(TSX: LABS)

MEDIPHARM LABS CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE-MONTHS ENDED SEPTEMBER 30, 2019

November 12, 2019

This Management's Discussion and Analysis ("**MD&A**") for the three and nine-months ended September 30, 2019 was prepared by management as of November 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 nine-months ended September 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.

EXECUTIVE SUMMARY

Operational Highlights

The following is a summary of the operational highlights for the nine-month period ended September 30, 2019.

Financial Results: Year-to-date revenue of approximately $97 million, and Adjusted EBITDA [(1)(2)] of approximately $22 million.

White Label Manufacturing of Branded Products: Launched less than a year ago, the Company has secured agreements with AV Cannabis Inc. and Peace Naturals Project Inc. The Company expects to begin shipping white label, formulated tincture bottles in the fourth quarter of 2019, with vapeables shipping to commence subject to applicable Health Canada product authorizations and provincial purchase orders.

Bulk Extract Supply Agreements: Over the past nine-months, the Company has secured long-term bulk extract agreements with industry leaders including AusCann Group Holdings Ltd., Peace Naturals Project Inc., ADREXpharma GmbH and TerrAscend Canada Inc., and has entered into numerous spot sales of cannabis extracts in the B2B market.

Broader Portfolio of Licences: Subsequent to quarter end, we received our research licence under the *Cannabis Act* and *Cannabis Regulations*. Year-to-date, our standard processing licence was also amended allowing us to sell cannabis products to holders of a licence for sale of medicinal cannabis products and provincially authorized retailers and distributors. We also received our licence in Australia to manufacture extracts and tinctures for the purpose of a clinical trial or for medical cannabis products.

Certifications: Pro-Cert Organic Systems Ltd. awarded us with an organic certification for the production of cannabis extracts at our Barrie facility. This facility is built to GMP standards and the Company expects it to receive Australian and European GMP certificates in the first half of 2020 following rigorous audit processes now underway. Our Australian subsidiary is also pursuing a GMP license under the Australian *Therapeutic Goods Act 1989*.

Canadian Capacity Increase: Early in the third quarter, the Company announced increased annual processing capacity of 300,000 kg. The Company also has a new customized, 200,000 kg extraction line on-site and available for commissioning once allocated to a licensed room.

Bought Deal Financing: The Company completed its bought deal financing in June 2019 for net proceeds of approximately $70.6 million. We have currently utilized a portion of the proceeds to support our growth including for construction facility improvements and biomass input to facilitate cannabis extract sales.

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

Developments in Australia: Our Australian subsidiary is building its sales and supply channels by entering into agreements with Australian licensed cultivators to purchase dried flower and securing a manufacturing agreement for the production of cannabis oil and manufactured products.

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 nine-month period ended September 30, 2019, and the three-month periods ended September 30, 2019, June 30, 2019 and March 31, 2019. (1)

	Nine-months ended September 30, 2019 $'000s	Three-months ended September 30, 2019 $'000s	Three-months ended June 30, 2019 $'000s	Three-months ended March 31, 2019 $'000s
Revenue	96,808	43,386	31,472	21,950
Gross profit	32,928	14,754	11,311	6,862
Gross margin %	34%	*34%*	*36%*	*31%*
Net income/(loss) before tax	9,154	5,395	4,083	(325)
Adjusted EBITDA (2)	22,077	10,066	7,700	4,310
Adjusted EBITDA margin %	*23%*	*23%*	*24%*	*20%*

- Revenue of $43.4 million, a 38% increase over Q2 2019 due to an increase in volume of processed and sold product, partially offset by a reduction in average selling price.
- Gross profit of $14.8 million and gross margin of 34%. The decrease in gross margin percent is primarily a result of reduction in average selling price and increases to non-recurring GMP audit related expenses which were partially offset by an increase in economies of scale driven by higher sales volumes.
- Adjusted EBITDA (2) of $10.1 million, a 31% increase over Q2 2019, and Adjusted EBITDA (2) margin of 23%. The increase in Adjusted EBITDA is a result of an increase in revenue and gross profit while reducing the ratio of operating expenses to revenue.
- Positive net income before tax of $5.4 million was realized despite the share-based compensation expense of $4.2 million. Positive net income before tax was largely attributable to increased sales volumes.

