



# MediPharm Labs

(TSX: LABS)

**MEDIPHARM LABS CORP.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2021**

March 31, 2022

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

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This Management's Discussion and Analysis ("**MD&A**") of the financial condition and performance of MediPharm Labs Corp. (the "**Group**") for the three and twelve months ended December 31, 2021, was prepared by management as of March 31, 2022. Throughout this MD&A, unless the context indicates or requires otherwise, the terms "the Group", "we", "us" and "our" mean MediPharm Labs Corp. and its subsidiaries including MediPharm Labs Inc. ("**MediPharm Labs**"). This MD&A should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2021 (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 Group, including the Financial Statements and our most recent annual information form dated March 31, 2022 (the "**Annual Information Form**"), is available on the Group's website at [www.medipharmlabs.com](http://www.medipharmlabs.com) or the SEDAR website at [www.sedar.com](http://www.sedar.com).

This MD&A contains commentary from the Group's management regarding the Group'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 Group 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 Group and its subsidiaries and the Group's interests in affiliated companies. All intercompany balances and transactions have been eliminated on consolidation. All dollar amounts are expressed in thousands of Canadian dollars unless otherwise noted.

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

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

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

These forward-looking statements are made as of the date of this MD&A and the Group 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 Group 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 Group to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. The Group provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

Risks related to forward-looking statements include, among other things, those outlined in "Risk Factors" and any other factors and uncertainties disclosed from time-to-time in the Group's filings with the Canadian Securities Administrators. Although the Group 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.

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

## **GROUP OVERVIEW**

### **Background**

MediPharm Labs is a pharmaceutical company specialized in cannabis. 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.

On January 23, 2017, the Group was incorporated under the *Business Corporations Act* (Ontario) (the “**OBCA**”) as “POCML 4 Inc.”, under the policies of the TSX Venture Exchange (the “**TSXV**”). On October 1, 2018, MediPharm Labs amalgamated with 2645354 Ontario Inc., a wholly owned subsidiary of the Group. The amalgamation resulted in the reverse take-over of the Group by MediPharm Labs, following which the resulting company continued as “MediPharm Labs Corp”.

On October 4, 2018, the Common Shares commenced trading on a post-consolidation basis on the TSXV under the symbol “LABS”, and on July 29, 2019, the Group graduated from the TSXV to the TSX. Our common shares (the “**Common Shares**”) also trade 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 currently conducted through wholly owned subsidiaries MediPharm Labs Inc., which holds a drug establishment license under the Food and Drug Act, a standard processing licence and research licence under the *Cannabis Act* (Canada) (the “**Cannabis Act**”) and MediPharm Labs Australia Pty. Ltd. (“**MediPharm Labs Australia**”), which holds a manufacturing licence under the *Australian Narcotics Drug Act 1967* (the “**Australian Act**”) authorizing the manufacture and supply of certain limited cannabis products.

Both MediPharm Labs’ Canadian facility and MediPharm Labs Australia’s Australian facility hold Good Manufacturing Practice (“**GMP**”) certifications from their respective national health authorities, Health Canada, and the Therapeutic Goods Administration (“**TGA**”).

### **Business Overview**

We specialize in the production of purified, pharmaceutical-quality cannabis oil and concentrates and advanced derivative products utilizing GMP certified facilities and ISO standard built clean rooms. We have invested in an expert, research driven team, state-of-the-art technology, downstream purification methodologies and purpose-built facilities with primary extraction lines and finished formulated products capabilities used to deliver pure, trusted and precisely-dosable cannabis products for our customers. We formulate, process, package and distribute cannabis extracts and advanced cannabinoid-based products at our Canadian and Australian facilities for domestic and international markets. We also provide GMP flower sourcing, packaging and distribution services for select international clients. The Group’s mission is to become a leader specialized in providing pharmaceutical quality derivative cannabis products and to drive future cannabis product innovation.

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

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*Operations and Facilities*

As of the date of this MD&A, our core business generates revenue through three primary activities: the sale of bulk and consumer packaged cannabis concentrate-based products, contract manufacturing services, and production of finished formulated packaged goods, GMP cannabis flower and APIs for sale in Canadian retail markets and globally to large pharmaceutical and new cannabis companies in emerging medical cannabis markets. In addition, since receiving a Drug Establishment License (“**DEL**”), MediPharm Labs has commenced business development activities related to providing products and services to traditional pharmaceutical companies in relation to current or future drugs containing cannabis with marketing authorization.

MediPharm Labs' Canadian business operates out of a 70,000 sq. ft. Barrie, Ontario facility, which currently operates specialized and pharmaceutically validated equipment to produce high quality cannabis concentrate derivative bulk and finished good products. This includes automated filling and labeling equipment to meet the Canadian domestic adult use market needs. The facility was built to Good Manufacturing Practice (“**GMP**”) standards and received its Australian GMP certificate in the third quarter of 2019 and a Drug Establishment Licence (Canadian GMP) in the third quarter of 2021.

On March 29, 2018, MediPharm Labs received its oil production licence (the “**Licence**”) pursuant to the *Access to Cannabis for Medical Purposes Regulations* (“**ACMPR**”) and became the first company in Canada to receive a production licence for cannabis oil production under the ACMPR without first receiving a cannabis cultivation licence. On October 17, 2018, the Cannabis Act came into force, and MediPharm Labs' Licence was transitioned from a producer's licence under the ACMPR to a standard processing licence under the Cannabis Act and *Cannabis Regulations*. On November 9, 2018, the Licence was amended to permit the sale and distribution of cannabis oil and derivatives to the following authorized classes of purchasers:

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

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

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

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

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On October 21, 2019, MediPharm Labs' Licence was amended to permit the activity of production and sale of additional cannabis products included in the Cannabis Act, including cannabis extracts, cannabis edibles and cannabis topicals. On September 28, 2021, MediPharm Labs' Licence was renewed for a further term of five years.

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

On December 21, 2020, MediPharm Labs received a GMP licence under the *Natural Health Products Regulations* (the "**NHP Site Licence**"). The NHP Site Licence gives MediPharm Labs the authorization to manufacture, package and label natural health products in Canada. MediPharm Labs' Barrie site is considered to be in compliance with GMP requirements outlined in Part 3 of the *Natural Health Products Regulations*. On December 21, 2021, the NHP Site Licence was renewed for a further one-year term.

On February 17, 2021, MediPharm Labs received a Cannabis Drug Licence ("**CD Licence**") from Health Canada. The CD Licence allows the Group to manufacture and supply drugs that contain cannabis. These products include pharmaceutical prescription drugs that have been classified as drugs with a drug identification number. The Group is positioned to supply cannabis based pharmaceutical drugs and Active Pharmaceutical Ingredients ("**APIs**") to other CD Licence holders and clinical research trials for novel drug discovery. On October 8, 2021, MediPharm Labs' CD Licence was amended to allow for the sale of drugs that contain cannabis. The amended CD Licence is valid until January 27, 2024.

On July 14, 2021, MediPharm Labs received a GMP DEL issued by Health Canada in accordance with the Food and Drugs Act and the associated Regulations. The DEL serves to confirm compliance to GMP standards. The DEL can be used for manufacturing, testing and sale of any non-sterile APIs and pharmaceuticals, including drug products containing cannabis. This includes drugs that have marketing authorizations as either novel or generic pharmaceutical drug products containing cannabis. MediPharm Labs is the only facility with large scale natural cannabinoid extraction capabilities that holds a GMP licence from a domestic health authority in North America.

MediPharm Labs Australia's 10,000 sq. ft. facility is situated in Wonthaggi, Australia and received its Australian Office of Drug Control 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 Australian facility was built to the same GMP standards as the Group's Canadian facility and MediPharm Labs Australia has received a GMP certificate under the Australian *Therapeutic Goods Act 1989*, which expanded its domestic manufacturing authorizations. On November 4, 2021, the expiry date of the Australian Licence was extended for one additional year. On March 10, 2022, the Australian Licence was updated again and now no longer has an expiry date. Under the current Australian Licence, the following activities are authorized: packaging, transport, storage, possession, and control of cannabis plants or a cannabis drug; the disposal or destruction of cannabis plants or cannabis drugs; and supply of a cannabis drug in accordance with the conditions of the licence.

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

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For sales made by MediPharm Labs in Australia, MediPharm Labs initially sources and processes dried cannabis at our TGA GMP-certified Canadian facility before export of the resulting products to MediPharm Labs Australia. MediPharm Labs Australia then distributes throughout its local, and various accessible international markets. MediPharm Labs Australia has also entered into several agreements with Australian licenced cultivators with respect to the supply of dried cannabis flower, and a manufacturing agreement with respect to the production of cannabis oil and manufactured products. MediPharm Labs Australia commenced shipment of finished formulated products in the second quarter of 2020.

