's advanced medical cannabis products and topicals under license for commercial sales. Avicanna granted MediPharm Labs a license to use proprietary Avicanna formulations to develop additional MediPharm Labs and white label branded products for the domestic and international market.

The continued expansion of our finished formulated products manufacturing and distribution capabilities is expected to increase sell-through of bulk concentrate into the consumer market.

Agreement with Argentia Gold

On May 27, 2020, we announced that we entered into a white label supply agreement with Argentia Gold Corporation ("**Argentia Gold**"). Under the agreement, which has an initial 2-year term, MediPharm Labs

will provide Argentia Gold-branded formulated tincture bottles of CBD cannabis resin and Argentia Gold will provide distribution, sales, and service to leading retailers in Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick.

Increasing Product Mix

On May 25, 2020, we announced that we commenced shipments of white labeled "Ace Valley Vapes" under our white label disposable vaporizer pen agreement with AV Cannabis Inc. (d/b/a Ace Valley). Under this agreement, we provide high-quality cannabis extracts, filling services and national distribution of a line of Ace Valley Vapes. Ace Valley leverages its leading brand traction and product strategy expertise to design, brand and market the products.

On June 4, 2020, we announced the addition of the MediPharm Labs CBD50 Plus Formula to the MediPharm Labs family of brands. This additional product is designed to meet consumer and patient demand for high potency formulations as each 20 ml bottle contains approximately 1000mg of CBD and 2mg of THC.

Private Placement

On June 8, 2020, the Company closed a private placement with an institutional investor for aggregate gross proceeds of approximately $37.8 million (the "**2020 Private Placement**").

Half of the gross proceeds of the 2020 Private Placement were related to the placement of a $20.5 million unsecured convertible note (the "**First Note**") and a warrant (the "**First Warrant**") to purchase up to 3,601,427 Common Shares. The remaining half of the gross proceeds are currently being held in escrow and were related to the placement of a subscription receipt (the "**Subscription Receipt**") entitling the holder to receive, upon satisfaction of certain Escrow Release Conditions (as defined below), a further $20.5 million unsecured convertible note (the "**Second Note**" and, together with the First Note, collectively, the "**Notes**") and a further warrant (the "**Second Warrant**" and, together with the First Warrant, collectively, the "**Warrants**") to purchase up to 3,601,427 Common Shares at a price of $2.28 per share and expiring on October 9, 2023.

The Notes have a three-year term, were issued at an original issue discount of 7.75% and are convertible at the option of the holder at a price of $2.28 per share (the "**Conversion Price**"). Commencing four months after the closing date, the Notes will begin to amortize through bi-monthly installment payments of approximately $320, payable in Common Shares, subject to the satisfaction of equity conditions, at a price per Common Share equal to 90% of the market price of the Common Shares (being the 5-day 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 Company, in whole or in part, in cash. Upon receipt of approval of the 2020 Private Placement by the Company's shareholders in accordance with the requirements of the TSX ("**Shareholder Approval**"), the price for such Common Shares issued pursuant to the Bi-Monthly Installment Payments shall be adjusted to the lesser of (i) the then existing Conversion Price; and (ii) the Installment Percentage.

The gross proceeds from the placement of the Subscription Receipt have been delivered to a licensed Canadian trust company, in its capacity as subscription receipt agent, and will be delivered to the Company net of certain fees and expenses upon satisfaction of the escrow release conditions, specifically, the receipt

of Shareholder Approval, and there existing no event or pending event of default under the Notes (collectively, the "**Escrow Release Conditions**"). Upon satisfaction of the Escrow Release Conditions, the Subscription Receipt will convert automatically into the Second Note and the Second Warrant.

In connection with the 2020 Private Placement, Roth Capital Partners, LLC acted as sole placement agent and will receive a cash fee equal to 5.5% of the gross proceeds of the 2020 Private Placement.

