(TSX: LABS)

MEDIPHARM LABS CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2019

March 30, 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 and twelve-months ended December 31, 2019 was prepared by management as of March 30, 2019. 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 audited consolidated financial statements for the twelve-months ended December 31, 2019 (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, 2019 (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**") of the Company 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 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 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 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, including the Bought Deal Financing (as defined below).

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 year ended December 31, 2019.

Financial Results: Annual revenue of approximately $129 million, and Adjusted EBITDA[(1)(2)] of approximately $24 million, reflecting a successful launch of the Company's bulk extracts business line.

Branded Product Development: The Company commenced shipping white label vaporizer products to provincial distributors during December 2019.

Certifications: Our Canadian facility received its Australian GMP certificate in the last quarter of 2019 following rigorous audit processes. Our Australian subsidiary is also pursuing its GMP certificate under the Australian *Therapeutic Goods Act 1989*.

Export Markets: In September 2019, the Company entered into an export agreement with ADREXpharma GmbH, a German pharmaceutical company, to export private label formulated cannabis oil to Germany, subject to receipt of applicable regulatory approvals including EU GMP certification and import/export permits. During fiscal 2019, the Company completed various shipments of medical cannabis concentrate to Australia.

Bulk Extract Sales: Over the past twelve-months, the Company successfully scaled its bulk, B2B business segment by securing long-term bulk extract and spot sale agreements with industry leaders, including AusCann Group Holdings Ltd. (Australia) and ADREXpharma GmbH (Germany). During the fourth quarter of 2019, the expansion in the Canadian market for bulk extracts seen during fiscal 2019 slowed, which resulted in the lower volumes being shipped under long-term contracts and a customer preference for spot purchases which saw pricing compression. We believe these trends result from a current oversupply in the Canadian market for bulk extracts, given a slower than anticipated expansion of retail channels in Canada, slower licensing of new and specialized cannabis 2.0 businesses, lower than expected conversion of bulk extract inventory into finished goods by vertically integrated players and slower than expected entry to the market by larger consumer packed goods companies.

Broader Portfolio of Licences: During fiscal 2019, we received our *Cannabis Act* research licence, our *Cannabis Act* standard processing licence was amended allowing us to sell cannabis products to holders of a licence for sale of medicinal cannabis products and provincially authorized retailers and distributors, and our licensed production space was expanded to approximately 25,000 sq. ft. We also received our licence in Australia to manufacture extracts and tinctures for the purpose of a clinical trial or for medical cannabis products, along with various State Licences.

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

Financial Highlights

The following table is a summary of financial highlights for the year ended December 31, 2019, and the three-month periods ended December 31, 2019, September 30, 2019, June 30, 2019 and March 31, 2019.[(1)]

	Year ended	Three-months ended			
	December 31, 2019 $'000s	**December 31, 2019 $'000s**	**September 30, 2019 $'000s**	**June 30, 2019 $'000s**	**March 31, 2019 $'000s**
Revenue	129,252	32,444	43,386	31,472	21,950
Gross profit	42,914	9,987	14,754	11,311	6,862
Gross margin %	*33%*	*31%*	*34%*	*36%*	*31%*
Net income/(loss) before tax	6,752	(2,401)	5,395	4,083	(325)
Adjusted EBITDA [(2)]	24,737	2,661	10,066	7,700	4,310
Adjusted EBITDA margin %	*19%*	8%	*23%*	*24%*	*20%*

- Annual revenue of approximately $129.3 million, and Adjusted EBITDA[(1)(2)] of approximately $24 million, reflecting a successful launch of the Company's bulk extracts business line.
- Revenue increased to $32.4 million in Q4 2019 from 10.2 million in Q4 2018, and decreased 25% from $43.4 million in Q3 2019 primarily due to a reduction in average selling price and volume of bulk extracts sold.
- Gross profit increased to $10.0 million in Q4 2019 from $4.0 million Q4 2018, and decreased 32% from $14.7 million in Q3 2019. Q4 2019 gross margin was 30% compared to 39% a year ago and down from 34% in Q3 2019 primarily due to a reduction in the average selling prices and impact of lower volumes on production costs, partially offset by lower dried flower costs.
- Adjusted EBITDA[(2)] increased to $2.7 million in Q4 2019 from $2.1 million in Q4 2018, and decreased 74% from $10.1 million in Q3 2019, primarily due to a decrease in revenue and gross profit and increased operating expenses attributable largely to ERP implementation expenses and regulatory fees.
- Net loss before tax decreased to $2.4 million from $3.5 million in Q4 2018, and increased from $5.4 million in Q3 2019.

Notes:

(1) Year-over-year periods are not comparable as the Company commenced sales at the end of the fourth quarter of 2018.

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

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

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.

The Company's common shares (the "**Common Shares**") are publicly traded 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**") authorizing the manufacture of certain limited cannabis products and during the last quarter of 2019 we completed construction of our Australian extraction facility.

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 a Good Manufacturing Practices ("**GMP**") certified facility 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 five primary extraction lines used to deliver pure, trusted and precisely-dosable cannabis products for our customers. Through our wholesale (private label), white label and tolling platforms, we formulate, process, package and distribute cannabis extracts and advanced cannabinoid-based products to domestic and international markets. As a global leader, we also completed our commercial exports to Australia in June 2019 and completed construction of our Australian extraction facility in the last quarter of 2019.

Operations and Facilities

As of the date of this MD&A, our core business generates revenue through two primary activities, being wholesale activities and tolling services related to the production of cannabis extracts and related cannabis products.

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 finished 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 finished packaged good lines for tincture bottles and vaporizer 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, we are expecting to receive a European GMP certificate in the second half of 2020, which will facilitate our entrance into the European market via export. 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 is seeking a GMP certificate under the Australian *Therapeutic Goods Act 1989*, which will expand its domestic manufacturing authorizations.

We intend to initially source and process dried cannabis at our TGA GMP certified Canadian facility for export to MediPharm Labs Australia. MediPharm Labs Australia will then distribute the processed product 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 Labs Australia to commence generating revenue in the second quarter of 2020, subject to importation of manufactured product from MediPharm Labs and receipt of purchaser orders.

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 May 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".

