(TSX: LABS)

MEDIPHARM LABS CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

August 14, 2022

This Management's Discussion and Analysis ("**MD&A**") of the financial condition and performance of MediPharm Labs Corp. (the "**Group**") for the three and six months ended June 30, 2022, was prepared by management as of August 14, 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. This MD&A should be read in conjunction with our unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2022 (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 or the SEDAR website at 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.

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 crucial 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.

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. The Group has reached an agreement to divest of MediPharm Labs Australia Pty Ltd and MediPharm Labs Australia's Australian facility, as further described below (the "**MPLA Divestment**").

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, as well as dried flower and pre-roll products for the adult recreational market through the Shelter Cannabis brand. The Group's mission is to become a leader specialized in providing pharmaceutical quality derivative cannabis products and to drive future cannabis product innovation.

Operations and Facilities

As of the date of this MD&A, our core business generates revenue through the following 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, as well as dried flower and pre-roll products for the adult recreational market. 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 participate in testing cannabis at laboratories operated by the Government of Canada or accredited laboratories under the *Seeds Act*.

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

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

On October 21, 2019, MediPharm Labs' Licence was amended to permit the activity of production and sale of additional cannabis products included in the Cannabis Act, including cannabis extracts, cannabis edibles and cannabis topicals. On September 28, 2021, MediPharm Labs' Licence was renewed for a further term of five years. On April 25, 2022, MediPharm Labs' Licence was further amended to allow for the sale, distribution, and delivery of dried cannabis and fresh cannabis.

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 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.

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.

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 or cannabis plants or cannabis drugs; and supply of a cannabis drug in accordance with the conditions of the licence.

For certain 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[1]. 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

[1] 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".

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 and the sale of dried flower and pre-roll products for the adult recreational market.

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, vaporizer cartridges, dried flower, and pre-roll products) and SKUs direct to authorized distributors or our B2B customers.

During the Group's initial growth phase, we realized most 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 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.

Corporate Highlights

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 expertise, 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 began during Q2 2022.

CBG and Water-Soluble Products' Launch

On April 5, 2022, the Group launched naturally derived oil and inhalable CBG and water-soluble products to add to the Group's wellness portfolio. The new CBG products include Advanced Formula, which is a CBG:CBD 1:2 oil, and Northbound, which is a high CBG vape cartridge with CBD inspired by The White and Appalachia strains. The water-soluble CBN:THC liquid solution, Northbound Night Cap, utilizes proprietary water-soluble emulsification technology developed in-house by MediPharm's Research and Development team, and is the first ever MediPharm-produced water-soluble product based on a proprietary CBN formulation.

Appointment of CEO and Director

On April 20, 2022, the Group appointed experienced Pharma and Med Tech executive David Pidduck as Chief Executive Officer and Director of the Group. Mr. Pidduck replaced outgoing CEO and Director Bryan Howcroft, who stepped down for personal reasons, effective immediately. Mr. Pidduck brings more than 20 years of proven senior leadership experience to MediPharm, including serving as President and CEO of a Canadian pharmaceutical company, where he was also a member of the board of directors. Over his career, Mr. Pidduck has been involved in the successful ground-up commercialisation of several products in both Canadian and international markets and brings a track record of both organic execution as well as M&A and integration expertise to the Company. Mr. Pidduck has an MBA from Kellogg (Northwestern University) and an Honours Bachelor of Business Administration from Wilfrid Laurier University.

Subsequent Events

Subsequent to the three months ended June 30, 2022, the following Group developments occurred:

MPLA Divestment

On July 8, 2022, the Group entered into a Share Purchase Agreement with OneLife Botanicals PTY ("**OneLife**") for the sale of MediPharm Labs Australia for a minimum value of $6.9M AUD ($6.2M CAD). The Agreement is subject to closing conditions that have not been met as of the date of this MD&A. The Agreement includes the assets of MPLA, specialized licensing, operational knowledge, and Australian and New Zealand customers currently served from that facility. All international contracts outside of Australia and New Zealand will remain with MediPharm Labs and be serviced from our Barrie GMP facility. After an extensive sale process, the agreement with OneLife was identified as a strategic fit for both parties. OneLife is an emerging leader in Australia region for cannabis-based wellness and medical products, with plans to launch OTC CBD products across Australia. The Group and OneLife will also enter into a transition services agreement to allow for the two companies to smoothly transition products and services produced in the facility, and to work together on future commercial opportunities.