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

Notes:

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

(2) 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 and product development. 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 holds a standard processing licence 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". 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-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, trusted and precisely-dosable 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 the first half of 2020 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 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 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 standards and we are expecting to receive a European GMP certificate in the first 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 upon the granting of our European GMP certificate.

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 $4,400,000 to complete the first phase of construction of the 10,000 sq. ft. facility, and $2,200,000 to purchase primary extraction equipment. As of September 30, 2019, we have incurred approximately $4,900,000 of such expenditures. We expect such construction and equipment installation to be completed in the fourth quarter 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. MediPharm Labs Australia has currently 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 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 secondary distillation 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 once market conditions stabilize. Below is an overview of the current long-term private label supply contracts that the Company has entered in to, in addition to numerous spot cannabis extract sales from time to time:

(All dollar amounts are expressed in thousands of Canadian dollars (C$'000s) 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 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 multiple exports to Australia completed since signing.
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, potentially up to $60 million over 24 months.
ADREXpharma GmbH	September 20, 2019	Agreement for export to Germany, subject to applicable regulatory approvals and 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.

We currently view Health Canada's licensing of cannabis 2.0 businesses, including dedicated edibles, beverage and topical companies, as a constraint on the demand for our private label, bulk cannabis extracts.

White Label and Contract Manufacturing of Branded Products

As part of our white label platform, we will provide high-quality cannabis extracts, filling services and national distribution of 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. We believe that demand for lawful cannabis derivative products will continue to expand as authorized provincial distributors and retailers continue to come online.

Under existing white label contracts, our clients receive a portion of net revenues generated from the sale of their branded-product, and/or pay us a manufacturing fee for the production of their branded-product.

The Company expects to commence shipping white label products in before the end of 2019. Initially, such white label products will be comprised of formulated tinctures, followed by vape pens and cartridges once Health Canada begins providing authorizations to ship such products and subject to applicable binding purchase orders for such products.

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

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

White Label and Contract Manufacturing Agreements			
Customer	**Date**	**Description**	**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 vape pens.	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 vape cartridges.	Two years

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 their behalf. We may also turn the clients' 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 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

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 2020.

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.

We have completed R&D related to the formulating, manufacturing and filling of multiple vape pens and cartridges. Required equipment for vapeables has been deployed and commercial activities will begin subsequent to Health Canada authorizations.

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%. We have ordered an industrial scale chromatography unit, which we intend to have installed for trial runs by 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 Nine-Month Period Ended September 30, 2019

During the nine-month period ended September 30, 2019, we succeeded in accomplishing numerous milestones, including graduating to the TSX, two new bulk oil sales agreements 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.

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.

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 the first shipment of product under this agreement in June 2019 after the required import and export authorizations were received. Subsequent exports have also been completed.

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".

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, 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.

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 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".

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 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.

Ace Valley 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.

Announced Capacity Increase

On July 16, 2019, the Company announced that it had increased annual dried cannabis processing capacity to 300,000 kg. The Company also has a new customized, 200,000 kg extraction line on-site and available for commissioning once allocated to a licensed room.

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".

Announced Australian Corporate Developments

On September 3, 2019, we announced that MediPharm Labs Australia had entered into a manufacturing agreement with an Australian licensed cultivator pursuant to which we will purchase dried flower and sell private label cannabis oil and manufactured products. We also announced that MediPharm Labs Australia had entered into three agreements with Australian licensed cultivators with respect to the supply of input flower for the production of private label cannabis oil. All obligations under these agreements remain subject to receipt of applicable regulatory approvals.

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.

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 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.

DISCUSSION OF OPERATIONS

Overview

Revenue

In the second quarter of 2019, we commenced generating revenue from our tolling activities. However, the wholesale of cannabis extracts through the Company's private label program was still the primary revenue driver during the nine-month period ended September 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 (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, rent 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.

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, mortgage payable, finance fees and lease liability.