DISCUSSION OF OPERATIONS

Overview

Revenue

In the fourth quarter of 2019, we commenced generating revenue from our white label activities. However, the wholesale of cannabis concentrates through the Company's private label program was still the primary source of revenue during the three months ended March 31, 2020.

Cost of Sales

Cost of sales reflects the cost to extract and process the cannabis concentrates 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 (including related to GMP audits), employee wages and benefit costs, and other operating expenses such as repairs and maintenance, plant overhead, as well as depreciation, amortization and any write-downs of inventory.

Gross Profit

Gross profit is calculated by deducting the cost of sales from revenue. The Company continues to refine its production processes and methodologies, and sell through historically acquired higher priced raw materials, and expects to increase production efficiency and gross profit.

Expenses

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

R&D expenses currently include expenses related to the formulating, manufacturing and filling of vape pens and cartridges and working on new product lines.

Share-based compensation expense includes stock options granted.

Other operating expenses include start-up and pre-manufacturing costs of MediPharm Labs Australia incurred prior to the commencement of production (research and development of products, personnel

expenses, depreciation, supplies and small equipment, and other) 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, are expenses incurred in performing initial product testing and related manufacturing costs, materials and supplies, salaries and benefits, contract research costs, patent procurement costs, and occupancy costs prior to the commencement of operations.

Finance income

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

Finance expense

Finance expense comprises finance fees and interest expenses that were incurred on the loans and lease liability.

Taxation expense

Taxation expense reflects the Company's income tax expense and deferred tax expense or recovery.

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 developing a production facility in Victoria, Australia.

Comparison of Three month Period Ended March 31, 2020 to 2019

Results of operations for the three months ended March 31, 2020 as compared to the three months ended March 31, 2019.

	Three months ended March 31		Change		
$'000s	**2020**	**2019**	**$**	**%**	**Management Commentary**
Revenue	11,089	21,950	(10,861)	(49%)	The decrease in sales is due to a decrease in bulk concentrate volumes and decrease in domestic selling prices which was partially off set by an increase in finished formulated product sales.
Cost of sales	(21,971)	(15,087)	(6,884)	46%	The increase in cost of sales was largely driven by a write down of inventory by $12.8 million to its net realizable value.
Gross profit	**(10,882)**	**6,863**	**(17,745)**	**(259%)**	See comments above.

	Three months ended March 31		Change		
$'000s	**2020**	**2019**	**$**	**%**	**Management Commentary**
General administrative expenses	(5,500)	(2,128)	(3,372)	158%	General administrative expenses increased due to: • Increase in personnel headcount both in Barrie and Australia facilities, partially offset through headcount reductions within the quarter. • Implementation of an ERP system which will support the growth of the Company.
Marketing and selling expenses	(799)	(907)	108	(12%)	Marketing and selling activities such as conferences, events, promotions and investor relations have decreased due to COVID-19.
R&D expenses	(1,044)	-	(1,044)	N/A	In connection with commencement of new product development activities in Q4 2019, R&D expenses have increased. By the end of Q4 2019, a dedicated R&D team was built.
Share-based compensation expenses	(2,759)	(3,972)	1,213	(31%)	Expenses incurred due to remuneration in the form of share-based payments granted to employees (including senior executives) decreased due to less new employee hiring in Q1 2020 and decreased fair value of options granted.
Other operating expenses	(951)	(7)	(944)	13,486%	The increase in other operating expenses is related to foreign currency exchange losses which were incurred as a result of USD and AUD foreign currency denominated transactions and set-up and pre-manufacturing expenses of Medipharm Labs Australia.
Operating loss	**(21,935)**	**(151)**	**(21,784)**	**14,426%**	See comments above.
Adjusted EBITDA	**(5,657)**	**4,311**	**(9,968)**	**(231%)**	The decrease in Adjusted EBITDA is mainly attributable to the decrease of revenue and gross profit, and increase in general and administrative expenses, and R&D expenses. Adjusted EBITDA is a non-IFRS measure. See "Reconciliation of Non-IFRS Measures" for reconciliation to IFRS measures.
Finance income	136	5	131	2,620%	Finance income related to interest income recognized on our cash balance and short-term investment, which increased due to increase in balances of cash and short-term investment balances.
Finance expense	(230)	(178)	(52)	29%	Finance expenses increased due to increase in interest expenses on loan and lease liability.
Loss before taxation	**(22,029)**	**(324)**	**(21,705)**	**6,699%**	See comments above.