Wholesale Bulk Extracts (Private Label) Production

We currently process our own inventory of dried cannabis through primary supercritical CO_2 extraction lines and secondary distillation lines and sell the resulting bulk cannabis concentrates to our licensed clients. 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. Our

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clients can then formulate and package the bulk concentrates into final cannabis products for sale, most typically to either their own medicinal clients or provincially authorized retail distributors, under their own brands. Below is an overview of certain long-term private label contracts that the Company has entered in to:

Long-term Bulk Extracts Agreements		
Customer	**Date**	**Description and Status**
Canopy Growth Corporation	November 29, 2018	Originally the agreement was for up to 900 kilograms over a term of 18 months. As of December 31, 2019, all amounts remaining under the agreement are optional purchases.
Undisclosed licence holder under the Cannabis Act	February 11, 2019	Approximately $35 million within a 12-month period. In addition, the licence holder has the option to increase its purchase commitment by $13.5 million within the same period. See "Subsequent Events" regarding the statement of claim issued by MediPharm Labs subsequent to period end.
AusCann Group Holdings Ltd.	February 20, 2019	First international export agreement, with multiple exports to Australia completed during fiscal 2019.
Peace Naturals Project Inc. (subsidiary of Cronos Group Inc.)	May 13, 2019	Approximately $30 million over 18-months, and, subject to certain renewal and purchase options for up to $60 million over 24 months.
ADREXpharma GmbH	September 20, 2019	Agreement for export to Germany, subject to applicable regulatory approvals and EU GMP certification.
TerrAscend Canada Inc.	September 24, 2019	Approximately $27 million, over 24-months, and, subject to certain renewal and purchase options, potentially up to $192 million over 36 months.
Olli Brands Inc.	September 26, 2019	Under the 18-month supply agreement, MediPharm Labs will provide high-quality cannabis distillate and crude to Olli Brands Inc. upon its commercial licensing.

In addition to the above, MediPharm Labs has entered into numerous spot cannabis extract sales from time to time. During the fourth quarter of 2019, the expansion in the Canadian market for bulk extracts seen 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 fourth quarter of 2019, 46% of cannabis extract sold was pursuant to spot sales (30% in the third quarter of 2019; 29% in the second quarter of 2019; and 24% in the first quarter of 2019). We believe these trends result from a current oversupply in the Canadian market for bulk extracts, given a slower than anticipated expansion of retail channels in Canada, slower licensing of new and specialized cannabis 2.0 businesses, lower than expected conversion of bulk extract inventory into finished goods by vertically integrated players and slower than expected entry to the market by larger consumer packed goods companies. The supply and demand imbalances experienced in the fourth quarter are expected to continue for the near-term.

As the committed purchases of bulk extract under the Canopy Growth Corporation agreement ended in December 2019, and smaller volumes are being shipped under other current long-term contracts, we expect

that the proportion of revenue comprised of spot sales to continue to increase in the near-term and overall sales attributable to domestic bulk sales to decrease.

White Label and Contract Manufacturing of Branded Products

As part of our white label platform, we provide high-quality cannabis concentrates, filling services and national distribution of formulated client-branded cannabis derivative products. Our clients leverage their branding and product expertise to design, brand and market the products. We believe that demand for lawful cannabis derivative products will continue to expand in the long-term as authorized provincial distributors and retailers continue to come online.

Under existing white label contracts, we distribute client-branded products directly to authorized distributors, and then typically pay our clients a portion of net revenues generated from those sales or a fixed fee per unit sold. Under our existing contract manufacturing agreements, our clients pay us a manufacturing fee for the production of their product.

The Company commenced shipping of its initial white label products in December 2019, such white label products being comprised of formulated vape cartridges.

Below is an overview of the certain white label and contract manufacturing contracts that the Company has entered in to:

White Label and Contract Manufacturing Agreements			
Customer	**Date**	**Description and Status**	**Initial Term**
AV Cannabis Inc. (d/b/a Ace Valley)	June 28, 2019	We will receive fees for various services including filling, labelling, packaging and distribution, along with a portion of revenue from sales of branded vaporizer pens, subject to finalization of vaporizer hardware and orders from provincial distributors.	Three years
Peace Naturals Project Inc. (subsidiary of Cronos Group Inc.)	September 18, 2019	We will receive fees for services related to filling, labelling and packaging branded vaporizer cartridges. Peace Naturals has not yet procured any services under this agreement	Two years
1193269 B.C. Ltd. (d/b/a Shelter Brands)	December 12, 2019	We receive revenue from the sale of branded vaporizer cartridges, net of a fee paid to Shelter Brands	One year
H. Collingwood And Co. Ltd.	November 6, 2019	We will receive revenue from the sale of branded tincture bottles, net of a fee paid to H. Collingwood And Co. Ltd., subject to receipt of orders from provincial distributors.	One year

Tolling Processing

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 behalf of its clients. We may also turn the clients' extracts into value added products such as client-branded formulated cannabis oil bottles. We collect fees for services and do not take

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ownership of the source or refined product. As of the date of this MD&A, we have the following cannabis concentrate program agreements:

Cannabis Concentrate Program Agreement		
Customer	**Date**	**Initial Term**
James E. Wagner Cultivation Corporation	July 31, 2018	Three years
INDIVA Limited	September 4, 2018	Three years
Emerald Health Therapeutics Inc.	October 5, 2018	Three years
The Supreme Cannabis Company, Inc.	November 13, 2018	Three years
TerrAscend Canada Inc.	January 8, 2019	Three years
Peace Naturals Project Inc. (subsidiary of Cronos Group Inc.)	May 13, 2019	Two years

For the twelve-month period ended December 31, 2019, each of James E. Wagner Cultivation Corporation, INDIVA Limited, Emerald Health Therapeutics Inc. and The Supreme Cannabis Company, Inc. sent dried cannabis to MediPharm Labs for processing pursuant to their respective agreements.

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 derivative products. We intend to continue developing our valued-added product line, including additional bulk and finished products. Further, in order to increase the conversion of bulk extracts into the finished goods 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 product 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 Year Ended December 31, 2019

During the twelve-month period ended December 31, 2019, we succeeded in accomplishing numerous milestones, including graduating to the TSX, various bulk oil sales, licence additions and our first commercial exports.