The statements regarding intended expansions, exports, distributions and GMP certifications are forward-looking statements. The current term of the Licence ends on September 28, 2026. It is anticipated by our management that Health Canada will extend or renew the Licence at the end of or prior to the end of their respective terms<sup>1</sup>. See "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors".

*Product Manufacturing and Sales*

The Group processes its inventory of dried cannabis and sells both the resulting bulk cannabis concentrates and finished formulated products. Finished formulated products are sold under the MediPharm family of brands (white label), and under customer brands through private label and contract manufacturing (tolling) arrangements. Customers that do not hold a requisite Cannabis Act or other licence rely on the Group for the complete manufacturing and distribution of the branded product. Customers that hold their own licence may directly purchase the finished or partially finished products from the Group to manage the remaining portion of the manufacturing and/or supply chain themselves and the Group would typically receive a fee per unit shipped under that arrangement. The Group has increased the breadth (product formats) and depth (stock keeping units ("SKUs") per product format) of finished formulated product capabilities, and expects to continue this expansion going forward. In addition to the core competencies listed above, the Group is also engaged in the sale of GMP finished good cannabis flower to international partners as a part of the suite of offerings provided to customers.

We commenced shipping initial white label vape products in December 2019, and as at the date of this MD&A are currently shipping several product formats (being formulated cannabis oil bottles, topicals, disposable vaporizer pens and vaporizer cartridges) and SKUs direct to authorized distributors or our B2B customers.

During the Group's initial growth phase, we realized the majority of our revenue from product sales through long-term and spot sales of bulk crude resin and distillate. This changed in Q4 2019 as the expansion in the Canadian market for bulk concentrates seen in the ramp up to Cannabis 2.0 legalization began to slow, which resulted in smaller volumes being sold pursuant to long-term contracts and a preference for spot

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<sup>1</sup> This statement is based on the following material factors and assumptions: (a) the Group assumes that it will receive a compliant rating from Health Canada and that Health Canada will renew the Licence; and (b) the Group assumes that it will continue to be in compliance with the relevant regulatory frameworks, guidelines, and requirements of Health Canada. The Group clarifies that as of the date hereof, it has received compliant ratings from Health Canada, but cannot guarantee that there will not be issues with compliance inspections that may arise in the future. Such statements are informed by, among other things, regulatory guidelines for receiving and maintaining the Licence. See "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors".

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

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deals (which saw pricing pressure) as opposed to new long-term contracts from our domestic customers. We believe these trends reflect the ongoing supply and demand imbalance in the Canadian market for bulk crude and distillate leading to increased uncertainty and disruptions for current and potential B2B customers.

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

In Q3 and Q4 2021, the majority of our sales were in end product sales driven by new innovated products. MediPharm Labs offers a cannabinol ("CBN") dominant oil and is the only supplier of an inhaled CBN vaporizer to assist patients and consumers with immediate onset. We started distribution of a cannabidiol ("CBD") vaporizer in Q3 2021 that does not crystalize in the vaporizer cartridge. We intend to continue developing our valued-added product line, including additional bulk and finished product categories.

We have successfully completed the manufacturing of specific cannabinoids at our facility, with the intention to commercialize some of these actives in future quarters. Such isolated minor cannabinoids are intended to form part of both our bulk and finished formulated products offerings. In Q3 2021, we initiated the raw material vendor qualification and manufacturing protocol of cannabigerol ("CBG"), a non-psychoactive cannabinoid that is popular in other legal jurisdictions, but not yet available in large formats in Canadian or international medical programs. This product was accepted for sale by provincial distributors in Q4 2021 with initial deliveries planned for Q1 2022.

Additional process development and validation was completed to ensure our Canadian products are eligible for GMP distribution globally.

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".

**Corporate Highlights**

*Retail Product Developments*

On January 11, 2021, the Group announced (i) the shipment of 550,000 product units in Q4 2020; of the units shipped, 100,000 were white label MediPharm Labs SKUs compared to 25,000 SKUs in the third quarter of 2020; (ii) the ramped production of six (6) Avicanna RHO Phyto medical formulary products to date, and the expectation that the Group will continue to increase output to support consumer demand and Avicanna's plan to expand RHO Phyto SKUs to ten (10) in 2021<sup>2</sup> (see "Cautionary Note Regarding

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<sup>2</sup> The material factors and assumptions underlying this forward-looking statement are: (a) the Group has assessed the market size and consumer demand for Avicanna products relative to its expectation that there is a demand for increased output; and (b) the Group has a commercial agreement and business terms agreed to in principal for provincial domestic distribution of the product, whereby the Group assumes that any third-party obligations and deliverables will be performed and/or fulfilled in a timely and successful manner and that the third-parties will continue to maintain all necessary licences and approvals necessary to perform their obligations under the agreements. See "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors".

**MediPharm Labs Corp.****MANAGEMENT'S DISCUSSION AND ANALYSIS****For the year ended December 31, 2021**(All dollar amounts are expressed in thousands of Canadian dollars (C\$'000s) unless otherwise stated.)

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Forward-Looking Statements” and “Risk Factors”); and (iii) the commencement of a supply agreement between the Group and Nova Scotia Liquor Corporation during Q4 2020, and the shipment of initial orders to Nova Scotia.

On March 26, 2021, the Group announced a further expansion of the Group’s family of branded products with the retail introduction of CBD 100, THC 30, and the Group’s first cannabinoid CBN rich formula. These will continue to improve our domestic competitive profile as well as create proof-points critical to our future growth in international pharmaceutical and medical markets.

On November 23, 2021, the Group announced that it had added two new CBN:CBD products to its wellness portfolio for consumers and patients looking for a product without THC effects. The new CBN products include 1:2 Relax Formula Oil and a Northbound high CBN and high CBD vape cartridge.

On December 16, 2021, MediPharm Labs was announced as the CBD Brand of the Year at the 2021 *kind* Awards. The *kind* Awards were determined by a panel of 233 frontline cannabis retail staff.

**Corporate Governance**

On January 29, 2021, the Group announced that it appointed Mr. Greg Hunter as its Chief Financial Officer effective February 8, 2021. Mr. Hunter brings over 20 years of experience as a business executive holding various senior finance and leadership roles in healthcare distribution, telecommunications, pharmaceuticals, biotechnology, medical device, and consumer packaged goods. Mr. Hunter also brings a track record and deep expertise in capital management, audit, compliance, tax, treasury, ERP, manufacturing, contract management and pricing strategy. Most recently, Mr. Hunter was Chief Financial Officer of Medical Pharmacies Group Limited, a leading pharmacy and medical equipment manufacturer and distributor. Previously in the pharmaceuticals industry, Mr. Hunter held various senior management roles with Baxter International Inc. including serving as CFO of Baxter’s Canadian subsidiary. Mr. Hunter also previously held various senior operational and finance roles at Janssen-Ortho Inc., a Johnson and Johnson company.

On August 16, 2021, the Group announced that the Board of Directors unanimously appointed Chris Taves as Chairman of the Board. Mr. Taves joined the Group’s Board in July 2020 and also chairs its Audit Committee. Mr. Taves brings a wealth of experience in the banking and capital markets industries having recently held the position of Chief Operating Officer of BMO Capital Markets, a leading full-service financial services provider and member of BMO Financial Group, one of the largest banks in North America. He also serves as a board member of BMO China Co. and First Mortgage General Partnership. As Chairman, Mr. Taves will oversee the leadership of the Group into its next stage of growth as a leader in the supply of cannabis-based drugs and API to pharmaceutical companies around the world.

On October 21, 2021, the Group announced that Bryan Howcroft will join MediPharm Labs as Chief Executive Officer and Director, effective November 15, 2021. Mr. Howcroft brings over 20 years of leadership in multiple industries including medical devices, healthcare imaging, and manufacturing. Most recently, Bryan held the position of Chief Operational Officer and Chief Financial Officer of Southmedic, a company that provides healthcare products, custom manufacturing, and distribution in over 60 countries globally. Bryan also has significant European experience as a healthcare IT executive in Belgium for over four years. Mr. Howcroft holds an MBA from Laurentian University, a Bachelor of Business Administration from Nipissing University, and is a Chartered Professional Accountant.