	Three months ended March 31		Change		
$'000s	**2020**	**2019**	**$**	**%**	**Management Commentary**
Taxation recovery (expense)	4,666	(248)	4,914	(1,981%)	Taxation recovery (expense) increased due to having a loss for the three month period ended March 31, 2020.
Net loss for the period	**(17,363)**	**(572)**	**(16,791)**	**2,935%**	See comments above.
Attributable to					
- Non controlling interest	(275)	(63)	(212)	336%	As the Australian facility owned by MediPharm Labs Australia is not yet in operation, loss attributable to non controlling interest increased.
- Equity holder of parents	(17,088)	(509)	(16,579)	3,257%	See comments above.

SUMMARY OF QUARTERLY RESULTS

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

	Three months ended			
	March 31 2020 $'000s (Unaudited)	**December 31 2019 $'000s** (Unaudited)	**September 30 2019 $'000s** (Unaudited)	**June 30 2019 $'000s** (Unaudited)
Total revenue	11,089	32,444	43,386	31,472
Net (loss)/income attributable to equity holder of parent	(17,088)	(3,221)	3,376	1,999
Basic (loss)/gain per share	(0.13)	(0.03)	0.03	0.02
Diluted (loss)/gain per share	(0.13)	(0.02)	0.02	0.01

	Three months ended			
	March 31 2019 $'000s (Unaudited)	**December 31 2018 $'000s** (Unaudited)	**September 30 2018 $'000s** (Unaudited)	**June 30 2018 $'000s** (Unaudited)
Total revenue	21,950	10,198	Nil	Nil
Net loss attributable to equity holder of parent	(511)	(3,503)	(1,954)	(1,586)
Basic loss per share	(0.01)	(0.05)	(0.02)	(0.02)
Diluted loss per share	(0.01)	(0.05)	(0.02)	(0.02)

The Company received authorization to produce and sell cannabis oil from Health Canada in 2018 and has since commenced production and sales activities. Up to the three month period ended September 30, 2019, the Company saw an increasing trend in revenue and net income quarter over quarter as a result of increasing sales volume in the bulk concentrates market. The decrease in revenue seen by the Company in the three month period ended March 31, 2020 as compared to the three month period ended December 31, 2019 was due to a decrease in selling prices and volumes and a shift in product mix from bulk concentrates to finished formulated products. The Company realized a net loss in the first quarter of 2020 due to an inventory impairment and lower quarterly revenue which is partially offset by lower ERP system implementation costs and lower stock-based compensation costs compared to fourth quarter of 2019.

RECONCILIATION OF NON-IFRS MEASURES

The information presented within this MD&A includes "Adjusted EBITDA", which is not a defined term under IFRS. This non-IFRS financial measure should be read in conjunction with the Financial Statements. See reconciliations below of non-IFRS financial measures to the most directly comparable IFRS measure.

Management believes supplementary financial measures provide useful additional information related to the operating results of the Company. Adjusted EBITDA is used by management to assess financial performance of the business and is a supplement to the Financial Statements. Investors are cautioned that Adjusted EBITDA 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.

Adjusted EBITDA does not have any standardized meaning and the Company's method of calculating Adjusted EBITDA may not be comparable to calculations used by other companies bearing the same description.