Tolling Agreement

On January 8, 2019, we entered into a three-year cannabis concentrate program agreement with TerrAscend Canada Inc. ("**TerrAscend**") pursuant to which MediPharm Labs agreed to process dried cannabis for TerrAscend. As at the date of this MD&A, TerrAscend has not shipped any product for processing under this agreement.

Bulk Extracts Supply Agreement

On February 12, 2019, we entered into a private label supply agreement with a *Cannabis Act* licensed cultivator where MediPharm Labs committed to delivering an aggregate of $35 million of cannabis oil within a 13-month period. In addition, the licensed cultivator received the option to increase its purchase commitment by $13.5 million within the same period. Subsequent to year-end, MediPharm Labs filed a statement of claim with respect to the collection of certain amounts that remain unpaid pursuant to this agreement – see "*Subsequent Events*".

AusCann Group Export Agreement for Australian Market and Related Exports

On February 20, 2019, we entered into our 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. We completed various shipments of product under this agreement in 2019 after the required import and export authorizations were received, and we expect to continue to ship product throughout 2020.

Change of OTC Ticker, DTC Eligibility and Graduation to the OTCQX Best Markets

On April 9, 2019, we announced that the Common Shares commenced trading on the OTCQB under the new ticker symbol "MEDIF". The Common Shares had previously traded on the OTCQB under the ticker symbol "MLCPF".

On April 16, 2019, we received Depository Trust Company (DTC) eligibility for the Common Shares in the United States. "DTC eligibility" simplifies the process of trading and transferring the Common Shares between brokerages in the US.

On May 2, 2019, the Common Shares were qualified to trade on the OTCQX Best Market. MediPharm Labs upgraded to OTCQX from the OTCQB and continues to trade under the symbol "MEDIF".

Cronos Group Bulk Resin Supply Agreement and Cannabis Concentrate Program Agreement

On May 13, 2019, MediPharm Labs entered into a multi-year supply agreement with Cronos Group Inc., through its wholly owned subsidiary Peace Naturals Project Inc. ("**Peace Naturals**"). Under this agreement, MediPharm Labs agreed to supply Peace Naturals with approximately $30 million of high-quality private label cannabis concentrate over 18-months, and, subject to certain renewal and purchase options, potentially up to $60 million over 24-months.

On the same day MediPharm Labs also agreed to process on a fee for service basis bulk dried cannabis supplied by Peace Naturals into bulk resin or other premium cannabis oil derivative products under a two-year tolling agreement. As at the date of this MD&A, Peace Naturals has not shipped any product for processing under this agreement.

Addition to MJ ETFMG Alternative Harvest ETF (USA)

On May 21, 2019, we announced that the Common Shares had been added to the MJ ETFMG Alternative Harvest ETF, listed on the New York Stock Exchange, which tracks the Prime Alternative Harvest Index.

MediPharm Labs Australia Receives Manufacturing Licence

On May 21, 2019, MediPharm Labs Australia received the Australian Licence with respect to the manufacture of certain limited cannabis products under the Australian Act. The Australian facility was built to the same GMP standards as our Canadian facility and MediPharm Labs Australia is seeking a GMP certificate under the Australian *Therapeutic Goods Act 1989*, which will expand its domestic manufacturing authorizations. The commercialization of the Australian facility remains subject to the importation of manufactured product from MediPharm Labs and receipt of purchase orders for such product.

The intended expansion, operating capacities, and licensing and permitting are forward-looking statements. See "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors".

Licence Amendment for Provincial Sales

MediPharm Labs received an amendment to its Licence on June 7, 2019 authorizing it to sell cannabis products directly to provincial distributors. As of the date of this MD&A, we have delivered client-branded products to provincial distributors in Alberta, British Colombia, Ontario, Manitoba and Saskatchewan. The Company has also entered into a supply arrangement with the applicable Quebec distributor.

Bought Deal Financing

On June 17, 2019, the Company closed its bought deal offering of 13,514,000 Common Shares at a price of $5.55 per share for aggregate gross proceeds of $75,003 (the "**Bought Deal Financing**"). The Bought Deal Financing was underwritten by a syndicate of underwriters led by Scotia Capital Inc., GMP Securities L.P. and BMO Nesbitt Burns Inc.

Ace Valley White Label Vape Pen Agreement

On June 18, 2019, we entered into our first white label disposable vaporizer pen agreement with AV Cannabis Inc. (d/b/a Ace Valley), to launch a premium line of cannabis extract-based vape pens to Canadian consumers. We will provide high-quality cannabis extracts, filling services and national distribution of a line of custom-formulated Ace Valley-branded vape pens. Ace Valley will leverage its leading brand traction and product strategy expertise to design, brand and market the products.

The initial term of the Agreement is three years and relates to the production of a minimum of approximately two million Ace Valley-branded vape pens. Under the Agreement, the Company will receive certain fees for services related to procurement, quality assurance, manufacturing and distributing to provincial retailers, along with a portion of revenue from sales of the Ace Valley-branded vaporizer pens. Supply of vaporize pens under the Agreement remains subject to finalization of hardware and receipt of purchase orders from provincial distributors.

TSX Listing

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

Cronos Group Contract Manufacturing Agreement

On September 18, 2019 we entered into a contract manufacturing agreement with Cronos Group Inc., through its wholly owned subsidiary Peace Naturals. Under this agreement we will provide filling, labelling and packaging services for branded-vape products for Peace Naturals to distribute under its own licence. The initial term of the agreement is two years. As at the date of this MD&A, Peace Naturals has not procured any services pursuant to this agreement.

Organic Certification for Cannabis Oil and Extracts Production

On September 18, 2019, we received an organic certification from Pro-Cert Organic Systems Ltd. with respect to the production of cannabis extracts and oil. The certification was based on an evaluation of our organic production plan, an inspection of our operation, production records and other information required by our certifying agent. The certificate expires on September 18, 2020 unless renewed.

ADREXpharma Export Agreement for German Market

On September 20, 2019, we entered into a supply agreement with ADREXpharma GmbH with respect to the export of formulated cannabis oil bottles to Germany. ADREXpharma GmbH is a German pharmaceutical company specialized in the development and distribution of medicinal cannabis products in Europe. Sales under the agreement remain subject to receipt of applicable regulatory approvals, including EU GMP certification and import and export permits.

