(TSX: LABS)

MEDIPHARM LABS CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX-MONTHS ENDED JUNE 30, 2019

August 12, 2019

This Management's Discussion and Analysis ("**MD&A**") for the three and six-months ended June 30, 2019 was prepared by management as of August 12, 2019. Unless the context indicates or requires otherwise, the terms "the Company", "we", "us" and "our" mean MediPharm Labs Corp. and its subsidiaries. This MD&A should be read in conjunction with our unaudited consolidated financial statements for the three and six-months ended June 30, 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 April 3, 2019 (the "**Annual Information Form**"), is available at www.medipharmlabs.com or through the SEDAR website at www.sedar.com.

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

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

The Financial Statements and accompanying notes were prepared in accordance with International 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. The Financial Statements have been prepared by our management in accordance with IAS 34 for Interim Financial Reporting. 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.

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.

Some of the risks related to forward-looking statements include, among other things, those outlined in "Risk Factors" and 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.

PERIOD FINANCIAL HIGHLIGHTS

The following table is a summary of financial highlights for the three-month periods ended June 30, 2019, March 31, 2019 and December 31, 2018.

	Three-months ended June 30, 2019 $'000s	Three-months ended March 31, 2019 $'000s	Three-months ended December 31, 2018 $'000s
Revenue	31,472	21,950	10,198
Gross profit	11,311	6,862	3,967
Gross margin %	*36%*	*31%*	*39%*
Net income/(loss) before tax	4,083	(325)	(3,542)
Adjusted EBITDA[(1)]	7,700	4,310	2,129
Adjusted EBITDA margin %	*24%*	*20%*	*21%*

- Revenue of $31.5 million, a 43% increase over Q1 2019 due to an increase in volume of processed and sold product.
- Gross profit of $11.3 million and gross margin of 36%. The increase in gross margin percent is primarily a result of increase in volume and efficiency partially offset by a reduction in average sales prices and increased variable cost in Q2 2019.
- Adjusted EBITDA[(1)] of $7.7 million, a 79% increase over Q1 2019, and Adjusted EBITDA[(1)] margin of 24%. The increase in Adjusted EBITDA is a result of increase in revenue and gross profit while keeping the ratio of operating expenses to revenue stable.
- Positive net income before tax of $4.1 million. Increased sales volumes and decreased share-based compensation expenses due to non-issuance of any new options in Q2 2019 drove the increase in net income before tax.
- Capital investment to build scale in Canada and Australia that will support an increase in the Company's addressable markets and further diversify its product lines in anticipation of expanded Canadian legalization in the fall of 2019.
- Received over $70 million in cash proceeds from public equity offering and over $9.5 million in cash proceeds from warrant exercises in Q2 2019.

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

Note:

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

COMPANY OVERVIEW

We are a specialized, research-driven cannabis extraction business focused on downstream extraction methodology, distillation, and cannabinoid isolation and purification. Our mission is to become a global leader specialized in providing 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 is licensed under the *Cannabis Act* (Canada) (the "**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 extracts and tinctures of cannabis and cannabis resin and have commenced 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". The Common Shares now trade on the TSX under the symbol "LABS"; see "Subsequent Events".

Business Overview

Founded in 2015, we specialize in the production of purified, pharmaceutical-like cannabis oil and concentrates and advanced derivative products utilizing a Good Manufacturing Practices ("**GMP**") designed 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 having 300,000 kg of annual processing capacity to deliver pure, safe and precisely-dosed cannabis products for customers. Through our wholesale, 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 first commercial export to Australia in June 2019 and are nearing completion of our Australian extraction facility expected in 2019 with 75,000 kg of annual processing capacity.

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 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 Act. 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 Act;
- a holder of a licence for analytical testing under the Act;
- a holder of a licence for research under the Act;
- a holder of a cannabis drug licence under the Act;
- the Minister of Health;
- a person to which an exemption has been granted under section 140 of the 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 Act; and
- a person authorized to sell cannabis under a provincial Act, such as a provincially authorized retailer or distributor.

At our 70,000 sq. ft. Barrie, Ontario facility, we currently operate five supercritical CO_2 primary extraction lines used to produce cannabis oil with total annual throughput capacity of up to 300,000 kg.

The facility has been built to GMP and we are expecting to receive a European GMP certificate in the second half of 2019, which will facilitate our entrance into the European market via export.