Adjusted EBITDA Reconciliation

Adjusted EBITDA is defined as net income (loss) excluding interest, taxes, depreciation and amortization, and share-based compensation and other non-cash expenses. Adjusted EBITDA has limitations as an analytical tool as it does not include depreciation and amortization expense, interest income and expense, taxes, and share-based compensation. 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. Adjusted EBITDA, as used within this MD&A and the Company's disclosure, may not be directly comparable to Adjusted EBITDA used by other reporting issuers.

The following tables reconcile the Company's Adjusted EBITDA and income/(loss) from operations (as reported) for each of the periods presented.

	Three months ended				
	March 31, 2020 $'000s	**December 31, 2019 $'000s**	**September 30, 2019 $'000s**	**June 30, 2019 $'000s**	**March 31, 2019 $'000s**
Income / (loss) from operations - as reported	**(21,935)**	**(2,502)**	**5,365**	**4,227**	**(151)**
Add / (deduct):					
Share-based compensation expense	2,759	4,631	4,157	2,742	3,972
Depreciation	708	532	544	731	490
Inventory impairment	12,811	-	-	-	-
Adjusted EBITDA	**(5,657)**	**2,661**	**10,066**	**7,700**	**4,311**

CAPITAL STRUCTURE

Outstanding Equity Securities

Common Shares

The Company's authorized capital consists of an unlimited number of Common Shares. As at March 31, 2020, the Company had 134,723,297 Common Shares issued and outstanding and as at the date of this MD&A the Company had 135,436,153 Common Shares issued and outstanding.

Dividend Policy

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

Warrants

On March 22, 2018, MediPharm Labs completed a private placement (the "**March Private Placement**") of 796,709 units at a price of $3.72 per unit for aggregate gross proceeds of $2,964 each unit being comprised of one MediPharm Share and one common share purchase warrant (each, a "**MediPharm Labs March Warrant**"). Each MediPharm Labs March Warrant entitled the holder to acquire one MediPharm Share at an exercise price of $6.00 until October 1, 2020. On closing of the Qualifying Transaction, replacement warrants of the Company (each, a "**March Warrant**"), adjusted by the Exchange Ratio, were issued to holders of MediPharm Labs March Warrants. Each March Warrant entitles the holder to acquire one Common Share at an exercise price of $0.47 per Common Share until October 1, 2020.

In connection with the March Private Placement, an aggregate of 47,043 broker warrants were issued, each warrant entitling the holder to acquire one MediPharm Share and one MediPharm Labs March Warrant at an exercise price of $3.72 until the date which is 24 months following completion of the Qualifying

Transaction. On closing of the Qualifying Transaction, replacement warrants (the "**March Broker Warrants**"), adjusted by the Exchange Ratio, were issued to holders of these warrants.

On June 1, 2018 and June 29, 2018, MediPharm Labs completed private placements (the "**June Private Placements**") for an aggregate of 2,071,168 units at a price of $10.778 per unit for aggregate gross proceeds of $22,317, each unit being comprised of one MediPharm Share and one-half of one common share purchase warrant (each whole warrant, a "**MediPharm Labs June Warrant**"). Each MediPharm Labs June Warrant entitled the holder to acquire one MediPharm Share at an exercise price of $15.216 until October 1, 2020. On closing of the Qualifying Transaction, replacement warrants (each, a "**June Warrant**"), adjusted by the Exchange Ratio, were issued to holders of MediPharm Labs June Warrants. Each June Warrant entitles the holder thereof to acquire one Common Share at an exercise price of $1.20 per Common Share 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 118,960 broker warrants, each entitling the holder to acquire one MediPharm Share and one MediPharm Labs June Warrant at an exercise price of $10.778 until the date which is 24 months following completion of the Qualifying Transaction. On closing of the Qualifying Transaction, replacement broker warrants (the "**June Broker Warrants**"), adjusted by the Exchange Ratio, were issued to holders of these warrants.