TerrAscend Bulk Extracts Supply Agreement

On September 24, 2019, MediPharm Labs entered into a multi-year supply agreement with TerrAscend. Under this agreement, we agreed to supply TerrAscend with approximately $27 million of high-quality private label cannabis concentrate over 24-months, and, subject to certain renewal and purchase options, potentially up to $192 million over 24-months.

Credit Facility

On October 10, 2019, the Company closed a credit agreement (the "**Credit Facility**") with a Schedule 1 bank (the "**Bank**") for an aggregate credit availability of $38,700. The Credit Facility is comprised of a revolving term facility, a nonrevolving term facility and a non-revolving delayed draw term facility. The revolving term facility is for up to $25,000 subject to the Company's borrowing base and Bank imposed reserves, can be drawn in Canadian or Australian dollars, has a 1-year term and is to be used for Canadian and Australian working capital. The $5,700 non-revolving term facility was fully drawn on closing, has a 3-year term and was used to refinance and reduce the interest expense of an existing $6,000 mortgage payable. The non-revolving delayed draw term facility of up to $8,000 has a 3-year term and is to be used to fund capital expenditures.

The Credit Facility bears interest at the Bank's prime lending rate plus a certain per cent per annum dependent upon the Company's debt to EBITDA ratio. The Credit Facility has a first ranking general security interest in the Company's assets and can be repaid without penalty.

Olli Brands Bulk Extracts Supply Agreement

On September 26, 2019, MediPharm Labs entered into an 18-month supply agreement pursuant to which it will supply Olli Brands Inc., upon its commercial licensing, with bulk cannabis extracts. Olli Brands Inc. currently holds a processing licence under the Cannabis Act and is awaiting final approval for its authorization to sell to provincial distributors.

Cannabis Product and Research Licensing

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 finished products.

Mr. Kwon Appointed CFO

On November 4, 2019, the Company announced that it appointed Robert (Bobby) Kwon as its Chief Financial Officer as of November 18, 2019. As of such date, the Company's former Chief Financial Officer, Christopher Hobbs, stepped down. Mr. Hobbs continues to serve on the Company's board of directors.

NASDAQ Application for Cross-Listing

On November 5, 2019, the Company announced that it applied to cross-list its Common Shares on the NASDAQ Stock Market (the "**NASDAQ**"). In the event of a NASDAQ listing, the Company would continue to maintain the listing of its Common Shares on the TSX under the symbol "LABS". The NASDAQ cross-listing remains subject to the approval of the NASDAQ, the filing of a Form 40-F Registration Statement with the United States Securities and Exchange Commission (the "SEC") and the satisfaction of all applicable listing and regulatory requirements, including the SEC declaring the Form 40-F Registration Statement effective.

Though the Company received a favourable listing indication from NASDAQ in early January 2020, as a result of ongoing market conditions, the Company is continually monitoring the suitability of a US listing. As at the date of this MD&A, the Company's current share price does not meet minimum price requirements of NASDAQ and the Company would be required to seek shareholder approval for a reverse stock split to meet such price requirement.

Australia Completes Construction of Production Facility

On December 6, 2019, we announced the successful completion of the first phase of our GMP-built Australian facility. In addition, MediPharm Labs Australia received its State Licenses for cannabis substances from the Department of Health and Human Services in Victoria, Australia that allow the storage, testing and supply of cannabis for research purposes at its newly built facility.

MediPharm Labs Receives GMP Certification

On December 13, 2019, we announced that, following an intensive audit process, the Australian Therapeutic Goods Administration notified us that our Canadian manufacturing facility met the requirements for GMP for Medicinal Products. This GMP certificate provides regulatory authorization for the supply of APIs and final medicinal products to the Australian medical cannabis market from our Canadian facility.

MediPharm Labs Receives Licence Amendment

On December 30, 2019, we announced the receipt of an expansion to the authorizations under our Cannabis Act processing licence allowing for various cannabis-related activities in an expanded footprint, now totally approximately 25,000 sq. ft. The expanded licensed space included new manufacturing rooms, a quality control laboratory, additional secure storage and various infrastructure updates.

DISCUSSION OF OPERATIONS

Overview

Revenue

In the second quarter of 2019, we commenced generating revenue from our tolling activities and in the fourth quarter of 2019, we commenced generating revenue from our white label activities. However, the wholesale of cannabis extracts through the Company's private label program was still the primary source of revenue during the year ended December 31, 2019.

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 (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 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, 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 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) 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 interest expenses and accretion expenses that both were incurred on the convertible debentures issued in October 2017, loans, finance fees 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 constructing and developing a production facility in Victoria, Australia.

Comparison of Three-Month Period and Year Ended December 31, 2019 to 2018

Discussion and Analysis of the Results for the Three-Month Period Ended December 31, 2019

Results of operations for the three months ended December 31, 2019 as compared to the three months ended December 31, 2018.

	Three-months ended December 31		Change		
$'000s	**2019**	**2018**	**$**	**%**	**Management Commentary**
Revenue	32,444	10,198	22,246	218%	After receiving the sales authorization amendment to our Licence in November 2018, we started private label wholesale, white label and tolling activities. The increase in revenue is due to sales volume
Cost of sales	(22,457)	(6,231)	(16,226)	260%	

	Three-months ended December 31		Change		
$'000s	**2019**	**2018**	**$**	**%**	**Management Commentary**
Gross profit	**9,987**	**3,967**	**6,020**	**152%**	growth. Similarly, the increase in cost of sales is in line with the increase in volumes.
General administrative expenses	(6,426)	(1,749)	(4,677)	267%	General administrative expenses increased due to: • Increase in personnel headcount, consulting and professional fees and regulatory fees related to sales growth. • Increase in travel and entertainment expenses due to sales growth. • Implementation of an ERP system which will support the growth of the Company.
Marketing and selling expenses	(834)	(597)	(237)	40%	Marketing and selling expenses increased due to increase in personnel headcount attributable to marketing and selling activities and investor relations.
R&D expenses	(448)	-	(448)	NA	R&D expenses were incurred in the fourth quarter of 2019 in connection with new product development.
Share-based compensation expenses	(4,631)	(738)	(3,893)	528%	Expenses incurred due to remuneration in the form of share-based payments granted to employees (including senior executives) grew due to expanding headcount and increased fair value of options granted.
Transaction fee	-	(4,230)	4,230	NA	Expeses incurred due to the completion of reverse take over of the Company on October 1, 2018.
Other operating expenses	(150)	(19)	(131)	689%	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.
Operating loss	**(2,502)**	**(3,366)**	**864**	**(26%)**	See comments above.
Adjusted EBITDA	**2,661**	**2,129**	**532**	**25%**	The increase in Adjusted EBITDA is mainly attributable to the increase of revenue and gross profit, partially offset by the increase in general and administrative expenses, marketing and selling 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	220	22	198	900%	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.