## MediPharm Labs Corp.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2021

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

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On December 7, 2021, the Group announced that it was streamlining its Board of Directors as a next step in the Company's transformation to an operating pharmaceutical cannabis manufacturing company, maturing beyond the found-lead phase of the business. Aside from Bryan Howcroft, the Board of Directors is now composed entirely of independent directors. The Board of Directors now consists of: Chris Taves (Chairman), Bryan Howcroft (CEO), Chris Halyk, Shelley Martin, Miriam McDonald, and Dr. Paul Tam.

#### Licences

On February 17, 2021, the Group announced it has received a CD Licence from Health Canada. The CD Licence allows the Group to manufacture and supply drugs that contain cannabis. These products include pharmaceutical prescription drugs that have been classified as drugs with a Drug Identification Number (DIN). The Group is positioned to supply cannabis based pharmaceutical drugs and APIs to other CD Licence holders and clinical research trials for novel drug discovery. The Group will continue to expand its licences, global regulatory authorizations, and product filings with health authorities to allow for future sales into established global pharmaceutical and medical channels. On October 8, 2021, MediPharm Labs' CD Licence was amended to allow for the sale of drugs that contain cannabis. The amended CD Licence is valid until January 27, 2024.

On July 14, 2021, the Group received a DEL issued by Health Canada in accordance with the Food and Drugs Act and the associated Regulations. The DEL serves to confirm compliance to GMP standards. The DEL can be used for manufacturing, testing and sale of Active Pharmaceutical Ingredients and pharmaceutical drug products containing cannabis. This includes drugs that have marketing authorizations as either novel or generic pharmaceutical drug products containing cannabis.

On September 28, 2021, the Licence was renewed for a further term of five years.

On November 4, 2021, the expiry date of the Australian Licence was extended for one additional year.

On December 21, 2021, the NHP Site Licence was renewed for a further one-year term.

#### Funding

On March 1, 2021, the Group announced that it entered into a bought-deal financing agreement (the "**Bought Deal Offering**") with Cantor Fitzgerald Canada Corporation ("**Cantor**"), as lead underwriter and sole bookrunner on behalf of a syndicate of underwriters (the "**Underwriters**"), to purchase 34,500,000 units of the Group (the "**Units**") on a bought deal basis at a price of \$0.58 per Unit (the "**Issue Price**") for gross proceeds of \$20.01 million. Each Unit is comprised of one common share in the capital of the Group (each, a "**Common Share**") and one Common Share purchase Warrant (each, a "**Warrant**"). Each Warrant shall be exercisable to acquire one Common Share at an exercise price of \$0.70 per Common Share for a period of 24 months from the closing date of the Bought Deal Offering.

On March 2, 2021, the Group announced that it had entered into a revised agreement with Cantor to increase the size of its previously announced Bought Deal Offering, pursuant to which the Underwriters agreed to purchase 50,000,000 Units of the Group at the Issue Price for aggregate gross proceeds of \$29 million.

On March 5, 2021, the Group announced that the Underwriters had exercised their option to purchase an additional 7,500,000 Units to increase the size of the previously announced Bought Deal Offering to an aggregate of 57,500,000 Units of the Group for aggregate gross proceeds of \$33.4 million. This additional capital is critical to creating a longer runway to deliver our international pharmaceutical and medical strategy.

On August 19, 2021, the Group announced that MediPharm Labs Australia has received the first instalment of a government grant for \$330,000AUD as part of the Australian government's Manufacturing Modernisation program aimed at supporting manufacturers scaling their businesses. The grant is to be used for automation of downstream manufacturing and scaling purification abilities, and is awarded by the Australian government as part of broader manufacturing sector funding. The grant demonstrates the backing of the medical cannabis industry by the Australian government and the recognition of MediPharm Labs Australia's role in this industry. MediPharm Labs Australia intends to use the funds to increase the efficiency of its cannabis purification system and enhance the automation of its primary packaging manufacturing process. The enhanced automation of these production processes will allow MediPharm Labs Australia to service its growing domestic and international client base along with the anticipated increase in demand for its products.

On December 31, 2021, the Group completed the final payments owed under its \$41 million in unsecured convertible debt. On June 8, 2020, the Company closed a private placement with an US institutional investor for gross proceeds of \$37.8 million through the issuance of two senior unsecured convertible notes. Starting in October 2020, the notes amortized through bi-monthly installment payments payable, in cash or shares, on the first and tenth business day of each month prior to the maturity date of June 8, 2023. During the interim period between payment dates, the holder of the notes had the option to convert accelerated installment amounts, in whole or in part at an installment conversion price calculated in accordance with the terms of the notes. As of December 31, 2021, the entire debt has been repaid in full through both cash installments and share accelerations. This extinguishes the debt in full 18 months before its maturity date.

#### International Supply Agreements

On March 8, 2021, the Group announced that MediPharm Labs Australia has entered into a new GMP private-label supply and contract manufacturing agreement with Cannim Australia Pty Ltd. The Group also announced it has commenced registrations for the launch of over-the-counter products in Australia in 2021. Under the three-year agreement, with options to extend, MediPharm Labs Australia will supply a full range of specially formulated CBD and THC cannabis oil products that will be sold initially under Cannim's Lumir brand. MediPharm Labs Australia will also provide Cannim with contract manufacturing with their starting material.

On April 1, 2021, the Group announced that STADA Arzneimittel AG ("STADA"), and MediPharm Labs, under an exclusive, turnkey supply agreement, have commenced sales in Germany. As a result, patients in Germany are now able to access GMP-certified quality medical cannabis from STADA through local pharmacies under the brand – CannabiSTADA, distributed through STADAPHARM, a direct subsidiary of STADA. MediPharm Labs provides STADA with eight differentiated products including three specialized cannabis extract formulations with different THC and CBD concentrations.

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

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On April 6, 2021, the Group announced that it exported its first shipment of cannabis oil products, approved by the Australian TGA, to Germany.

On April 8, 2021, the Group announced that its wholly owned subsidiary, MediPharm Labs Inc., completed its first shipment of premium, formulated cannabis oil to its customer Cann Farm Peru S.A.C., a Lima-based producer and distributor serving Peruvian and other markets in Latin America. MediPharm Labs pre-formulated cannabis concentrate will be distributed to patients through compounding pharmacies in Peru that will complete final formulation and fill to exact prescription specification.

On April 26, 2021, the Group announced that it signed a new agreement with MT Pharma, based in Malta to supply premium, GMP certified, finished dose cannabis oil for patients. Under MediPharm Labs Australia's two year-agreement, subject to further renewals, with MT Pharma, MediPharm Labs will provide pre-formulated GMP certified full spectrum cannabis concentrates that will be distributed to patients through pharmacies that will complete final formulation and fill.

On June 8, 2021, the Group announced that it extended its supply agreement (the Agreement) with ADREXpharma GmbH ("ADREX"). The Agreement was renewed for 5 years, to June 2026, with a mutual option to extend further. The Group supplies ADREX with high quality, purity assured, THC and CBD cannabis products for sale and distribution in Germany to approximately 19,000 pharmacies that could provide access to cannabis products over time. The Group successfully completed its first shipment of cannabis products to ADREX in Q1 2021.

On August 18, 2021, the Group announced that it received approval to ship medical cannabis oil to Brazil. This approval, issued by both Agência Nacional de Vigilância Sanitária ("ANVISA") and Health Canada, allows initial shipments to patients for the Group's partner XLR8. The shipment is a crucial milestone for the Group in using its pharmaceutical GMP platform for international manufacturing and distribution. The Group and XLR8, a Curitiba based value-added distributor serving Brazil, entered into an agreement in September 2020. The two-year agreement is to commence from the time of ANVISA Sanitary Product Authorization, which is expected later in 2022. The registration will be for a mix of medical oil SKUs such as balanced and high CBD formulas. This initially approved delivery will go directly to patients under the compassionate care program, a program that saw over 20,000 patients in 2020 and is growing by 1,500 patients a month, allowing XLR8 to begin its medical cannabis research. This first delivery opens a regulatory pathway for future opportunities for authorized product distribution.

On October 19, 2021, the Group announced the delivery of GMP extract to Vayamed in Germany, the medical cannabis business unit of Sanity Group. Vayamed is a well-established operating medical cannabis company in Germany. This delivery of formulated oil bottles further establishes the Company's position as a leader in the wholesale of GMP cannabis oil to the European Union's largest medical cannabis jurisdiction. This export is a key milestone in the Company's goal of leveraging its pharmaceutical GMP licenses to increase consistent international medical sales. The cannabis extract has been shipped to Vayamed from the Company's GMP facility located in Victoria, Australia. The Group looks forward to completing additional deliveries to Vayamed under the strategic partnership agreement and assisting them in allowing more access for German medical patients seeking the therapeutic benefits of cannabis.