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 is expected to have annual throughput capacity of up to 75,000 kg of dried cannabis and is being built to the same GMP standards as our Canadian facility. The completion of the Australian facility remains subject to various conditions, including the finalization of construction and receipt of applicable additional licences and local permits such as a GMP licence under the Australian *Therapeutic Goods Act 1989*.

Prior to generating revenue from the Australian facility, we expect to incur various expenses, including $3,500,000 to complete the first phase of construction of the 10,000 sq. ft. facility, and $2,000,000 to purchase primary extraction equipment. We expect such construction and equipment installation to be completed in the second half of 2019. See "Liquidity and Capital Resources - Capital Resources" for further details.

As with our Canadian operations, we will purchase dried cannabis supply from various local Australian cultivators to produce cannabis oil for wholesale. We also expect to use the Australian facility as an import-export hub to access other lawful global markets including within the Asia-Pacific region.

The statements regarding intended expansions, operating capacities, GMP certifications and licensing and permitting 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 inventory of dried cannabis through primary supercritical CO_2 extraction lines and sell the resulting bulk cannabis extracts to our licensed clients. The Company's clients can then formulate and package the final cannabis products for sale, most typically to either their own medicinal clients or provincially authorized retail distributors, under their own brands. The Company has historically procured bulk shipments of dried cannabis for its wholesale production lines and expects to negotiate ongoing supply contracts with various licenced cultivators under the Act. Below is an overview of the current long-term private label supply contracts that the Company has entered in to, in addition to various spot cannabis oil sales from time to time:

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

Long-term Bulk Extracts Agreements		
Customer	**Date**	**Description**
Canopy Growth Corporation	November 29, 2018	Up to 900 kilograms over a term of 18 months.
Undisclosed licence holder under the Act	February 12, 2019	Approximately $27 million of cannabis oil 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.
AusCann Group Holdings Ltd.	February 20, 2019	First international export agreement, with first related commercial export completed in June 2019.
Peace Naturals Project Inc.	May 13, 2019	Approximately $30 million of cannabis concentrate over 18-months, and, subject to certain renewal and purchase options, potentially up to $60 million over 24 months.

White Label Production

The Company also expects to commence shipping white label cannabis products on behalf of its clients. We expect our first white label shipments to commence in December 2019 and be comprised of vape pens once Health Canada begins providing authorizations to ship such products.

As part of our white label platform, we will provide high-quality cannabis extracts, filling services and national distribution of a line of custom-formulated client-branded cannabis derivative products. Our clients will leverage their branding and product expertise to design, brand and market the products in compliance with the Act.

See "Highlights for the Six-Month Period Ended June 30, 2019" for details on the Company's first white label vape pen contract with Ace Valley.

Tolling and Contract Manufacturing Services

The Company provides tolling services to various licensed cultivators throughout Canada. As part of this program, the Company receives dried cannabis from its clients and then processes the cannabis through its extraction lines on their behalf and if requested can also turn the extracts into value added products such as client-branded formulated cannabis oil bottles. We collect fee for services and do not take ownership of the source or refined product. As of the date of this MD&A, we have the following cannabis concentrate program customers:

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

Cannabis Concentrate Program Agreement		
Customer	**Date**	**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.	May 13, 2019	Two years

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

We intend to continue up the value-chain to secondary extraction and have been completing R&D with our team of internal and external scientists and technical specialists for the development of industrial scale distillation and chromatography capabilities.

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 2019.

As the regulations under the Act continue to evolve, including the expected legal commercialization of vapeables, edibles, beverages and topicals in December 2019, we anticipate our potential client-base will expand (such as to consumer-packaged goods (CPG) companies) driving a diversification of our product offering. In anticipation of these regulatory changes and to meet these coming opportunities, we have already begun building our product teams, potential client base and product capabilities, in particular with respect to vapeables.

We have completed R&D related to the formulating, manufacturing and filling of multiple vape pens. Required equipment for vapeables has been deployed and commercial activities will be initiated as soon as Health Canada regulations allow.

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

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

Highlights for the Six-Month Period Ended June 30, 2019

During the six-month period ended June 30, 2019, we succeeded in accomplishing numerous milestones, including entering into a new tolling agreement, a new bulk oil sales agreement, our first commercial export and our first white label vaporizer agreement.

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 continued to trade under the symbol "MEDIF".