	Three-months ended December 31		Change		
$'000s	**2019**	**2018**	**$**	**%**	**Management Commentary**
Finance expense	(119)	(198)	79	(40%)	Finance expenses increased due to increase in interest expenses on loan and lease liability.
Loss before taxation	**(2,401)**	**(3,542)**	**1,141**	**(32%)**	See comments above.
Taxation expense	(1,138)	-	(1,138)	NA	Taxation expense increased due to having taxable profit for the three-month period ended December 31, 2019, which excludes non-deductible expenses such as stock based compensation.
Net loss for the period	**(3,539)**	**(3,542)**	**3**	**0%**	See comments above.
Attributable to					
- Non controlling interest	(318)	(32)	(286)	894%	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	(3,221)	(3,510)	289	(8%)	See comments above.

Discussion and Analysis of the Results for the Year Ended December 31, 2019

Results of operations for the year ended December 31, 2019 as compared to the year ended December 31, 2018.

	Year ended December 31		Change		
$'000s	**2019**	**2018**	**$**	**%**	**Management Commentary**
Revenue	129,252	10,198	119,054	1167%	After receiving Health Canada sales authorization in November 2018, the Company started private label wholesale and tolling activities. Results for the year ended December 31, 2018 covers only one month sale activities and are accordingly not comparable.
Cost of sales	(86,338)	(6,231)	(80,107)	1,286%	
Gross profit	**42,914**	**3,967**	**38,947**	**982%**	

	Year ended December 31		Change		
$'000s	**2019**	**2018**	**$**	**%**	**Management Commentary**
General administrative expenses	(15,357)	(3,556)	(11,801)	332%	General administrative expenses increased due to the following reasons: • Increase in personnel headcount, consulting and professional fees and regulatory fees related to the growth of sales. • 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 growth of sales. • Incurred expenses related to TSX, TSXV and OTC filings. • Implementation of new ERP system which will support the growth of the Company.
Marketing and selling expenses	(3,330)	(1,272)	(2,058)	162%	Marketing and selling expenses increased due to the following activities: • Investor communication activities after commencing trading on the TSX in July 2019. • Advertising and promotional activities including marketing materials, memberships, conferences, and digital marketing. • Increase in personnel headcount attributable to marketing and selling activities.
R&D expenses	(867)	-	(867)	NA	R&D expenses were incurred due to formulating, manufacturing and filling of vape pens and new product development.
Share-based compensation expenses	(15,502)	(1,965)	(13,537)	689%	Expenses incurred due to remuneration in the form of share-based payments granted to employees (including senior executives) grew due to expanding headcount and increased fair value of options granted.
Transaction fee	-	(4,230)	4,230	NA	Expeses incurred due to the completion of reverse take over of the Company on October 1, 2018.
Other operating expenses	(920)	(996)	76	(8%)	Last year, other operating expenses included start-up and pre-manufacturing cost which incurred prior to the commencement of production in September 2018. These expenses included testing and implementation of processes, research activities for testing purposes. This year, we did not have start-up or pre-manufacturing cost but other operating expenses did include expensed assets that are not in use and foreign exchange losses.
Operating income/(loss)	**6,938**	**(8,052)**	**14,990**	**186%**	See comments above.

	Year ended December 31		Change		
$'000s	**2019**	**2018**	**$**	**%**	**Management Commentary**
Adjusted EBITDA	**24,737**	**(875)**	**25,612**	**2,927%**	The increase in Adjusted EBITDA is mainly attributable to the increase of revenue and gross profit, partially offset by the increase in general and administrative expenses, marketing and selling 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	486	64	422	659%	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	(672)	(478)	(194)	41%	Finance expenses increased due to increase in interest expenses on the loan, finance fees and lease liability.
Income/(loss) before taxation	**6,752**	**(8,466)**	**15,218**	**180%**	See comments above.
Taxation expense	(5,621)	-	(5,621)	NA	Taxation expense increased due to having taxable profit for the year ended December 31, 2019, which excludes non-deductible expenses such as stock based compensation.
Net income /(loss) for the period	**1,131**	**(8,466)**	**9,597**	**113%**	See comments above.
Attributable to					
- Non controlling interest	(514)	(80)	(434)	542%	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	1,645	(8,386)	10,031	120%	See comments above.

SELECTED ANNUAL INFORMATION

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

	For the year ended		
	December 31 2019 $'000s	**December 31 2018 $'000s**	**December 31 2017 $'000s**
Cash and cash equivalents	38,627	7,850	2,493
Current assets	119,701	26,614	3,199
Total assets	168,830	42,729	5,393
Current liabilities	28,846	14,886	2,524
Total liabilities	37,603	14,886	2,524
Share capital and reserves	139,767	37,474	4,043
Accumulated deficit	(8,189)	(9,834)	(1,169)
Total revenue	129,252	10,198	-
Net income/(loss) attributable to equity holder of parent	1,645	(8,386)	(990)
Basic gain/(loss) per share	0.01	(0.12)	(0.03)
Diluted gain/(loss) per share	0.01	(0.12)	(0.03)

Overall year-over-year changes in the financial position of the Company are largely attributed to the Company's commercialization in late 2018, and the ramp-up of sales of bulk cannabis concentrates through 2019.