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 Nine-Month Periods Ended September 30, 2019 to 2018

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

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

	Three-months ended September 30		Change		
$'000s	**2019**	**2018**	**$**	**%**	**Management Commentary**
Revenue from contracts with customers	43,386	-	43,386	NA	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 September 30, 2018 do not reflect any sale activities and are accordingly not comparable.
Cost of sales	(28,632)	-	(28,632)	NA	
Gross profit	**14,754**	**-**	**14,754**	**NA**	
General administrative expenses	(3,578)	(832)	(2,746)	330%	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 TSX, TSXV and OTC filings.

	Three-months ended		Change		
	September 30				
$'000s	**2019**	**2018**	**$**	**%**	**Management Commentary**
Marketing and selling expenses	(730)	(549)	(181)	33%	Marketing and selling expenses incurred due to commencement of sales activities and the following activities: • Investor communication activities started after commencing trading on the TSXV in October 2018. • Increase in personnel headcount attributable to marketing and selling activities and investor relations.
R&D expenses	(420)	-	(420)	NA	R&D expenses were incurred in the third quarter of 2019 due to formulating, manufacturing and filling of vape pens.
Share-based compensation expenses	(4,157)	-	(4,157)	NA	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.
Other operating expenses	(504)	(533)	29	-5%	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)	**5,365**	**(1,914)**	**7,279**	**380%**	See comments above.
Adjusted EBITDA	**10,066**	**(1,717)**	**11,783**	**686%**	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	225	42	183	436%	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	(195)	(101)	(94)	93%	Finance expenses increased due to increase in interest expenses on the mortgage payable, finance fees and lease liability.

	Three-months ended		Change		
	September 30				
$'000s	**2019**	**2018**	**$**	**%**	**Management Commentary**
Income/(loss) before taxation	**5,395**	**(1,973)**	**7,368**	**373%**	See comments above.
Taxation expense	(2,120)	-	(2,120)	NA	Taxation expense incurred due to having taxable profit for the three-month period ended September 30, 2019.
Net income /(loss) for the period	**3,275**	**(1,973)**	**5,248**	**266%**	See comments above.
Attributable to					
- Non controlling interest	(101)	(19)	(82)	432%	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	3,376	(1,954)	5,330	273%	See comments above.

Discussion and Analysis of the Results for the Nine-Month Period Ended September 30, 2019

Results of operations for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018.

	Nine-months ended		Change		
	September 30				
$'000s	**2019**	**2018**	**$**	**%**	**Management Commentary**
Revenue from contracts with customers	96,808	-	96,808	NA	After receiving Health Canada sales authorization in November 2018, the Company commenced private label wholesale activities. Results for the nine months ended September 30, 2018 do not reflect any sale activities and are accordingly not comparable.
Cost of sales	(63,880)	-	(63,880)	NA	
Gross profit	**32,928**	**-**	**32,928**	**NA**	

	Nine-months ended September 30		Change		
$'000s	**2019**	**2018**	**$**	**%**	**Management Commentary**
General administrative expenses	(8,931)	(1,790)	(7,141)	399%	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 TSX, TSXV and OTC filings.
Marketing and selling expenses	(2,496)	(692)	(1,804)	261%	Marketing and selling expenses incurred due to commencement of sales activities and the following activities: • 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.
R&D expenses	(420)	-	(420)	NA	R&D expenses were incurred in the third quarter of 2019 due to formulating, manufacturing and filling of vape pens.
Share-based compensation expenses	(10,871)	(1,227)	(9,644)	786%	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.
Other operating expenses	(769)	(976)	207	-21%	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)	**9,441**	**(4,685)**	**14,126**	**302%**	See comments above.

	Nine-months ended		Change		
	September 30				
$'000s	**2019**	**2018**	**$**	**%**	**Management Commentary**
Adjusted EBITDA	**22,077**	**(3,003)**	**25,080**	**832%**	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	266	42	224	533%	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	(553)	(280)	(273)	98%	Finance expenses increased due to increase in interest expenses on the mortgage payable, finance fees and lease liability.
Income/(loss) before taxation	**9,154**	**(4,923)**	**14,077**	**286%**	See comments above.
Taxation expense	(4,485)	-	(4,485)	NA	Taxation expense increased due to having taxable profit for the nine-month period ended September 30, 2019.
Net income /(loss) for the period	**4,669**	**(4,923)**	**9,592**	**195%**	See comments above.
Attributable to					
- Non controlling interest	(196)	(48)	(148)	308%	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	4,865	(4,875)	9,740	200%	See comments above.