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.

Long-term Bulk Extracts Sale 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.

First Export Agreement and Related Export

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 the first shipment of product under this agreement in June 2019 after the required import and export authorizations were received.

New Bulk Resin Supply Agreement and Cannabis Concentrate Program Agreement with Cronos Group Inc.

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, we 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 we 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.

Committed Term Sheet for $20 Million Debt Facility

On May 14, 2019, MediPharm Labs signed a non-binding committed term sheet for a $20 million senior secured revolving credit facility with a Canadian Schedule 1 Bank (the "**Credit Facility**"). MediPharm Labs' ability to draw down on the Credit Facility is subject to the negotiation and execution of a definitive credit agreement, guarantees, and security documents (collectively, the "**Credit Documents**") as well as the satisfaction of other customary closing and drawdown conditions, which is expected to occur during the third quarter of 2019. The Credit Facility will also be subject to certain customary financial and other covenants for a financing of this type. There is no assurance that the Credit Documents will be completed or that any amount will be drawn under the Credit Facility. Amounts drawn under the Credit Facility will be guaranteed by the Company and MediPharm Labs Australia. See "Cautionary Note Regarding Forward-Looking Statements".

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.

Receipt of Manufacturing Licence by MediPharm Labs Australia

On May 21, 2019, MediPharm Labs Australia received the Australian Licence with respect to the manufacture of extracts and tinctures of cannabis and cannabis resin under the Australian Act. The Australian facility is expected to have annual throughput capacity of approximately 75,000 kg of dried cannabis once completed and is being built to the same GMP standards as the Company's Canadian facility. The completion of the Australian facility remains subject to various conditions, including the finalization of construction and receipt of applicable additional licences and local permits such as a GMP licence under the Australian *Therapeutic Goods Act 1989*.

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

Selected to Participate in Clinical Study to Develop Treatment of Opioid Addiction

On May 22, 2019, the Company announced that it had been selected to support a clinical trial dedicated to developing a non-addictive oral CBD-based medication for the treatment of opioid use disorder through anti-anxiety intervention utilizing hemp-derived cannabidiol combined with a proprietary formula. This will be a US and international large-scale, multi-site clinical trial that will include at least 500 patients spanning the US, Canada, Australia, Europe and Jamaica.

The arrangement remains subject to (i) entering into definitive documentation governing the clinical trial and related intellectual property and (ii) certain regulatory approvals including receipt of applicable export permits from Health Canada. The ability of MediPharm Labs to supply the CBD-based medication, entering into definitive agreements, the terms of the Clinical Trial, the enrollment of suitable

participants and the creation or commercialization of any products resulting from the study are forward-looking statements. See "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors".

Licensing

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 and Ontario. The Company is also an approved supplier in the provinces of Saskatchewan, Manitoba and Quebec.

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.

White Label Vape Pen Agreement

On June 18, 2019, we entered into our first white label vape pen agreement to supply 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 vape pens. Supply of vape pens under the Agreement remains subject to the Company completing the build-out of its vape-pen line, receiving the requisite regulatory approvals for the sale of extracts, and receipt of purchase orders from provincial distributors and/or retailers.

DISCUSSION OF OPERATIONS

Overview

Revenue

In the second quarter of 2019, we commenced generating revenue from its tolling activities. However, the wholesale of cannabis oil through the Company's private label program is still the primary revenue driver during the six-month period ended June 30, 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, 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, rent and occupancy cost, filing fees and shareholder communications, and other expenses related to the infrastructure required to support the Company's business.

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

Share-based compensation expense includes stock options granted.

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

Finance income

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

Finance expense

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

Taxation expense

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

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 and Six-Month Periods Ended June 30, 2019 to 2018

Discussion and Analysis of the Results for the Three-Month Period Ended June 30, 2019

Results of operations for the three months ended June 30, 2019 as compared to the three months ended June 30, 2018.