On November 26, 2021, the Group announced that it completed a medical cannabis export to Barbados in conjunction with strategic partner Avicanna. The patient-based delivery of medical cannabis was executed

with approval from both Barbados and Canadian health authorities. MediPharm Labs has manufactured and delivered Avicanna RHO Phyto products for the medical community and patients in the Caribbean through Bryden Stokes, an established health and pharmaceutical product distributor in the region. These advanced cannabis products are evidence-based and marketed via the Avicanna educational platform, including patient support, marketing, and training. Barbados marks the fourth new country entered by MediPharm Labs in 2021, following initial shipments to Germany, Brazil, and Peru. This execution is a proof of concept for future pharmaceutical customers who select MediPharm Labs to manufacture novel and generic drugs with marketing authorization for physician prescriptions in regions like the United States and European Union.

#### Domestic Supply Agreements

On March 9, 2021, the Group announced that it entered into a supply agreement with the Société québécoise du cannabis ("SQDC"). MediPharm Labs will supply the growing medical and wellness market in Québec with a variety of cannabis concentrate based products from its growing portfolio of proprietary and high demand formulations, many which are already available to medical patients and adult-use consumers in 6 other provinces.

On May 26, 2021, the Group announced that it launched its first wellness products in Québec and shipped its first order of premium CBD oils for retail sale to the SQDC. The MediPharm-branded CBD oils in the first shipment are CBD 25 Regular Formula and CBD 50 Plus Formula.

#### Clinical Research

On June 21, 2021, the Group announced that it had entered into a research partnership master agreement with McMaster University to develop drugs containing cannabis candidates. The Group's CD Licence and expertise qualifies and positions the Group to supply clinical trial material, assist in investigation protocol and provide regulatory support for multiple trials. Three initial proposed clinical trials will evaluate the effectiveness of proprietary THC and CBD drug candidates for multiple indications including pain, insomnia associated with major depression, and uremic pruritus. Under the terms of the agreement, the Group will enter into a separate Statement of Work with each clinician group. The Group will use its CD Licence to provide access to clinical trial material that meets pharmaceutical quality standards and GMP, as well as investigative protocol and regulatory approval support. The Group and McMaster University researchers have proposed three distinct clinical trials, each led by separate clinician groups looking to develop novel cannabis-based drugs to treat different indications including pain, insomnia associated with major depression, and uremic pruritus. The Group will assist in the development of the study drugs that will be evaluated, and each will name a principal investigator physician. Each study will not begin until all necessary approvals from relevant regulatory authorities, including Health Canada, are obtained.

In July 2021, McMaster University researchers received a letter of no objection to commence phase 2 of a randomized clinical trial ("RCT") to treat post knee surgery pain with MediPharm Labs CBD50 formula. The safety and toxicology portion of this trial was streamlined based on medical and adult use of the product. Now in phase 2 of the RCT researchers are recruiting patients to receive the MediPharm Labs CBD50 treatment or a related placebo.

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

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On August 31, 2021, the Group announced that McMaster University researchers received a letter of no objection to commence phase 2 of a RCT to begin recruiting human subjects for a placebo-controlled trial using cannabis-oil for treatment of insomnia in major depressive disorder with MediPharm Labs' CBD50 formula and a CBD:THC 10:2 formulation, which has the same cannabinoid ratio as MediPharm Labs' CBD25. This phase 2 of the RCT is a pilot, double-blind, randomized, placebo-controlled trial that will be evaluating the efficacy and safety of a cannabis-oil for the treatment of insomnia in major depressive disorder. MediPharm Labs will use its CD Licence and DEL to provide access to clinical trial material that meets these pharmaceutical quality standards and GMP, as well as provide investigative protocol and regulatory approval support.

**Subsequent Events**

Subsequent to the year ended December 31, 2021, the following Company developments also occurred:

*Submission of FDA Drug Master File*

On February 23, 2022, the Group announced that it had entered the United States pharmaceutical market with the completion of the FDA Drug Master File (the “**DMF**”) process for pure natural CBD APIs. The DMF allows for the registration of APIs with the FDA for commercial opportunities in pharmaceutical development, novel drugs, and generic drugs. This is a first for CBD by a Canadian company and the second natural CBD DMF at commercial scale in North America. The DMF will enable MediPharm to supply approved APIs to pharmaceutical companies conducting late-stage research. Once the DMF filing is accepted by the FDA, pharmaceutical companies can reference the DMF in regulatory submissions.

*Shelter Acquisition*

On March 21, 2022, the Group acquired the intellectual property portfolio of Shelter Cannabis, including cannabis dried flower and pre-roll products, manufacturing know-how, trademarks, marketing assets and provincial listings. Shelter Cannabis will be paid based on an earn-out reflective of future gross sales, net of excise tax. MediPharm-originated shipments are expected to begin during Q2 2022.

*Leadership Change*

On March 31, 2022, the Group announced that it had mutually agreed with Warren Everitt to end the role of CEO Asia Pacific, a position previously held by Warren.

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

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**Operational Highlights**

The following is a summary of the operational highlights for the year ended December 31, 2021, and period subsequent to the end of the year.

**Unmatched Suite of Licences and Authorizations:** The Group has built on an industry-leading and expanding portfolio of licences by recently receiving a DEL from Health Canada, which is required for the production of pharmaceutical prescription drugs with marketing authorization. This allows for the participation in IP-capable clinical trials and partnerships with other pharmaceutical companies. The Group leveraged its collection of licences to enter into a research master agreement with McMaster University that allows participation in various cannabis based clinical trials. Subsequent to the end of the period, the Group leveraged the DEL to register APIs with the FDA for commercial opportunities in pharmaceutical development, novel drugs, and generic drugs. This is a first for CBD by a Canadian company and only the second natural CBD DMF at commercial scale in North America.

**Strong Balance Sheet:** During the period, we entered into the Bought Deal Offering for aggregate gross proceeds of \$33.4 million, and the balance under the Notes has been fully paid. As at the end of the period, the Group maintains \$34.1 million in cash and cash equivalents with no material long term debt. This financial position gives MediPharm Labs longevity to execute on its sales contracts, and provides the balance sheet strength to support the Company's long-term growth strategy.

**Corporate Governance:** Bryan Howcroft joined MediPharm Labs as Chief Executive Officer and Director, on November 15, 2021. Mr. Howcroft brings over 20 years of leadership in multiple industries including medical devices, healthcare imaging, and manufacturing and most recently, Bryan held the position of Chief Operational Officer and Chief Financial Officer of Southmedic. Bryan also has significant European experience and is well-positioned to lead the Group's acceleration of international business opportunities. In addition, during the period the Group announced that the Board of Directors unanimously appointed Chris Taves as Chairman. Mr. Taves has a wealth of experience in the banking and capital markets industries and will represent a newly streamlined Board of Directors, which consists solely of experienced independent directors in addition to Mr. Howcroft.

**International Sales Strength:** International sales represented 38% of revenue in Q4 2021, and the Group expects the growth to accelerate in the upcoming fiscal year. During 2021, the Group had sales to seven German customers, including the completion of first shipments to STADA. First shipments of premium, high-THC medical cannabis were also completed to Cann Farm Peru S.A.C and to local partners in Barbados, with additional sales expected to follow to other countries in Latin America such as Brazil, where the Group received approval to ship medical cannabis oil during Q3 2021.

**Domestic Presence:** We added to the innovative, pharma-quality family of branded materials with the retail introduction of new products such as the *CBD 100 Ultra Formula Oil*, *THC30 Plus Formula Oil*, *CBN1:2 Nighttime Formula*, *1:2 Relax Formula Oil*, and a *Northbound High CBN* and *High CBD* vape cartridge. In addition, we increased new listings and products with the Ontario Cannabis Store, expanded distribution to new retailers, and entered into new domestic markets in Québec and New Brunswick. MediPharm Labs will supply the growing medical and wellness market in Quebec with a variety of cannabis concentrate-based products. The breadth and quality of our product mix was recognized as the CBD Brand of the Year at the 2021 *kind* awards.