SUMMARY OF QUARTERLY RESULTS

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

	Three-months ended			
	September 30 2019 $'000s (Unaudited)	**June 30 2019 $'000s** (Unaudited)	**March 31 2019 $'000s** (Unaudited)	**December 31 2018 $'000s** (Unaudited)
Total revenue	43,386	31,472	21,950	10,198
Net income/(loss) attributable to equity holder of parent	3,376	1,999	(510)	(3,503)
Basic gain/(loss) per share	0.03	0.02	(0.01)	(0.05)
Diluted gain/(loss) per share	0.02	0.01	(0.01)	(0.05)

	Three-months ended			
	September 30 2018 $'000s (Unaudited)	**June 30 2018 $'000s** (Unaudited)	**March 31 2018 $'000s** (Unaudited)	**December 31 2017 $'000s** (Unaudited)
Total revenue	Nil	Nil	Nil	Nil
Net loss attributable to equity holder of parent	(1,954)	(1,586)	(1,334)	(737)
Basic loss per share	(0.02)	(0.02)	(0.03)	(0.01)
Diluted loss per share	(0.02)	(0.02)	(0.03)	(0.01)

The Company received authorization to produce and sell cannabis oil from Health Canada in 2018 and has since commenced production and sales activities. The increase in revenue in last four 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				
	September 30 2019 $'000s	**June 30 2019 $'000s**	**March 31 2019 $'000s**	**December 31 2018 $'000s**	**September 30 2018 $'000s**
Adjusted EBITDA reconciliation Income/(loss) from operations – as reported	**5,365**	**4,227**	**(152)**	**(3,366)**	**(1,914)**
Add/(deduct):					
Share-based compensation expense	4,157	2,742	3,972	738	-
Depreciation	544	731	490	527	197
Transaction fee (excluding legal fee)	-	-	-	4,230	-
Adjusted EBITDA	**10,066**	**7,700**	**4,310**	**2,129**	**(1,717)**

	Nine-months ended	
	September 30 2019 $'000s	**September 30 2018 $'000s**
Adjusted EBITDA reconciliation Income/(loss) from operations – as reported	**9,441**	**(4,685)**
Add/(deduct):		
Share-based compensation expense	10,871	1,227
Depreciation	1,765	455
Adjusted EBITDA	**22,077**	**(3,003)**

CAPITAL STRUCTURE

Outstanding Equity Securities

Common Shares

The Company's authorized capital consists of an unlimited number of Common Shares. As at September 30, 2019, the Company had 130,767,767 Common Shares issued and outstanding and as at the date of this MD&A the Company had 130,864,366 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 September 30, 2019 the Company had the following Common Share purchase warrants issued and outstanding: 4,556,855 March Warrants; 596,505 March Broker Warrants; 5,794,881 June Warrants; and 754,207 June Broker Warrants.

Subsequent to September 30, 2019, warrants were exercised for total aggregate proceeds of $102 resulting in: 4,556,855 March Warrants, 596,505 March Broker Warrants, 5,709,982 June Warrants and 754,207 June Broker Warrants remaining outstanding as of the date of this MD&A.

Stock Options

As at September 30, 2019, the Company had 11,441,280 stock options outstanding and as at the date of this MD&A the Company had 12,363,830 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.

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, motor vehicles and IT equipment. As of September 30, 2019, the short-term lease liability (term less than 12 months) is $361 and long-term lease liability is $484. The Company has lease contracts up to five-year term.