As at March 31, 2020 the Company had the following Common Share purchase warrants issued and outstanding: 2,085,626 March Warrants; 596,505 March Broker Warrants; 4,913,280 June Warrants; and 754,207 June Broker Warrants.

Subsequent to March 31, 2020, 193,572 March Warrants and 519,284 June Warrants were exercised resulting in: 1,892,054 March Warrants and 4,393,996 June Warrants remaining outstanding as of the date of this MD&A.

Stock Options

As at March 31, 2020, the Company had 11,868,600 stock options outstanding. During the three months ended March 31, 2020, options to purchase up to 220,000 Common Shares were issued, options to purchase 1,800 Common Shares were exercised, and options to purchase up to 109,620 Common Shares were cancelled and/or expired.

Subsequent to March 31, 2020, 83,150 options were issued, and 335,090 stock options were cancelled, resulting in 11,616,660 stock options remaining outstanding as of the date of this MD&A.

2020 Private Placement

Subsequent to March 31, 2020, the Company issued the First Note, First Warrant and Subscription Receipt in connection with the 2020 Private Placement. The First Note, First Warrant and Subscription Receipt remain outstanding as of the date of this MD&A. See "Subsequent Events – Private Placement" for details.

Debt Facilities

The following discusses the significant movements in the Company's debt balances as indicated:

Loans

On October 10, 2019, MediPharm Labs, as borrower, signed a credit agreement (together with any amendments, supplements or revisions thereto the "**Credit Agreement**") with a Schedule 1 Bank, as lender, for up to $38,700 upon the satisfaction of various conditions. The Credit Agreement bears interest at the Bank's prime lending rate plus a certain per cent per annum dependent upon the Company's debt covenants. The Credit Agreement has a general security interest in the Company's assets and can be repaid without penalty. The Credit Agreement is comprised of a revolving term facility, a non-revolving term facility and a non-revolving delayed draw term facility. See "Liquidity and Capital Resources – Contractual Obligations" for a discussion of amounts owed under the facility and applicable covenants.

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 March 31, 2020, the Company had a positive working capital of $68,204 (December 31, 2019 - $90,855). The decrease in working capital was driven primarily by decreased trade payables, inventory and classification of loans from long term to short term.

Management of the Company believes the Company's current resources are sufficient to settle its current liabilities, when considering inventory and trade receivables and the 2020 Private Placement.

The following table presents the net cash flows for each of the periods presented:

$'000s	Three months ended March 31 2020	2019	Change	Management Commentary
Net cash (used in) / provided by operating activities	(15,394)	4,036	(19,430)	Negative cash flow from the operating activities was partially the result of a net decrease in accounts payable resulting from repayment of prior quarter payables and lower dried flower and capital expenditures within the period.
Net cash (used in) investing activities	(3,492)	(6,573)	3,081	Cash used in investing activities are mainly driven by capital expenditure, mostly including the purchase of machinery, the renovation of the Barrie facility and the construction of the Australia facility. In 2019, the cash used in investing activities was driven mainly by purchase of production machineries and construction of Australian facility building.
Net cash provided by financing activities	1,625	3,087	(1,462)	Cash provided by financing activities in 2019 is driven by exercise of stock options and warrants. In 2020, cash provided by financing activities is mainly driven by exercise of warrants partially offset by payment of quarterly installments of loan and interest expenses.
Cash and cash equivalents, beginning of period	38,627	7,850	30,777	-
Cash and cash equivalents, end of period	21,366	8,400	12,966	See comments above.

Contractual Obligations

The Company's contractual obligations as at March 31, 2020 decreased by $7,563 mainly as a result of the repayment of prior quarter payables and lower dried flower and capital expenditures within the period. The Company's short-term (less than one year) undiscounted contractual obligations are $23,898 and long-term undiscounted contractual obligations are $570.