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

**SELECTED STATEMENT OF INCOME/(LOSS) INFORMATION**

|  | <b>Three months ended</b>                |  | <b>Twelve months ended</b>               |  |
|--|--|--|--|--|
|  | <b>December 31,<br/>2021<br/>\$'000s</b> | <b>December 31,<br/>2020<br/>\$'000s</b> | <b>December 31,<br/>2021<br/>\$'000s</b> | <b>December 31,<br/>2020<br/>\$'000s</b> |
| Revenue                                    | 5,743                                    | 6,058                                    | 21,711                                   | 36,012                                   |
| Gross profit                               | (4,973)                                  | (24,720)                                 | (15,246)                                 | (43,978)                                 |
| Gross margin %                             | (87%)                                    | (408%)                                   | (70%)                                    | (122%)                                   |
| Net loss                                   | (21,766)                                 | (30,949)                                 | (54,801)                                 | (67,110)                                 |
| Loss per share – basic<br>and diluted      | (0.08)                                   | (0.21)                                   | (0.22)                                   | (0.48)                                   |
| Adjusted EBITDA <sup>(1)</sup>             | (6,573)                                  | (10,586)                                 | (26,684)                                 | (28,373)                                 |
| Adjusted EBITDA<br>margin % <sup>(1)</sup> | (114%)                                   | (175%)                                   | (123%)                                   | (79%)                                    |

(1) Adjusted EBITDA and Adjusted EBITDA Margin are non-IFRS measures. See “Reconciliation of non-IFRS Measures” for reconciliation to IFRS measures.

**SUMMARY OF QUARTERLY RESULTS**

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

|                                       | <b>Three months ended</b>               |  |                                     |                                      |
|---------------------------------------|---|--|-------------------------------------|--------------------------------------|
|                                       | <b>December 31<br/>2021<br/>\$'000s</b> | <b>September 31<br/>2021<br/>\$'000s</b> | <b>June 30<br/>2021<br/>\$'000s</b> | <b>March 31<br/>2021<br/>\$'000s</b> |
| Revenue                               | 5,743                                   | 5,401                                    | 5,072                               | 5,495                                |
| Gross profit                          | (4,973)                                 | (1,860)                                  | (7,733)                             | (680)                                |
| Adjusted gross profit <sup>(1)</sup>  | (1,068)                                 | (1,354)                                  | (1,418)                             | (680)                                |
| Gross margin%                         | (87%)                                   | (34%)                                    | (152%)                              | (12%)                                |
| Adjusted gross profit% <sup>(1)</sup> | (19%)                                   | (25%)                                    | (28%)                               | (12%)                                |
| General administrative<br>expenses    | (10,429)                                | (4,591)                                  | (5,187)                             | (4,001)                              |

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

|   | <b>Three months ended</b> |                     |                |                 |
|---|---------------------------|---------------------|----------------|-----------------|
|   | <b>December 31</b>        | <b>September 31</b> | <b>June 30</b> | <b>March 31</b> |
|   | <b>2021</b>               | <b>2021</b>         | <b>2021</b>    | <b>2021</b>     |
|   | <b>\$'000s</b>            | <b>\$'000s</b>      | <b>\$'000s</b> | <b>\$'000s</b>  |
| Marketing and selling expenses          | (1,414)                   | (886)               | (1,054)        | (1,278)         |
| R&D expenses                            | (582)                     | (277)               | (144)          | (352)           |
| Share based compensation expense        | (611)                     | (435)               | (476)          | (880)           |
| Other operating income/(expense), net   | (4,156)                   | 593                 | 3,214          | (724)           |
| Operating loss                          | (22,165)                  | (7,456)             | (11,380)       | (7,915)         |
| Net loss                                | (21,766)                  | (7,356)             | (11,812)       | (13,867)        |
| Loss per share – basic and diluted      | (0.08)                    | (0.03)              | (0.05)         | (0.07)          |
| Adjusted EBITDA <sup>(2)</sup>          | (6,573)                   | (6,518)             | (7,434)        | (6,159)         |
| Adjusted EBITDA margin % <sup>(2)</sup> | (114%)                    | (121%)              | (147%)         | (112%)          |

|  | <b>Three months ended</b> |                     |                |                 |
|--|---------------------------|---------------------|----------------|-----------------|
|  | <b>December 31</b>        | <b>September 30</b> | <b>June 30</b> | <b>March 31</b> |
|  | <b>2020</b>               | <b>2020</b>         | <b>2020</b>    | <b>2020</b>     |
|  | <b>\$'000s</b>            | <b>\$'000s</b>      | <b>\$'000s</b> | <b>\$'000s</b>  |
| Revenue                                | 6,058                     | 4,947               | 13,918         | 11,089          |
| Gross profit                           | (24,720)                  | (10,588)            | 2,212          | (10,882)        |
| Adjusted gross profit <sup>(1)</sup>   | (6,813)                   | (2,828)             | 2,212          | 1,929           |
| Gross margin %                         | (408%)                    | (214%)              | 16%            | (98%)           |
| Adjusted gross profit % <sup>(1)</sup> | (112%)                    | (57%)               | 16%            | 17%             |
| General administrative expenses        | (5,222)                   | (4,389)             | (6,793)        | (5,500)         |
| Marketing and selling expenses         | (1,274)                   | (1,345)             | (948)          | (799)           |
| R&D expenses                           | (635)                     | (209)               | (337)          | (1,044)         |
| Share based compensation expense       | 2,398                     | (800)               | (1,520)        | (2,759)         |

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

|                                       | Three months ended |                 |                 |                 |
|---------------------------------------|--------------------|-----------------|-----------------|-----------------|
|                                       | December 31        | September 30    | June 30         | March 31        |
|                                       | 2020<br>\$'000s    | 2020<br>\$'000s | 2020<br>\$'000s | 2020<br>\$'000s |
| Other operating income/(expense), net | 66                 | 584             | 2,879           | (951)           |
| Operating loss                        | (29,389)           | (16,747)        | (4,507)         | (21,935)        |
| Net loss                              | (30,951)           | (15,308)        | (3,490)         | (17,363)        |
| Loss per share – basic and diluted    | (0.21)             | (0.11)          | (0.02)          | (0.13)          |
| Adjusted EBITDA (2)                   | (10,586)           | (8,142)         | (3,988)         | (5,657)         |
| Adjusted EBITDA margin % (2)          | (175%)             | (165%)          | (29%)           | (51%)           |

- (1) The Adjusted Gross Profit and Adjusted Gross Profit % are non-IFRS measures. See “Reconciliation of non-IFRS Measures” for reconciliation to IFRS measures.
- (2) Adjusted EBITDA and Adjusted EBITDA Margin are non-IFRS measures. See “Reconciliation of non-IFRS Measures” for reconciliation to IFRS measures.

## Revenue

As of the date of this MD&A, our core business generates revenue through three primary streams, being private label, white label and the tolling process. These revenue streams include the sale of bulk and consumer packaged cannabis concentrate-based products, contract manufacturing services, GMP dry flower and production of finished formulated packaged goods and APIs for sale in Canadian retail markets and globally to large pharmaceutical and new cannabis companies in emerging medical cannabis markets.

## Cost of goods sold and gross margin

Cost of sales reflects the cost to extract and process the cannabis concentrates as well as the management of product throughput and inventory levels. Cost of sales includes the purchase of material and services such as the purchase of dried cannabis, freight expenses, a portion of insurance expenses, employee wages and benefit costs, and other operating expenses such as repairs and maintenance, plant overhead, as well as depreciation and any write-downs of inventory and manufacturing equipment.

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

## General administrative expenses

General administrative expenses include personnel expenses, consulting and professional fees, depreciation and amortization, travel and entertainment expenses, bad debt expenses, insurance expenses, occupancy cost, filing fees and other expenses related to the infrastructure required to support our business.

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

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**Marketing and selling expenses**

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

**R&D expenses**

R&D expenses currently include expenses related to working on new product lines, a portion of depreciation expense and wages and benefits cost.

**Other expenses**

Other operating expenses include foreign exchange loss, impairment of property, plant and equipment and intangibles, wage and rent subsidies and bank and financial institution service fees, which are costs that do not depend on sales or production quantities.

**Finance income**

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

**Finance expense**

Finance expense comprises finance fees and interest expenses that were incurred on the loans and convertible notes.

**Unrealized gain in revaluation of derivative liabilities**

Unrealized gain in revaluation of derivative liabilities pertains to the revaluation gain on the warrant derivative liability and the conversion option derivative liability.