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 September 30, 2019, the Company had a positive working capital of $87,292 (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 September 30			
$'000s	**2019**	**2018**	**Change**	**Management Commentary**
Net cash (used in) operating activities	(21,132)	(5,160)	(15,972)	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. Also decrease in accounts payable and increase in inventory derive the cash outflow for the operating activities.
Net cash (used in) investing activities	(9,786)	(8,488)	(1,298)	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	218	18	200	Cash provided by financing activities are mainly driven by proceeds from warrant and stock option exercises. In 2018, there was not any significant proceeds from warrant or stock option..
Effect of exchange rate changes on cash	95	(14)	108	Change is driven by foreign exchange rate changes and increased volume of transactions at Australian facility.
Cash and cash equivalents, beginning of period	72,721	19,827	52,894	
Cash and cash equivalents, end of period	42,116	6,183	35,933	See comments above.

	Nine-months ended September 30			
$'000s	**2019**	**2018**	**Change**	**Management Commentary**
Net cash (used in) operating activities	(26,318)	(10,061)	(16,257)	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 mostly offset the impact of increase in inventory.
Net cash (used in) investing activities	(23,083)	(11,133)	(11,950)	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	83,529	24,899	58,630	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	138	(15)	153	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	42,116	6,183	35,933	See comments above.

Contractual obligations

The Company's contractual obligations as at September 30, 2019 increased by $34,489 mainly due to the increased accounts payable related to dried cannabis purchases and lease liabilities. The Company's short-term (less than one year) undiscounted contractual obligations are $42,086 and long-term undiscounted contractual obligations are $497.

In addition, the Company has wholesale private label agreements under which it committed to sell up to 1,175kg of cannabis extracts within 73 months. In the default of not delivering any or portion of committed product, the Company may be subject to a late in-kind/cash payment. For the nine-month period ended September 30, 2019, the Company fulfilled the committed amount.

Capital Resources

As of September 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 nine-month period ended September 30, 2019, MediPharm Labs completed the following share issuance for cash proceeds:

- 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 September 30, 2019, 525,300 stock options were exercised into Common Shares for proceeds of $149.

- 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.

- During the three-month period ended September 30, 2019, 483,503 warrants were exercised into Common Shares for proceeds of $468.

- 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 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 under its SEDAR profile at www.sedar.com, and its up to date expensed amount as at September 30, 2019:

Principal Use of Available Funds	Estimated ($'000s)	Current Expensed ($'000s)
Canadian facility expenses	24,000	7,447
Australian facility expenses	5,500	2,544
International expansion expenses	20,000	4
R&D expenses	6,000	420
G&A expenses	15,081	15,081
Total	**70,581**	**25,496**

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 nine-month period ended September 30, 2019 was $1,381 (September 30, 2018 - $385) which was included in consulting fees, salaries and benefits.

During the nine-month period ended September 30, 2019, the Group issued options to purchase up to 2,190,000 Common Share at an average exercise price of $2.61 per share to its key management personnel and the fair value of total share-based compensation was $3,972. During the nine-month period ended September 30, 2019, the key management personnel exercised 3,043,200 options for gross proceeds of $720.

As at September 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 September 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 $42,116 (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 September 30, 2019, the fixed interest rate was greater than the floating interest rate. 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 and Short Form Prospectus 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.

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 measure 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 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.

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

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

No changes were made in our design of internal controls over financial reporting during the period ended September 30, 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

Credit Facility

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 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 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 will bear 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

Subsequent to period-end, the Company announced that MediPharm Labs entered into an 18-month supply agreement pursuant to which it will supply Olli Brands Inc. ("Olli"), upon its commercial licensing, with bulk cannabis extracts. Olli currently holds a research licence under the Act and is awaiting final approval for its standard processing licence prior to commercializing its line of edible and tea-based products.

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 Act, including cannabis extracts, cannabis edibles and cannabis topicals. The distribution of these goods is subject to applicable product notification being issued to Health Canada.

On October 31, 2019, the Company announced that MediPharm Labs received its research licence under the Act. This licence permits MediPharm Labs to conduct controlled human administration trials of cannabis extracts and derivative products at its Barrie facility. following quality assurance testing of such products. 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 current Chief Financial Officer, Christopher Hobbs, will step down. Mr. Hobbs will continue 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**"). The Company will 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.