Contractual Obligations	Total	Payments due by Period < 1 year	1-3 years	4-5 years	> 5 years
Debt	9,473	9,473	-	-	-
Lease Liabilities	946	376	440	130	-
Purchase Obligations	-	-	-	-	-
Trade Payables	14,049	14,049	-	-	-

(All dollar amounts are expressed in thousands of Canadian dollars (C$'000s) unless otherwise stated.)

Total Contractual Obligations	24,468	23,898	440	130	-

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

In addition, the Company has wholesale private label agreements under which it committed to sell up to 155kg of cannabis concentrates within seven months. If the Company does not deliver committed product for which it has received an order, the Company may be subject to a late in-kind/cash payment. For the three months ended March 31, 2020, the Company fulfilled all committed amounts that were ordered.

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

Capital Resources

As of March 31, 2020, the Company does not have any commitments for capital expenditures; however, to meet the Company's planned growth, the Company is currently undergoing various projects to increase the production capacity and capabilities at its Barrie and Australian facilities. See below "Use of Funds Reconciliation" for details of intended expansion related expenditures. The Company currently expects that internally generated cash and cash equivalents, along with the net proceeds of the 2020 Private Placement that closed subsequent to quarter end, will be sufficient to maintain its currently planned growth. However, the Company is continually evaluating various debt and/or equity financing opportunities so as to lower its cost of capital and optimize its capital structure.

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".

During the three months ended March 31, 2020, MediPharm Labs completed the following share issuances for cash proceeds:

- During the three months ended March 31, 2020, 1,800 stock options (December 31, 2019: 6,909,106 stock options) and 3,196,429 warrants (December 31, 2019: 13,562,602 warrants) were exercised into Common Shares for the proceeds of $4 (December 31, 2019: $2,510) and $2,040 (December 31, 2019: $11,972), respectively.

Use of Funds Reconciliation

Upon the completion of a bought deal financing for aggregate gross proceeds of $75,002 on June 10, 2019 (the "**Bought Deal Financing**"), the Company had approximately $70,581 of available funds pursuant to such financing. The following table sets forth a comparison of the disclosure regarding the Company's estimated use of funds set out in the Company's final short form prospectus dated June 10, 2019, which may be viewed on its SEDAR profile at www.sedar.com, and the expensed amount as at March 31, 2020:

Principal Use of Available Funds	Estimated ($'000s)	Expensed ($'000s)
Canadian facility expenses	24,000	14,359
Australian facility expenses	5,500	5,458
International expansion expenses	20,000	217
R&D expenses	6,000	1,911
G&A expenses and working capital	15,081	34,391
Total	**70,581**	**56,336**

Given the current supply and demand situation for bulk crude and distillate within the Canadian market, the Company has streamlined its international expansion efforts by deferring international capital expenditures and focusing primarily on exports from its Canadian and, once permitted, Australian facilities, which the Company expects will result in a more efficient capital allocation and higher utilization of existing assets.

The Company expects to incur additional international expansion expenses from that incurred as at March 31, 2020 through its continued support of its sales efforts into international channels and regulatory compliance costs associated with exporting to various jurisdictions. However, the Company has and expects to allocate further amounts initially allocated to international expenses and Canadian facility expenses to new product development (R&D expenses) and dried flower purchases for inventory (G&A expenses and working capital) as such expenditures are expected to indirectly support both domestic and international sales channels.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

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

During the three month period ended March 31, 2020, the Company issued nil options (March 31, 2019: 1,890,000 options at an average exercise price of $2.00 per share) to its key management personnel and recognized total share-based compensation expense of $890 (March 31, 2019: $1,390). During the three

month period ended March 31, 2020, the key management personnel exercised no options (March 31, 2019: 3,043,200 options for gross proceeds of $720).

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 may transact with the Company from time-to-time. For the three months ended March 31, 2020, the Company incurred $6 (March 31, 2019: $7) operational expenses, on arm's length terms and conditions, as a result of short-term rental payments to an entity controlled by the CEO of MediPharm Labs Australia, for the use of property for MediPharm Labs Australia personnel and visitors.