**Taxation expense**

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

**Other Comprehensive Income and Loss**

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

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

**Discussion and Analysis of the Results for the Three-Month Period Ended December 31, 2021**

Results of operations for the three months ended December 31, 2021, as compared to the three months ended December 31, 2020.

|  | Three months ended          |                             | Change        |            | Management Commentary  |
|--|-----------------------------|-----------------------------|---------------|------------|--|
|  | December 31 2021<br>\$'000s | December 31 2020<br>\$'000s | \$            | %          |  |
| Revenue  | 5,743                       | 6,058                       | (315)         | (5%)       | Sales relatively consistent with Q4/2020.  |
| Cost of sales  | (10,716)                    | (30,778)                    | 20,062        | 65%        | Q4/21 cost of sales is lower driven by inventory and non-current deposit write-downs and accelerated depreciation in Q4/20.  |
| <b>Gross profit</b>                                      | <b>(4,973)</b>              | <b>(24,720)</b>             | <b>19,747</b> | <b>80%</b> | Q4/20 gross profit was impacted by the items mentioned above in cost of sales. Adjusted for these items Q4/20 Gross Profit would have been (\$6.8M). Gross profit improved in Q4/21 due to mix and lower cost inventory. |
| General administrative expenses                          | (10,429)                    | (5,244)                     | (5,185)       | 99%        | Expenses increased largely driven by the recognition of expected credit losses for receivables in 2021.  |
| Marketing and selling expenses                           | (1,414)                     | (1,274)                     | (140)         | (11%)      | Expenses increased largely due to an increased investment in sales employees and advertising and promotional spend.  |
| R&D expenses   | (582)                       | (635)                       | 53            | 8%         | Expenses decreased due to accelerated depreciation in Q4/20.   |
| Share-based compensation expenses                        | (611)                       | 2,399                       | (3,010)       | (125%)     | The change is due to issuance of Restricted Stock Units (RSUs) and Stock Options in Q4 2021 and lower terminations compared with prior period.   |
| Other operating (expense)/income, net                    | (4,156)                     | 87                          | (4,243)       | (4,877%)   | Other net operating income reduced due to impairment of property, plant and equipment.   |
| <b>Operating loss</b>                                    | <b>(22,165)</b>             | <b>(29,387)</b>             | <b>7,222</b>  | <b>25%</b> | See comments above.  |
| <b>Adjusted EBITDA</b>                                   | <b>(6,573)</b>              | <b>(10,586)</b>             | <b>4,013</b>  | <b>38%</b> | Adjusted EBITDA is a non-IFRS measure. See "Reconciliation of non-IFRS Measures" for reconciliation to IFRS measures   |
| Unrealized gain in revaluation of derivative liabilities | 306                         | 3,144                       | (2,838)       | (90%)      | The unrealized gain in revaluation has decreased mainly due to the change in the conversion option derivative liability.   |
| Finance income   | 77                          | 47                          | 30            | 64%        | Interest income on cash balances.  |
| Finance expense/(income)                                 | 23                          | (4,678)                     | 4,701         | 101%       | Finance expense has decreased because of conversions on the Notes in 2021.   |

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

|                             | Three months ended |                 | Change |     | Management Commentary   |
|-----------------------------|--------------------|-----------------|--------|-----|---|
|                             | December 31        |                 | \$     | %   |   |
|                             | 2021<br>\$'000s    | 2020<br>\$'000s |        |     |   |
| Loss before taxation        | (21,759)           | (30,874)        | 9,115  | 30% | See comments above.   |
| Taxation recovery (expense) | (7)                | (75)            | 68     | 91% | The change is due to the taxable loss for the three months ended December 31, 2021. |
| Net loss for the period     | (21,766)           | (30,949)        | 9,183  | 30% | See comments above.   |

**Discussion and Analysis of the Results for the Twelve-Month Period Ended December 31, 2021**

Results of operations for the twelve months ended December 31, 2021, as compared to the twelve months ended December 31, 2020.

|                                 | Twelve months ended |          | Change   |       | Management Commentary   |
|---------------------------------|---------------------|----------|----------|-------|---|
|                                 | December 31         |          | \$       | %     |   |
|                                 | 2021                | 2020     |          |       |   |
|                                 | \$'000s             | \$'000s  |          |       |   |
| Revenue                         | 21,711              | 36,012   | (14,301) | (40%) | The decrease in sales is due to the decrease in bulk concentrate and distillate volumes.  |
| Cost of sales                   | (36,957)            | (79,990) | 43,033   | 54%   | 2021 cost of sales decreased driven by reduced sales volumes reduced write-down of inventory and and non-current deposits, and reduced accelerated depreciation.  |
| Gross profit                    | (15,246)            | (43,978) | 28,732   | 65%   | Gross profit improved driven by reduced write-down of inventory and non-current deposits, and reduced accelerated depreciation.   |
| General administrative expenses | (24,209)            | (22,444) | (1,765)  | 8%    | Expenses increased driven by the recognition of expected credit losses for receivables in 2021.   |
| Marketing and selling expenses  | (4,631)             | (4,366)  | (265)    | (6%)  | Expenses increased largely due to an increased investment in sales employees and advertising and promotional spend.   |
| R&D expenses                    | (1,355)             | (2,225)  | 870      | 39%   | Expenses decreased from lower new product development costs. The cost was higher in the previous year due to many new product development initiatives taken in 2020. In addition, 2020 included accelerated depreciation of assets. |

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

|  | Twelve months ended |                 | Change  |        | Management Commentary  |
|--|---------------------|-----------------|---------|--------|--|
|  | December 31         |                 | \$      | %      |  |
|  | 2021<br>\$'000s     | 2020<br>\$'000s |         |        |  |
| Share-based compensation expenses                        | (2,402)             | (2,681)         | 279     | 10%    | Expenses incurred due to remuneration in the form of share-based payments granted to employees (including senior executives) decreased slightly due to stock option forfeitures in 2021 and fewer grants in 2021 at lower strike prices. |
| Other operating (expense)/income, net                    | (1,073)             | 3,118           | 4,191   | 134%   | Other net operating income decreased due to foreign exchange loss and higher impairment expense recorded in 2021.  |
| Operating loss   | (48,916)            | (72,576)        | 23,660  | 33%    | See comments above.  |
| Adjusted EBITDA  | (26,684)            | (28,373)        | 1,698   | 6%     | Adjusted EBITDA is a non-IFRS measure. See “Reconciliation of Non-IFRS Measures” for reconciliation to IFRS measures.  |
| Unrealized gain in revaluation of derivative liabilities | 4,509               | 8,078           | (3,569) | (44%)  | The unrealized gain in revaluation has decreased mainly due to the change in the conversion option derivative liability.   |
| Finance income   | 225                 | 273             | (48)    | (18%)  | Finance income change due to interest on cash balances.  |
| Finance expense  | (10,506)            | (7,875)         | (2,631) | (33%)  | Finance expenses increased due to the increase in accreted interest in relation to the accelerations of the Notes in 2021.   |
| Loss before taxation                                     | (54,688)            | (72,100)        | 17,412  | 24%    | See comments above.  |
| Taxation recovery/(expense)                              | (113)               | 4,990           | (5,103) | (102%) | The change is due to tax recovery of \$5 million in 2020 from claim back against previous years cash taxes paid.   |
| Net loss for the period                                  | (54,801)            | (67,110)        | 12,309  | 18%    | See comments above.  |
| Attributable to  |                     |                 |         |        |  |
| - Non controlling interest                               | -                   | (757)           | 757     | 100%   | 20% interest in the Australian facility was acquired on October 8, 2020. Therefore, no loss was attributed to non-controlling interest for the current period.   |
| - Equity holder of parents                               | (54,801)            | (66,353)        | 11,552  | 17%    | See comments above.  |

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

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**RECONCILIATION OF NON-IFRS MEASURES**

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

Management believes supplementary financial measures provide useful additional information related to the operating results of the Group. Adjusted EBITDA and Adjusted Gross Profit are used by management to assess financial performance of the business and are a supplement to the Financial Statements. Investors are cautioned that Adjusted EBITDA and Adjusted Gross Profit should not be construed as alternatives to using net loss and gross profit as measures of profitability or as alternatives to the Group's IFRS-based Financial Statements.

Adjusted EBITDA and Adjusted Gross Profit do not have any standardized meanings and the Group's method of calculating Adjusted EBITDA and Adjusted Gross Profit may not be comparable to calculations used by other companies bearing the same description.

**Adjusted EBITDA Reconciliation**

Adjusted EBITDA is defined as net income/(loss) excluding interest income and expense, finance fees, gain in revaluation of derivative liabilities, taxes, depreciation and amortization, rent and wage subsidies, impairment losses on fixed assets and intangibles, and share-based compensation and other non-cash expenses. Adjusted EBITDA has limitations as an analytical tool as it does not include depreciation and amortization expense, interest income and expense, finance fees, gain in revaluation of derivative liabilities, taxes, government grants including rent and wage subsidies, one-off transactions, impairment losses on inventory and on fixed assets and intangibles, write down of deposits and share-based compensation. Because of these limitations, Adjusted EBITDA should not be considered as the sole measure of the Group's performance and should not be considered in isolation from, or as a substitute for, analysis of the Group's results as reported under IFRS. Adjusted EBITDA, as used within this MD&A and the Group's disclosure, may not be directly comparable to Adjusted EBITDA used by other reporting issuers.