	Three-months ended June 30		Change		
$'000s	**2019**	**2018**	**$**	**%**	**Management Commentary**
Revenue from contracts with customers	31,472	-	31,472	N/A	After receiving the sales authorization amendment to our Licence in November 2018, the Company commenced private label wholesale and tolling activities. Since then, the volume of sales has grown quarter over quarter. Results for the three months ended June 30, 2018 do not reflect any sale activities and are accordingly not comparable.
Cost of sales	(20,161)	-	(20,161)	N/A	
Gross profit	**11,311**	**-**	**11,311**	**N/A**	
General administrative expenses	(3,225)	(564)	(2,661)	472%	General administrative expenses increased due to the following reasons: • Increase in personnel headcount and consulting and professional fees related to the start and 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 start and growth of sales. • Incurred expenses related to TSXV and OTC filings.
Marketing and selling expenses	(859)	(131)	(728)	556%	Marketing and selling expenses incurred due to commencement of sales activities and following activities specifically: • Investor communication activities started after commencing trading on the TSXV in October 2018. • Advertising and promotional activities including marketing materials, memberships, conferences, and digital marketing. • Increase in personnel headcount attributable to marketing and selling activities. • Increase in travel and entertainment expenses due to the start and growth of sales.
Share-based compensation expenses	(2,742)	(468)	(2,274)	486%	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.

	Three-months ended June 30		Change		
$'000s	**2019**	**2018**	**$**	**%**	**Management Commentary**
Other operating expenses	(258)	(339)	81	24%	Last year during the quarter, 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 during the quarter, we did not have start-up or pre-manufacturing cost but other operating expenses did include expensed assets that are not in use.
Operating income/(loss)	**4,227**	**(1,502)**	**5,729**	**381%**	See comments above.
Adjusted EBITDA	**7,700**	**(905)**	**8,605**	**951%**	The increase in Adjusted EBITDA is mainly attributable to the commencement of production and sales, which resulted in an increase of revenue and gross profit, offset by the increase in general and administrative expenses and marketing and selling expenses. Adjusted EBITDA is a non-IFRS measure. See "Reconciliation of Non-IFRS Measures" for reconciliation to IFRS measures.
Finance income	36	-	36	N/A	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	(180)	(99)	(81)	82%	Finance expenses increased due to increase in interest expenses on the mortgage payable and finance fees.
Income/(loss) before taxation	**4,083**	**(1,601)**	**5,684**	**355%**	See comments above.
Taxation expense	(2,116)	-	(2,116)	N/A	Taxation expense incurred due to having taxable profit for the three-month period ended June 30, 2019.
Net income /(loss) for the period	**1,967**	**(1,601)**	**3,568**	**223%**	See comments above.
Attributable to					
- Non controlling interest	(32)	(15)	(17)	113%	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	1,999	(1,586)	3,585	226%	See comments above.

Discussion and Analysis of the Results for the Six-Month Period Ended June 30, 2019

Results of operations for the six months ended June 30, 2019 as compared to the six months ended June 30, 2018.

	Six-months ended June 30		Change		
$'000s	**2019**	**2018**	**$**	**%**	**Management Commentary**
Revenue from contracts with customers	53,422	-	53,422	N/A	After receiving Health Canada sales authorization in November 2018, the Company commenced private label wholesale activities. Results for the six months ended June 30, 2018 do not reflect any sale activities and are accordingly not comparable.
Cost of sales	(35,248)	-	(35,248)	N/A	
Gross profit	**18,174**	**-**	**18,174**	**N/A**	
General administrative expenses	(5,354)	(958)	(4,396)	459%	General administrative expenses increased due to the following reasons: • Increase in personnel headcount and consulting and professional fees related to the start and 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 start and growth of sales. • Incurred expenses related to TSXV and OTC filings.
Marketing and selling expenses	(1,766)	(142)	(1,624)	1,144%	Marketing and selling expenses incurred due to commencement of sales activities and following activities specifically: • Investor communication activities started after commencing trading on the TSXV in October 2018. • Advertising and promotional activities including marketing materials, memberships, conferences, and digital marketing. • Increase in personnel headcount attributable to marketing and selling activities. • Increase in travel and entertainment expenses due to the start and growth of sales.
Share-based compensation expenses	(6,714)	(1,227)	(5,487)	447%	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.