Increased current assets are the result of increased cash, accounts receivable and inventory at December 31, 2019, resulting from the growth of the operations in 2019 and the Bought Deal Financing. The increase in total assets is the result of the current assets discussed above and the build out of Australian facility, extension/renovation of Barrie facility and new machinery that expanded production capacity and capabilities during the year ended December 31, 2019.

Increased total liabilities are the result of increased accounts payable due to increase in inventory and investments and long-term credit facility.

The decrease in accumulated deficit is the result of income earned in 2019 from the Company's growing operations.

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

SUMMARY OF QUARTERLY RESULTS

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

	Three-months ended			
	December 31 2019 $'000s (Unaudited)	**September 30 2019 $'000s** (Unaudited)	**June 30 2019 $'000s** (Unaudited)	**March 31 2019 $'000s** (Unaudited)
Total revenue	32,444	43,386	31,472	21,950
Net (loss)/income attributable to equity holder of parent	(3,221)	3,376	1,999	(510)
Basic (loss)/gain per share	(0.03)	0.03	0.02	(0.01)
Diluted (loss)/gain per share	(0.02)	0.02	0.01	(0.01)

	Three-months ended			
	December 31 2018 $'000s (Unaudited)	**September 30 2018 $'000s** (Unaudited)	**June 30 2018 $'000s** (Unaudited)	**March 31 2018 $'000s** (Unaudited)
Total revenue	10,198	Nil	Nil	Nil
Net loss attributable to equity holder of parent	(3,503)	(1,954)	(1,586)	(1,334)
Basic loss per share	(0.05)	(0.02)	(0.02)	(0.03)
Diluted loss per share	(0.05)	(0.02)	(0.02)	(0.03)

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. The decrease in revenue seen by the Company in the three-month period ended December 31, 2019 as compared to the three-month period ended September 30, 2019 was due to a decrease in selling prices and volumes. As a result of lower quarterly revenues, ERP system implementation costs and stock-based compensation, the Company realized a net loss in the 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.

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

	Year ended	**Three-months ended**			
	December 31, 2019 $'000s	**December 31, 2019 $'000s**	**September 30, 2019 $'000s**	**June 30, 2019 $'000s**	**March 31, 2019 $'000s**
Income / (loss) from operations - as reported	**6,938**	**(2,502)**	**5,365**	**4,227**	**(152)**
Add / (deduct):					
Share-based compensation expense	15,502	4,631	4,157	2,742	3,972
Depreciation	2,297	532	544	731	490
Adjusted EBITDA	**24,737**	**2,661**	**10,066**	**7,700**	**4,310**

	Year ended December 31, 2018 $'000s	Three-months ended December 31, 2018 $'000s
Income / (loss) from operations - as reported	(8,052)	(3,366)
Add / (deduct):		
Share-based compensation expense	1,965	738
Depreciation	982	527
Transaction fees (excluding legal fee)	4,230	4,230
Adjusted EBITDA	**(875)**	**2,129**

CAPITAL STRUCTURE

Outstanding Equity Securities

Common Shares

The Company's authorized capital consists of an unlimited number of Common Shares. As at December 31, 2019, the Company had 131,525,068 Common Shares issued and outstanding and as at the date of this MD&A the Company had 134,723,297 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 December 31, 2019 the Company had the following Common Share purchase warrants issued and outstanding: 4,556,855 March Warrants; 596,505 March Broker Warrants; 5,638,480 June Warrants; and 754,207 June Broker Warrants.

Subsequent to December 31, 2019, 2,471,229 March Warrants and 725,200 June Warrants were exercised resulting in: 2,085,626 March Warrants and 4,913,280 June Warrants remaining outstanding as of the date of this MD&A.

Stock Options

As at December 31, 2019, the Company had 11,760,020 stock options outstanding. During the year ended December 31, 2019, options to purchase up to 9,697,150 Common Shares were issued, options to purchase 6,909,107 Common Shares were exercised, and options to purchase up to 417,630 Common Shares were cancelled and/or expired.

Subsequent to December 31, 2019, 1,800 options were exercised, and 109,620 stock options were cancelled, resulting in 11,648,600 stock options remaining outstanding as of the date of this MD&A.

Debt Facilities

The following discusses the movement in the Company's debt balances during the year ended December 31, 2019:

Mortgage Payable

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

- The first mortgage ($3,000) 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 ($3,000) bears interest of floating rate at the greater of 11% per annum or the TD Canada Trust Posted Bank Prime Rate of interest plus 7.30% per annum.

Both mortgages had a term of one year and were repaid on October 10, 2019 in connection with the new credit facility discussed under "Loans" below.

Lease Liability

With the adoption of IFRS 16, *Leases*, the Company recognized right-of-use assets and lease liability for the contracts that the Company entered. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Company's incremental borrowing rate.

The Company leases assets including land, building, equipment, motor vehicles and IT equipment. As of December 31, 2019, the short-term lease liability (payments due in less than 12 months) is $364 and long-term lease liability is $641. The Company has lease contracts up to five-year term.

Loans

On October 10, 2019, MediPharm Labs, as borrower, signed a credit agreement with the Bank, as lender, for an aggregate of $38,700. The credit agreement will bear 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.

The revolving term facility is for up to $25,000 subject to the Company's borrowing base, can be drawn in Canadian or Australian dollars, has a one-year term and is to be used for Canadian and Australian working capital. As of December 31, 2019, the Company has no outstanding borrowing amounts in connection with the revolving credit facility.

The $5,700 non-revolving term facility was fully drawn on October 10, 2019, has a three-year term and was used to refinance and reduce the interest expense of the existing mortgage. The effective annual interest rate is 6.07%. The non-revolving term facility matures on October 9, 2022 and is repayable in mandatory quarterly instalments.

The non-revolving delayed draw term facility of up to $8,000 has a three-year term and may only be used to fund capital expenditures. As of December 31, 2019, the Company has outstanding amounts payable under the non-revolving delayed draw term facility of $4,000. The effective annual interest rate is 6.12%. This non-revolving delayed draw term facility matures on October 9, 2022 and is repayable in mandatory quarterly installments.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Management's objectives when managing the Company's liquidity and capital structure are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company constantly monitors and manages its capital resources to assess the liquidity necessary to fund operations and capacity expansion.