**Adjusted EBITDA Margin**

Adjusted EBITDA Margin is a profitability ratio that measures how much in earnings a company is generating before interest, taxes, deprecation and amortization, as a percentage of revenue. Adjusted EBITDA Margin has limitations as an analytical tool as it does not include depreciation and amortization expense, interest income and expense, finance fees, gain in revaluation of derivative liabilities, government grants including rent and wage subsidies, one-off transactions, taxes, impairment losses on inventory and on fixed assets and intangibles, write down of deposits and share-based compensation. Because of these limitations, Adjusted EBITDA Margin should not be considered as the sole measure of the Group's performance and should not be considered in isolation from, or as a substitute for, analysis of the Group's results as reported under IFRS. Adjusted EBITDA Margin, as used within this MD&A and the Group's disclosure, may not be directly comparable to Adjusted EBITDA Margin used by other reporting issuers.

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

The following table reconciles the Group's Adjusted EBITDA and operating loss (as reported) for each of the periods presented.

|  | <b>Three months ended</b>                |  | <b>Twelve months ended</b>               |  |
|--|--|--|--|--|
|  | <b>December 31,<br/>2021<br/>\$'000s</b> | <b>December 31,<br/>2020<br/>\$'000s</b> | <b>December 31,<br/>2021<br/>\$'000s</b> | <b>December 31,<br/>2020<br/>\$'000s</b> |
| <b>Operating loss-as reported</b>          | <b>(22,165)</b>                          | <b>(29,387)</b>                          | <b>(48,916)</b>                          | <b>(72,576)</b>                          |
| <b>Add / (deduct):</b>                     |  |  |  |  |
| Share-based compensation expense           | 611                                      | (2,398)                                  | 2,402                                    | 2,681                                    |
| Depreciation                               | 2,383                                    | 7,192                                    | 5,633                                    | 9,632                                    |
| Write down of inventory                    | 2,423                                    | 10,693                                   | 8,678                                    | 29,795                                   |
| Impairment on fixed assets and intangibles | 4,241                                    | 2,042                                    | 4,241                                    | 2,042                                    |
| Restructuring related severance expenses   | -  | 1,433                                    | -  | 1,433                                    |
| Write down of non-current deposits         | -  | 1,658                                    | -  | 3,127                                    |
| Government grants                          | (162)                                    | (1,819)                                  | (4,818)                                  | (4,507)                                  |
| Impairment of receivables <sup>(1)</sup>   | 6,096                                    | -  | 6,096                                    | -  |
| <b>Adjusted EBITDA</b>                     | <b>(6,573)</b>                           | <b>(10,586)</b>                          | <b>(26,684)</b>                          | <b>(28,373)</b>                          |

(1) This relates to impairment of a long outstanding receivable.

**Adjusted Gross Profit**

Adjusted gross profit is defined as gross profit excluding the adjustments for accelerated depreciation, write down of non-current deposits and write down of inventory. Adjusted gross profit is a useful measure as it represents gross profit for management purposes based on costs to manufacture, package and ship inventory sold, exclusive of any impairments due to changes in internal or external influences.

**Adjusted Gross Profit Margin**

Adjusted gross profit margin is a profitability ratio that measures the efficiency of a company using its raw materials and labour during the production process.

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

The following table reconciles the Group's adjusted gross profit and gross profit (as reported) for the previous quarters.

|                                   | Three months ended |              |         |          |
|-----------------------------------|--------------------|--------------|---------|----------|
|                                   | December 31        | September 30 | June 30 | March 31 |
|                                   | 2021               | 2021         | 2021    | 2021     |
|                                   | \$'000s            | \$'000s      | \$'000s | \$'000s  |
| <b>Gross profit – as reported</b> | (4,973)            | (1,860)      | (7,733) | (680)    |
| Write down of inventory           | 2,423              | 506          | 5,749   | -        |
| Accelerated depreciation          | 1,482              | -            | 566     | -        |
| <b>Adjusted gross profit</b>      | (1,068)            | (1,354)      | (1,418) | (680)    |

|                                    | Three months ended |              |         |          |
|------------------------------------|--------------------|--------------|---------|----------|
|                                    | December 31        | September 30 | June 30 | March 31 |
|                                    | 2020               | 2020         | 2020    | 2020     |
|                                    | \$'000s            | \$'000s      | \$'000s | \$'000s  |
| <b>Gross profit – as reported</b>  | (24,720)           | (10,588)     | 2,212   | (10,882) |
| Write down of inventory            | 10,693             | 6,291        | -       | 12,811   |
| Accelerated depreciation           | 5,556              | -            | -       | -        |
| Write down of non-current deposits | 1,658              | 1,469        | -       | -        |
| <b>Adjusted gross profit</b>       | (6,813)            | (2,828)      | 2,212   | 1,929    |

**Outstanding Equity Securities**

**Common Shares**

The Group's authorized capital consists of an unlimited number of Common Shares. As at December 31, 2021, the Group had 273,537,190 Common Shares issued and outstanding. As at the date of this MD&A, the Group had 273,938,975 Common Shares issued and outstanding.

**Warrants**

On March 5, 2021, the Group closed the Bought Deal Offering with Cantor as lead underwriter and sole bookrunner on behalf of the Underwriters to purchase 57,500,000 Units for aggregate gross proceeds of \$33.4 million. Each Unit is comprised of one Common Share and one Warrant. Each Warrant shall be

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

---

exercisable to acquire one Common Share at an exercise price of \$0.70 per Common Share for a period of 24 months from the closing date of the Bought Deal Offering.

As at December 31, 2021, the Group had 57,500,000 Warrants issued and outstanding. Subsequent to December 31, 2021, no Warrants were exercised resulting in 57,500,000 Warrants remaining outstanding as of the date of this MD&A.

*Stock Options and RSUs*

As at December 31, 2021, the Group had 11,085,670 stock options outstanding. During the twelve months ended December 31, 2021, options to purchase up to 3,821,920 Common Shares were issued, no options to purchase Common Shares were exercised, and options to purchase up to 3,933,460 Common Shares were forfeited/cancelled and/or expired.

As at December 31, 2021, the Group had 3,661,038 RSUs outstanding. During the twelve months ended December 31, 2021, 5,180,727 RSUs were granted, 1,205,387 RSUs were exercised and 314,302 RSUs were forfeited/cancelled.

Subsequent to December 31, 2021, 12,800,000 options were issued, 78,000 options were forfeited/cancelled and no options were exercised, resulting in 23,837,670 stock options remaining outstanding as of the date of this MD&A.

Subsequent to December 31, 2021, 2,320,000 RSUs were issued, 73,784 RSUs were forfeited/cancelled and 401,785 RSUs were exercised, resulting in 5,505,469 RSUs remaining outstanding as of the date of this MD&A.

## **LIQUIDITY AND CAPITAL RESOURCES**

**Liquidity**

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

As at December 31, 2021, the Group had a positive working capital of \$56,670 (December 31, 2020: \$57,276). The increase in working capital was driven primarily by an increase in cash and cash equivalents from the bought deal less cash used in operations plus a reduction related to the convertible debentures, offset by a decrease in inventory.