	Six-months ended June 30		Change		
$'000s	**2019**	**2018**	**$**	**%**	**Management Commentary**
Other operating expenses	(265)	(443)	178	-40%	Last year during the period, 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 during the period, we did not have start-up or pre-manufacturing cost but other operating expenses did include expensed assets that are not in use.
Operating income/(loss)	**4,075**	**(2,770)**	**6,845**	**247%**	See comments above.
Adjusted EBITDA	**12,010**	**(1,286)**	**13,296**	**1,034%**	The increase in Adjusted EBITDA is mainly attributable to the commencement of production and sales, which resulted in an increase of revenue and gross profit, offset by the increase in general and administrative expenses and marketing and selling expenses. Adjusted EBITDA is a non-IFRS measure. See "Reconciliation of Non-IFRS Measures" for reconciliation to IFRS measures.
Finance income	41	-	41	N/A	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	(358)	(179)	(179)	100%	Finance expenses increased due to increase in interest expenses on the mortgage payable and finance fees.
Income/(loss) before taxation	**3,758**	**(2,949)**	**6,707**	**227%**	See comments above.
Taxation expense	(2,364)	-	(2,364)	N/A	Taxation expense incurred due to having taxable profit for the six-month period ended June 30, 2019.
Net income /(loss) for the period	**1,394**	**(2,949)**	**4,343**	**147%**	See comments above.
Attributable to					
- Non controlling interest	(95)	(30)	(65)	217%	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	1,489	(2,919)	4,408	151%	See comments above.

SUMMARY OF QUARTERLY RESULTS

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

	Three-months ended			
	June 30 2019 $'000s (Unaudited)	**March 31 2019 $'000s** (Unaudited)	**December 31 2018 $'000s** (Unaudited)	**September 30 2018 $'000s** (Unaudited)
Total revenue	31,472	21,950	10,198	Nil
Net income/(loss) attributable to equity holder of parent	1,999	(510)	(3,503)	(1,954)
Basic gain/(loss) per share	0.02	(0.01)	(0.05)	(0.29)
Diluted gain/(loss) per share	0.01	(0.01)	(0.05)	(0.29)

	Three-months ended			
	June 30 2018 $'000s (Unaudited)	**March 31 2018 $'000s** (Unaudited)	**December 31 2017 $'000s** (Unaudited)	**September 30 2017 $'000s** (Unaudited)
Total revenue	Nil	Nil	Nil	Nil
Net loss attributable to equity holder of parent	(1,586)	(1,334)	(737)	(40)
Basic loss per share	(0.32)	(0.03)	(0.01)	(0.02)
Diluted loss per share	(0.32)	(0.03)	(0.01)	(0.02)

The Company received authorization to produce and sell cannabis oil from Health Canada in 2018 and has since commenced production and sales activities. The increase in revenue in last three quarters is due to the increase in volume of sold products and increased efficiency. The increasing trend in net income reflect the Company's continued scaling of its production and sales net of stock-based compensation recorded during the quarters.

RECONCILIATION OF NON-IFRS MEASURES

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

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

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

cautioned that these measures should not be construed as an alternative to using net income as a measure of profitability or as an alternative to the Company's IFRS-based Financial Statements.

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

Adjusted EBITDA Reconciliation

Adjusted EBITDA is defined as net loss excluding interest, taxes, depreciation and amortization, and share-based compensation. 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.

	Three-months ended			
	June 30 2019 $'000s	**March 31 2019 $'000s**	**December 2018 $'000s**	**June 30 2018 $'000s**
Adjusted EBITDA reconciliation				
(Loss)/income from operations – as reported	**4,227**	**(152)**	**(3,366)**	**(1,502)**
Add/(deduct):				
Share-based compensation	2,742	3,972	738	468
Depreciation	731	490	527	129
Transaction fee (excluding legal fee)	-	-	4,230	-
Adjusted EBITDA	**7,700**	**4,310**	**2,129**	**(905)**

	Six-months ended	
	June 30 2019 $'000s	**June 30 2018 $'000s**
Adjusted EBITDA reconciliation		
Income/(loss) from operations – as reported	**4,075**	**(2,770)**
Add/(deduct):		
Share-based compensation	6,714	1,227
Depreciation	1,221	258
Adjusted EBITDA	**12,010**	**(1,285)**

CAPITAL STRUCTURE

Outstanding Equity Securities

Common Shares

The Company's authorized capital consists of an unlimited number of Common Shares. As at June 30, 2019, the Company had 129,758,964 Common Shares issued and outstanding and as at the date of this MD&A the Company had 130,428,304 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 June 30, 2019 the Company had the following Common Share purchase warrants issued and outstanding: 4,710,231 March Warrants; 596,505 March Broker Warrants; 6,125,008 June Warrants; and 754,207 June Broker Warrants.