As at December 31, 2019, the Company had a positive working capital of $90,855 (December 31, 2018 - $11,728). The increase in working capital was driven primarily by Bought Deal Financing for gross proceeds of $75,003 and increased accounts receivables due to increased revenue.

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

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

	Three-months ended December 31			
$'000s	**2019**	**2018**	**Change**	**Management Commentary**
Net cash provided by/ (used in) operating activities	1,052	(1,183)	2,235	Positive cash flow from the operating activities is the result of effective collection of outstanding accounts receivable and less inventory purchases due to inventory management.
Net cash (used in) investing activities	(9,464)	(3,547)	(5,917)	Cash used in investing activities are mainly driven by capital expenditure, mostly including the purchase of machineries, the renovation of Barrie facility and the construction of Australia facility. In 2018, the cash used in investing activities was driven mainly by purchase of production machineries.
Net cash provided by financing activities	4,971	6,172	(1,201)	Cash provided by financing activities in 2019 is driven by $9.7 million credit facility, repayment of and exercise of stock options, net of repayment of $6 million mortgage from 2018. In 2018, cash provided by financiang activities is mainly driven by $6 million proceeds from mortgage.
Effect of exchange rate changes on cash	(48)	24	(72)	Change is driven by foreign exchange rate changes and increased volume of transactions at Australian facility.
Cash and cash equivalents, beginning of period	42,116	6,384	35,732	-
Cash and cash equivalents, end of period	38,627	7,850	30,777	See comments above.

$'000s	Year ended December 31 2019	2018	Change	Management Commentary
Net cash (used in) operating activities	(25,265)	(11,113)	(14,152)	Cash used in operating activities is derived from the increase in accounts receivable which is a result of the ramping up of sales in 2019 and increase in inventory as in line with increase in production which is partially offset by increase in accounts payable.
Net cash (used in) investing activities	(32,546)	(14,603)	(17,943)	Cash used in investing activities are mainly driven by capital expenditure, mostly including the purchase of machineries, the renovation of Barrie facility and the construction of Australia facility. In 2018, the cash used in investing activities was driven by purchase of Barrie facility and production machineries.
Net cash provided by financing activities	88,499	31,064	57,435	Cash provided by financing activities are mainly driven by Bought Deal financing, credit facility loan, and proceeds from warrant and stock option exercises, net of repayment of 2018 mortgages. In 2018, cash provided by financing activities was driven by issuance of shares and proceeds from mortgage.
Effect of exchange rate changes on cash	89	9	80	Change is driven by foreign exchange rate changes and increased volume of transactions at Australian facility.
Cash and cash equivalents, beginning of year	7,850	2,493	5,357	-
Cash and cash equivalents, end of year	38,627	7,850	30,777	See comments above.

Contractual obligations

The Company's contractual obligations as at December 31, 2019 increased by $17,432 mainly due to the increased accounts payable related to dried cannabis purchases and capital expenditure liabilities, lease liabilities and loans from the credit facility. The Company's short-term (less than one year) undiscounted contractual obligations are $22,269 and long-term undiscounted contractual obligations are $9,428.

Under the cannabis material purchase agreements signed within the reporting period, MediPharm Labs committed to purchase dry cannabis flower amounting to $7,122 within 12 months. All such purchases were completed subsequent to December 31, 2019.

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

Contractual Obligations	Total	Payments due by Period < 1 year	1-3 years	4-5 years	> 5 years
Debt	$9,700	$934	$8,766	-	-
Lease Liabilities	$1,051	$389	$506	$156	-
Purchase Obligations	$7,122	$7,122	-	-	-
Trade Payables	$20,946	$20,946	-	-	-
Total Contractual Obligations	$38,819	$29,391	$9,272	$156	-

Capital Resources

As of December 31, 2019, 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 the Barrie and Australian facilities. See below "Use of Funds Reconciliation" for details of intended expansion related expenditures. The Company currently expects that the net proceeds of the Bought Deal Financing and credit facility, along with internally generated cash and cash equivalents, 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".

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 year ended December 31, 2019, MediPharm Labs completed the following share issuances for cash proceeds:

- During the year ended December 31, 2019, 6,909,106 stock options (2018: 3,170,000 stock options) and 13,562,602 warrants (2018: 672,733 warrants) were exercised into Common Shares for the proceeds of $2,510 (2018: $25) and $11,972 (2018: $733), respectively.

- On June 17, 2019, the Company closed the Bought Deal Financing for gross proceeds of $75,003 and issued 13,514,000 shares. The Company incurred transaction cost of $2,694 (net of tax) in connection with the Bought Deal Financing which were recorded as a reduction to share capital.

Use of Funds Reconciliation

Upon the completion of 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 (the "Short Form Prospectus"), which may be viewed on its SEDAR profile at www.sedar.com, and the expensed amount as at December 31, 2019:

Principal Use of Available Funds	Estimated ($'000s)	Current Expensed ($'000s)
Canadian facility expenses	24,000	12,144
Australian facility expenses	5,500	4,620
International expansion expenses	20,000	73
R&D expenses	6,000	867
G&A expenses and working capital	15,081	25,081
Total	**70,581**	**42,785**

Given the current supply and demand situation for bulk extracts within the Canadian market, the Company intends to streamline its international expansion efforts by 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.

In that regard, the Company expects to incur additional international expansion expenses from that incurred as at December 31, 2019 through its continued support of its sales efforts into international channels and regulatory compliance costs associated with exporting to various jurisdictions, and the Company expects to re-allocate some of the $20 million allocated international expenses to new product development (R&D expenses) and dried flower purchases for inventory (G&A expenses and working capital).

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 year ended December 31, 2019 was $2,072 (2018: $878) included in consulting fees and salaries and benefits.

During the year ended December 31, 2019, the Company issued 3,440,000 options (2018: 3,403,200 options) at an average exercise price of $2.10 per share (2018: $0.21 per share) to its key management personnel and recognized total share-based compensation of $7,216 (2018: $737). During the year ended December 31, 2019, the key management personnel exercised 3,263,200 options for gross proceeds of $1,097 (2018: nil).