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

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

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

|   | <b>Twelve months ended</b> |                | <b>Change</b> | <b>Management Commentary</b>  |
|---|----------------------------|----------------|---------------|---|
|   | <b>2021</b>                | <b>2020</b>    |               |   |
|   | <b>\$'000s</b>             | <b>\$'000s</b> |               |   |
| Cash and cash equivalents, beginning of period              | 19,913                     | 38,627         | (18,714)      |   |
| Net cash used in operating activities                       | (13,213)                   | (37,773)       | 24,560        | Negative cash flow from operating activities mainly due to operating loss.  |
| Net cash from/(used in) investing activities                | 35                         | (7,446)        | 7,481         | Cash inflow due to lower capital expense in 2021 as majority of the facility construction was completed in 2020 and receipt of cash from the sale of assets during the year 2021. |
| Net cash from financing activities                          | 27,804                     | 26,422         | 1,382         | Financing provided by bought deal partially offset by repayment of the convertible debenture.   |
| Effect of exchange rate change on cash and cash equivalents | (429)                      | 83             | (512)         |   |
| Cash and cash equivalents, end of period                    | 34,110                     | 19,913         | 14,197        | Cash balance increased largely driven by the Bought Deal Offering.  |

**Contractual Obligations**

The Group's contractual obligations as at December 31, 2021, decreased by \$37,852 as compared to December 31, 2020, mainly as a result of settlement of the convertible debenture. The Group's short-term (less than one year) undiscounted contractual obligations are \$6,329 and long-term undiscounted contractual obligations are \$104.

| <b>Contractual Obligations</b> | <b>Total</b> | <b>Payments due by Period</b> |                  |                  |                     |
|--------------------------------|--------------|-------------------------------|------------------|------------------|---------------------|
|                                |              | <b>&lt; 1 year</b>            | <b>1-3 years</b> | <b>4-5 years</b> | <b>&gt; 5 years</b> |
| Convertible debt               | -            | -                             | -                | -                | -                   |
| Lease Liabilities              | 220          | 116                           | 104              | -                | -                   |
| Trade and Other Payables       | 6,213        | 6,213                         | -                | -                | -                   |
| Total Contractual Obligations  | 6,433        | 6,329                         | 104              | -                | -                   |

In addition to the contractual obligations mentioned above, as at December 31, 2021, under cannabis material sales agreement, the Group is committed to purchase dry flower amounting to \$9,500 until December 31, 2022 (2020: \$9,500 until June 30, 2021). During the year ended December 31, 2021, the Group fulfilled purchase of dry flower amounting to \$1,010 (2020: \$3,161) based on availability of dry flower from the counterparty. The remaining purchase commitment as at December 31, 2021, is dry flower amounting to \$5,329 (2020: \$6,339).

Under supply agreements, as at December 31, 2021, the Group is committed to sell 129,758 units of tincture bottles of cannabis oil to private label customers until November 2023 (2020: 85,500 units of tincture bottles of cannabis oil to licensed producers until November 2023). In the event the Group does not meet the commitments, the Group is not subject to any late in-kind/cash payments.

### **Capital Resources**

As of December 31, 2021, the Group does not have any commitments for capital expenditures. The Group currently expects that internally generated cash and cash equivalents will be sufficient to maintain its currently planned growth. However, the Group is continually evaluating various debt and/or equity financing opportunities to lower its cost of capital and optimize its capital structure.

The Group 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".

## **FINANCIAL INSTRUMENTS**

### **Convertible Note**

On June 8, 2020, the Group closed a private placement with an institutional investor (the "**Investor**") for gross proceeds of \$37.8 million through the issuance of (the "**2020 Private Placement**"): (i) a \$20.5 million senior unsecured convertible note (the "**First Note**"); (ii) a warrant to purchase up to 3,601,427 Common Shares (the "**First Warrant**"), and (ii) a subscription receipt (the "**Subscription Receipt**") entitling the holder to receive, upon satisfaction of certain escrow release conditions, a further \$20.5 million senior unsecured convertible note (the "**Second Note**" and, together with the First Note, collectively, the "**Notes**") and a further warrant (the "**Second Warrant**") to purchase up to an additional 3,601,427 Common Shares. On August 6, 2020, the escrow release conditions were satisfied, and the Subscription Receipt was exchanged for the Second Note and Second Warrant.

The principal amount of the Notes is convertible into Common Shares at the option of the holder at a conversion price of \$2.28 per share, subject to adjustments in certain circumstances, with an initial maturity date of June 8, 2023 (the "**Maturity Date**"). The Notes amortize through bi-monthly installment payments payable on the first and tenth business day of each calendar month prior to the Maturity Date (the "**Bi-Monthly Installment Payments**"), which commenced in October 2020, and ending on the Maturity Date (each, an "**Installment Date**"). During the interim period between Installment Dates, the holder of the Notes has the option to convert installment amounts (each, an "**Acceleration**"), in whole or in part at an installment conversion price calculated in accordance with the terms of the Notes.

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

The following table summarizes each Acceleration that has occurred subsequent to the year ended December 31, 2020.

| <b>Date of Conversion Notice</b> | <b>Principal Converted – First Note</b> | <b>Principal Converted – Second Note</b> | <b>Installment Conversion Price</b> | <b>Number of Common Shares issued</b> |
|----------------------------------|---|--|-------------------------------------|---------------------------------------|
| January 4, 2021                  | \$322,265.63                            | \$322,265.63                             | \$0.4434                            | 1,453,612                             |
| January 6, 2021                  | \$322,265.63                            | \$322,265.63                             | \$0.4434                            | 1,453,612                             |
| January 7, 2021                  | \$322,265.63                            | \$322,265.63                             | \$0.4434                            | 1,453,612                             |
| January 8, 2021                  | \$322,265.63                            | \$322,265.63                             | \$0.4434                            | 1,453,612                             |
| January 11, 2021                 | \$966,796.89                            | \$966,796.89                             | \$0.4434                            | 4,360,836                             |
| January 13, 2021                 | \$3,867,187.56                          | \$3,867,187.56                           | \$0.4434                            | 17,443,336                            |
| January 14, 2021                 | \$322,265.63                            | \$322,265.63                             | \$0.4434                            | 1,453,612                             |
| February 9, 2021                 | \$1,611,328.15                          | \$1,611,328.15                           | \$0.5702                            | 5,651,800                             |
| February 10, 2021                | \$2,578,125.04                          | \$2,578,125.04                           | \$0.5702                            | 9,042,880                             |
| February 11, 2021                | \$322,265.63                            | \$322,265.63                             | \$0.5702                            | 1,130,360                             |
| May 27, 2021                     | \$322,265.63                            | \$322,265.63                             | \$0.3961                            | 1,746,224                             |
| May 28, 2021                     | \$644,531.26                            | \$644,531.26                             | \$0.3961                            | 3,492,448                             |
| October 11, 2021                 | \$266,796.89                            | \$266,796.89                             | \$0.2354                            | 2,266,794                             |
| November 8, 2021                 | \$250,000.00                            | \$250,000.00                             | \$0.2268                            | 2,204,586                             |
| November 11, 2021                | \$200,000.00                            | \$200,000.00                             | \$0.2268                            | 1,763,670                             |
| December 31, 2021                | \$250,000.00                            | \$250,000.00                             | \$0.1718                            | 2,910,362                             |

As at the date of this MD&A, the Group has a contractual cashflow obligation of \$nil related to the Notes.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Group has no off-balance sheet arrangements.

## **RISK FACTORS**

There are a number of risk factors that could impact the Group'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

**MediPharm Labs Corp.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2021**

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

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Information Form available on [www.sedar.com](http://www.sedar.com), which risk factors are incorporated by reference into this document and should be reviewed in detail by all readers:

- limited operating history;
- regulatory compliance risks;
- change of cannabis laws, regulations and guidelines;
- reliance on licences and authorizations;
- lack of long-term client commitments;
- COVID-19 pandemic;
- supply chain;
- default under the convertible notes;
- client and receivables risks;
- risks relating to research and development milestones and the Group's equipment;
- realization of growth targets including expansion of facilities and operations;
- management of growth;
- history of net losses;
- difficulty to forecast;
- competition;
- inability to sustain pricing and inventory models;
- conflicts of interest;
- legal proceedings;
- product liability;
- product recall;
- environmental regulation and risks;
- insurance risks;
- unfavourable publicity or consumer perception;
- reliance on production facilities;
- dependence on supply of cannabis and other key inputs;
- maintenance of effective quality control systems;
- retention and acquisition of skilled personnel;
- clinical trials;
- failure to comply with laws in all jurisdictions;
- perceived reputational risk for third parties;
- risks related to intellectual property;
- marketing constraints;
- research and development;
- shelf life of inventory;
- scheduled maintenance, unplanned repairs, equipment outages and logistical disruptions;
- risks as a result of international expansions;
- operations in foreign jurisdictions;
- reliance upon international advisors and consultants;
- foreign currency risk;
- access to capital;

- estimates or judgments relating to critical accounting policies;
- tax risks;
- negative operating cash flow;
- market for the Common Shares;
- investment in the cannabis sector;
- no history of payment of cash dividends;
- reporting issuer status;
- significant sales of Common Shares;
- analyst coverage;
- tax issues related to the Common Shares;
- market for future offerings of securities;
- future sales affecting market price; and
- management discretion concerning use of proceeds.

#### **CRITICAL ACCOUNTING ESTIMATES AND POLICIES**

There have been no material changes to our critical accounting estimates and policies during the year ended December 31, 2021.

#### **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 Group, 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 Group 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 twelve months ended December 31, 2021, 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.