Subsequent to June 30, 2019, warrants were exercised for total aggregate proceeds of $175 resulting in: 4,710,231 March Warrants, 596,505 March Broker Warrants, 5,978,868 June Warrants and 754,207 June Broker Warrants remaining outstanding as of the date of this MD&A.

Stock Options

As at June 30, 2019, the Company had 10,451,600 stock options outstanding and as at the date of this MD&A the Company had 11,780,100 stock options outstanding.

Debt Facilities

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

Mortgage Payable

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

- The first mortgage ($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 have a term of one year and can be repaid before maturity without penalty.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

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

As at June 30, 2019, the Company had a positive working capital of $89,721 (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 increase in 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:

	Six-months ended June 30			
$'000s	**2019**	**2018**	**Change**	**Management Commentary**
Net cash (used in) operating activities	(6,198)	(4,898)	(1,300)	Cash used in operating activities is derived from the increase in accounts receivable which is a result of the ramping up of sales towards the end of quarter. Increase in accounts payable offset the impact of increase in inventory.
Net cash (used in) investing activities	(12,284)	(2,645)	(9,639)	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 security equipment and construction of Barrie facility.
Net cash provided by financing activities	83,311	24,881	58,430	Cash provided by financing activities are mainly driven by issuance of shares and proceeds from warrant and stock option exercises. In 2018, cash provided by financing activities was driven by issuance of shares.
Effect of exchange rate changes on cash	44	(1)	45	Change is driven by foreign exchange rate changes and increased volume of transactions at Australian facility.
Cash and cash equivalents, beginning of period	7,850	2,493	5,357	
Cash and cash equivalents, end of period	72,723	19,830	52,893	See comments above.

$'000s	Three-months ended June 30 2019	2018	Change	Management Commentary
Net cash (used in) operating activities	(10,241)	(2,101)	(8,140)	Cash used in operating activities is derived from the increase in accounts receivable which is a result of the ramping up of sales towards the end of quarter. Increase in accounts payable offset the impact of increase in inventory.
Net cash (used in) investing activities	(5,711)	(323)	(5,388)	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 security equipment and construction of Barrie facility.
Net cash provided by financing activities	80,224	20,924	59,300	Cash provided by financing activities are mainly driven by issuance of shares and proceeds from warrant and stock option exercises. In 2018, cash provided by financing activities was driven by issuance of shares.
Effect of exchange rate changes on cash	51	1	50	Change is driven by foreign exchange rate changes and increased volume of transactions at Australian facility.
Cash and cash equivalents, beginning of period	8,400	1,329	7,071	
Cash and cash equivalents, end of period	72,723	19,830	52,893	See comments above.

Contractual obligations

The Company's contractual obligations as at June 30, 2019 increased by $35,581 mainly due to the increased accounts payable related to dried cannabis purchases. The Company's contractual obligations are all short term (less than 1 year).

In addition, the Company has wholesale private label agreements under which it committed to sell up to 1,100KG of cannabis extracts within 16 months. In the default of not delivering any or portion of committed product, the Company would be subject to a late in-kind/cash payment. For the six-month period ended June 30, 2019, the Company fulfilled the committed amount.

Capital Resources

As of June 30, 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 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, 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 six-month period ended June 30, 2019, MediPharm Labs completed the following financings:

- During the three-month period ended March 31, 2019, 5,763,706 stock options were exercised into common shares for proceeds of $1,362.

- During the three-month period ended June 30, 2019, 19,200 stock options were exercised into common shares for proceeds of $33.

- During the three-month period ended March 31, 2019, 2,015,529 warrants were exercised into common shares for proceeds of $1,809.

- During the three-month period ended June 30, 2019, 10,907,169 warrants were exercised into common shares for proceeds of $9,507.

- On June 17, 2019, the Company closed the Bought Deal Financing for gross proceeds of $75,003 and issued 13,514,000 shares.