The bonus for the year ended December 31, 2019 will be paid to the officers of the Group in stock options. As of the date of this report the options have not been granted yet and when granted, number of options will be calculated using Black Scholes option pricing model for targeted bonus of $728.

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 year ended December 31, 2019, the Company incurred $24 (2018: Nil) operational expenses as a result of transactions with the key management personnel's related entities, which was comprised of:

- $11 in 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;
- $4 in consulting fees to an entity over which the CEO of MediPharm Labs Australia has significant control, for the provision of a series of consulting workshops; and
- $9 in accounting advisory services from an accounting firm in which one of the Company's directors is a limited partner, with such director having no active role in providing such services.

As at December 31, 2019, the Company has $4 (2018: $16) due to due to key management personnel and entities over which they have control or significant influence. The balance is related with reimbursement of expenses and rent expenses. 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 if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Company holds cash of $38,627 (2018: $7,850). The cash is held with banks and financial institutions that are highly rated. At December 31, 2019, the exposure to credit risk for trade receivables and contract assets by the type of customer is $26,105 for business to business customers (2018: $6,427) and $112 for distributors and retailers (2018: Nil).

The Company limits its exposure to credit risk from trade receivables and contract assets by 50% 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 December 31, 2019, 86% of the Company's trade receivables (December 31, 2018: 96%) was due from three customers (December 31, 2018: two customers) each representing more than 10% of the Company's trade receivables balance. Subsequent to period-end, the Company commenced legal collection proceedings with respect to $8,531 of the Company's trade receivable balance (see "Subsequent Events") due form one client. The past due portion of such trade receivables subject to legal collection proceedings comprised 90% of all the Company's past due trade receivables as at December 31, 2019. As of the date of this MD&A, all other of the Company's past due trade receivables that were outstanding as at December 31, 2019 have been collected.

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. The Company has therefore not recognized an allowance for expected credit losses in connection

with its trade receivables, including those invoices for which the Company commenced legal collection proceedings.

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 $38,627 (2018: $7,850) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, the management maintains flexibility in funding by maintaining a minimum cash level at banks and financial institutions.

Management monitors rolling forecasts of the 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. However, there remains a risk that the Company may breach such covenants, which could negatively impact the Company's liquidity position.

Interest rate risk

The Company has fixed-rate loans and borrowings; therefore, the Company's interest rate exposure is at fixed rate. The Company does not account for any fixed rate financial liabilities at fair value through profit or loss (FVPL); therefore, a change in interest rate at the reporting date would not affect profit or loss.

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 (as defined below);
- 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 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, 2019:

IFRS 16, Leases

The Company adopted IFRS 16, *Leases*, on January 1, 2019. The Company elected to account for lease payments as an expense on a straight-line basis over the lease term since the lease term for those leases was less than 12 months and contained no purchase options. Therefore, there is no impact on the accumulated deficit.

For the contracts entered into on or after January 1, 2019, we assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

We recognize a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying assets or to restore the underlying asset of the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use-asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date and discounted using the interest rate implicit in the lease or if that rate cannot be readily determined our incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in our estimate of the amount expected to be payable under a residual value guarantee, or if we change our assessment of whether we will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the statement of income if the carrying amount of the right-of-use asset has been reduced to zero.

The adoption of IFRS 16, Leases, did not have a significant impact on the Company's property, plant and equipment or liability balances upon transition. The effect of change on the consolidated statement of income is $172 increase in depreciation expense and $14 increase in interest expense and $135 decrease in operating expenses.

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

A number of new and amendments to accounting standards are effective for annual periods beginning on or after January 1, 2020 and earlier application is permitted. However, the Company has not early adopted the new or amended standards in preparing the Financial Statements. The following new and amendments to standards are not expected to have a significant impact on the Company's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards

- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- 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**") evaluated, or caused to be evaluated under their direct supervision, the design and operating effectiveness of disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) at December 31, 2019, and based on that evaluation, have concluded that such disclosure controls and procedures were appropriately designed and were operating effectively.

Management is responsible for establishing adequate 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. The CEO and CFO evaluated, or caused to be evaluated under their direct supervision, the effectiveness of our internal control over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) at December 31, 2019, using the Internal Control - Independent Framework (COSO Framework 2013), published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that assessment, the CEO and the CFO determined that our internal controls over financial reporting were appropriately designed and were operating effectively.

No changes were made in our design of internal controls over financial reporting during the year ended December 31, 2019, 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.

SUBSEQUENT EVENTS

Statement of Claim

On January 24, 2020, MediPharm Labs filed a statement of claim (the "Statement of Claim") in the Ontario Superior Court of Justice against one of its long-term purchasers of cannabis concentrates. The claim relates to, among other things, the payment of outstanding amounts as of the date of the claim of approximately $9.8 million for product shipped to and received by the customer. On February 26, 2020, the defendant filed a statement of defence and counterclaim for $35 million. MediPharm Labs has served a reply and

defence to the counterclaim. We believe that our claim is meritorious, and the counterclaim is without merit. We served a motion for summary judgment on March 27, 2020.

COVID-19 Pandemic

On January 30, 2020, the World Health Organization ("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 have begun enacting measures to combat the spread of COVID-19. The COVID-19 outbreak continues to rapidly evolve and is causing business disruptions across the entire global economy and society. 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 cannot be predicted at this point.

Australian Licence to Import Drugs

On January 31, 2020, we announced that MediPharm Labs Australia received an importation licence with respect to the importation of drugs listed in Schedule 4 of the Australian *Customs (Prohibited Imports) Regulations 1956*, which includes cannabis, cannabinoids and cannabis resin. Upon the receipt of the applicable import permits, this licence will allow 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.

Agreement with Shoppers Drug Mart

On February 20, 2020, we announced that Shopper Drug Mart and MediPharm Labs entered into a supply agreement. Under the agreement, MediPharm Labs will provide Shoppers Drug Mart with medical cannabis products, including under its own house brand, for distribution through the online Medical Cannabis by Shoppers platform.

Launch of Additional Products

On March 25, 2020, we announced that we completed our initial shipments of filled and packaged topicals pursuant to a contract manufacturing agreement.

On March 26, 2020, we announced the launch of our first MediPharm Labs branded product within Canada, MediPharm Labs CBD REGULAR FORMULA 25.