As at March 31, 2020, the Company has $nil (2018: $4) due to key management personnel and entities over which they have control or significant influence.

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 if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Company holds cash of $21,366 (December 31, 2019: $38,627). The cash is held with banks and financial institutions that are either Schedule 1 Canadian Banks or large credit unions. At March 31, 2020, the exposure to credit risk for trade receivables and contract assets by the type of customer is $21,778for business to business customers (December 31, 2019: $26,105) and $1,779 for distributors and retailers (December 31, 2019: $112).

The Company limits its exposure to credit risk from trade receivables and contract assets by negotiating advance payment from business to business customers before the shipment of the products. Also, the Company management believes that the exposure to credit risk from distributors is very limited since most of the distributors are government organizations. As at March 31, 2020, 85% of the Company's trade receivables (December 31, 2019: 86%) was due from five customers (December 31, 2019: three customers) each representing more than 10% of the Company's trade receivables balance. During the three month period ending March 31, 2020, the Company commenced legal collection proceedings with respect to $8,531 of the Company's trade receivable balance, with the past due portion of such trade receivables comprising 74% of all the Company's past due trade receivables as at March 31, 2020.

The expected loss rate for undue and overdue balance is estimated to be nominal based on the expected collections on the outstanding receivable balance and the credit worthiness and payment history of the customers.

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 $21,366 (December 31, 2019: $38,627) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, the management maintains flexibility in funding by maintaining a minimum cash level at banks and financial institutions.

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

The bank loans contain loan covenants which are monitored on a regular basis by the treasury department and regularly reported to management to ensure compliance with the agreements. Given the ongoing decreases in demand for the Company's bulk concentrates and COVID-19 related slowdown, the Company is at risk of breaching such covenants, which could negatively impact the Company's liquidity position. See "Liquidity and Capital Resources – Contractual Obligations" for a discussion of amounts owed under the facility and applicable covenants.

Interest rate risk

The Company's main interest rate risk arises from indebtedness under the Credit Agreement which is subject to variable rates and expose the Company to cash flow interest rate risk. The Company's indebtedness under the Credit Agreement with a variable rate is denominated only in Canadian Dollars.

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;
- lack of long-term client commitments;
- COVID-19 pandemic;
- supply chain;
- client risks;
- realization of growth targets including expansion of facilities and operations;
- management of growth;
- history of net losses;
- difficulty to forecast;
- competition;
- inability to sustain pricing and inventory models;
- conflicts of interest;

- legal proceedings;
- product liability;
- product recall;
- environmental regulation and risks;
- insurance risks;
- unfavourable publicity or consumer perception;
- reliance on a single facility;
- dependence on supply of cannabis and other key inputs;
- maintenance of effective quality control systems;
- retention and acquisition of skilled personnel;
- clinical trials;
- 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;
- scheduled maintenance, unplanned repairs, equipment outages and logistical disruptions;
- risks as a result of international expansions;
- operations in foreign jurisdictions;
- reliance upon international advisors and consultants;
- foreign currency risk;
- access to capital;
- estimates or judgments relating to critical accounting policies;
- tax risks;
- market for the Common Shares;
- investment in the cannabis sector;
- 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 Note 2.4 of the Financial Statements.

CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING CHANGES

Changes in Accounting Policies

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

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)

Future Accounting Changes

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

- IFRS 17, *Insurance Contracts*

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

Management maintains appropriate information systems, procedures and controls to provide reasonable assurance that information that is publicly disclosed is complete, reliable and timely. The Chief Executive Officer (the "**CEO**") and Chief Financial Officer (the "**CFO**") of the Company, along with the assistance of senior management under their supervision, have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the CEO and CFO, and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

No changes were made in our design of internal controls over financial reporting during the three months ended March 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance of control issues, including whether instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) that controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.