Use of Funds Reconciliation

Upon the completion of the Bought Deal Financing, the Company had approximately $70,581 of available funds. The following table sets forth a comparison of the disclosure regarding the Company's estimated use of funds set out in the Company's final short form prospectus dated June 10, 2019, which may be viewed under its SEDAR profile at www.sedar.com, and its current estimated use of available funds as at June 30, 2019:

Principal Use of Available Funds	Estimated ($'000s)	Current Estimated ($'000s)
Canadian facility expenses	24,000	24,000
Australian facility expenses	5,500	5,500
International expansion expenses	20,000	20,000

Principal Use of Available Funds	Estimated ($'000s)	Current Estimated ($'000s)
R&D expenses	6,000	6,000
G&A expenses	15,081	15,081
Total	**70,581**	**70,581**

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Management have determined that key management personnel consist of directors and officers of the Company. The remuneration to directors and officers during the six-month period ended June 30, 2019 was $752 (June 30, 2018 - $227) which was included in consulting fees, salaries and benefits.

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

As at June 30, 2019, the Company has $9 due to key management personnel for reimbursement of expenses (December 31, 2018 - $16). The amount is non-interest bearing, unsecured and due on demand.

FINANCIAL INSTRUMENTS AND RELATED RISKS

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

Credit risk

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

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

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 $72,723 (December 31, 2018: $7,850) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, the Company maintains flexibility in funding by maintaining a minimum cash balance at banks and financial institutions.

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

Interest rate risk

The Company is exposed to interest rate risk through floating interest rates at the greater of fixed interest rate declared by the mortgages or floating interest rate. As at June 30, 2019, the fixed interest rate is greater than the floating interest rate; therefore, the Company is not currently exposed to interest rate risk. The Company has $6,000 mortgage payable and the maturity of this financial instrument is less than 1 year. Therefore, management believes that the Company's fair value interest rate risk is not significant.

RISK FACTORS

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

- limited operating history;
- regulatory compliance risks;
- change of cannabis laws, regulations and guidelines;
- reliance on licences and authorizations;
- realization of growth targets including expansion of facilities and operations;
- management of growth;
- history of net losses;
- competition;
- conflicts of interest;
- legal proceedings;
- environmental regulation and risks;
- insurance risks;
- unfavourable publicity or consumer perception;
- product liability;
- product recalls;
- reliance on a single facility;
- dependence on supply of cannabis and other key inputs;
- retention and acquisition of skilled personnel;

- difficulty to forecast;
- inability to sustain pricing models;
- failure to comply with laws in all jurisdictions;
- perceived reputational risk for third parties;
- risks related to intellectual property;
- marketing constraints;
- research and development;
- shelf life of inventory;
- maintenance of effective quality control systems;
- scheduled maintenance, unplanned repairs, equipment outages and logistical disruptions;
- client risks;
- lack of long-term customer commitment risk;
- risks as a result of international expansions;
- operations in foreign jurisdictions;
- reliance upon international advisors and consultants;
- foreign currency risk;
- operations in foreign jurisdictions;
- access to capital;
- estimates or judgments relating to critical accounting policies;
- tax risks;
- market for the Common Shares;
- no history of payment of cash dividends;
- reporting issuer status;
- significant sales of Common Shares;
- analyst coverage, and
- tax issues related to the Common Shares.

CRITICAL ACCOUNTING ESTIMATES

See to Note 2.3 of the Financial Statements.

CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING CHANGES

Changes in Accounting Policies

As disclosed in Note 2.2 "*Changes in accounting policies*" to the Financial Statements, the Company adopted the following new standards and amendments that were effective for annual periods beginning on January 1, 2019:

IFRS 16, Leases

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

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

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

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

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 - *Certificate of Disclosure in Issuers' Annual and Interim Filings* ("**NI 52-109**"), Form 52-109F2 – IPO/RTO does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("**DC&P**") and internal control over financial reporting ("**ICFR**"), as defined in NI 52-109. In particular, the certifying officers filing such certificate are not making any representations relating to the establishment and maintenance of:

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

The CEO and CFO of the Company are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in such certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of the Company to design and implement on a cost-effective basis DC&P and ICFR as defined in NI 52- 109 in the first financial period following the Company becoming a non-venture issuer in the circumstances described in s. 5.5 of NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

During the six-month period ended June 30, 2019, no changes were made in the Company's design of internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

SUBSEQUENT EVENTS

Announced Capacity Increase and Production Milestone

On July 16, 2019, the Company announced that it had increased annual dried cannabis processing capacity to 300,000 kg and with a new customized, large-scale extraction line set to open in 2019, annual

capacity is expected to increase to over 500,000 kg. The Company also announced that by the end of the second quarter, it had increased annual production capacity to 75 million milligrams of active cannabinoids.

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".