Favourable Court Ruling

On July 25, 2022, the Group was awarded a favourable summary judgement ruling in the Ontario Court of Justice in connection with a supply agreement dispute in the amount of $9.8M. On January 24, 2020, MediPharm Labs filed a statement of claim ("**Claim**") in the Ontario Superior Court of Justice against one of its long-term customers of cannabis concentrates. The Claim related to, among other things, the payment of outstanding amounts due to the Group for products shipped to and received by the customer and deposits owed to the Group for committed amounts not yet shipped. On February 26, 2020, the defendant in the Claim filed a statement of defense and counterclaim. The Ontario Court of Justice has dismissed this counterclaim.

Cannabis Research Agreement

On August 8, 2022, the Group entered into a research support agreement with the Keck School of Medicine of University of Southern California ("**USC**") to conduct a randomized double-blind placebo-controlled Phase 2 trial on the efficacy of THC and CBD to treat hospice-eligible patients diagnosed with dementia and experiencing agitation.

The lead investigators are Jacobo Mintzer, MD, MBA, Brigid Reynolds, ANP-BC, and the Alzheimer's Clinical Trial Consortium ("**ACTC**"). The ACTC is led by Paul Aisen, MD, Alzheimer's Therapeutic Research Institute at the USC, Ron Petersen, MD, of Mayo Clinic, and Reisa Sperling, MD of the Brigham and Women's Hospital at Harvard Medical School. Consistent with MediPharm's commitment to clinical research and the progression and adoption of drugs containing cannabis, the Group will supply the Sponsor and the Principal Investigators with the study drug and placebo, and such other information and assistance as may be required during the study.

Operational Highlights

The following is a summary of the operational highlights for the six months ended June 30, 2022, and period subsequent to the end of the quarter.

Strategic Efficiency: After the close of Q2 2022, the Group entered into an agreement for the MPLA Divestment. This transaction paired with the corporate restructuring completed in June 2022 should reduce quarterly cash burn rate which, if paired with an improvement in sales, may eventually lead to profitability.

Cost Reduction Initiatives: In June 2022, the group implemented a restructuring plan that will see a reduction in the Canadian non-manufacturing headcount by approximately 30%. The group anticipates that the savings from the restructuring efforts will start in Q3, 2022 and should reduce expenses by approximately $3M on an annualized basis once fully implemented.

Strong Balance Sheet: As at the end of the quarter, the Group maintains $22 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. In addition, the Group's recent favourable summary judgement ruling, and the MPLA Divestment, will add over $16M in cash, strengthening the Group's balance sheet going forward.

Corporate Governance: David Pidduck joined MediPharm Labs as Chief Executive Officer and Director, on April 20, 2022. Mr. Pidduck brings more than 20 years of proven senior leadership experience, including serving as President and CEO of a Canadian pharmaceutical company, where he was also a member of the board of directors. Over his career, Mr. Pidduck has been involved in the successful ground-up commercialization of several products in both Canadian and international markets and brings a track record of both organic execution as well as M&A and integration expertise to the Company. Aside from Mr. Pidduck, the Group's Board of Directors consists solely of experienced independent directors.

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 to produce 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 for participation in various cannabis based clinical trials and to enter into a research support agreement with the Keck School of Medicine of University of Southern California to conduct a Phase 2 trial on the efficacy of THC and CBD to treat hospice-eligible patients diagnosed with dementia and experiencing agitation. During the 2022 fiscal year, the Group has 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.

International Sales Strength: International sales represented 30% of revenue in Q2 2022, and the Group expects the growth to accelerate in the upcoming fiscal year as the Group maintains ongoing financial agreements across Europe and Latin America.

Domestic Presence: We added to the innovative, pharma-quality family of branded materials with the retail introduction of new products such as new naturally derived oil and inhalable CBG and water-soluble products to add to the Group's wellness portfolio. The new products are available in Ontario in both retail stores and on the OCS.ca e-commerce website. In addition, there are purchase commitments to distribute the products to the Group's other seven provincial distributors in the coming months.

SELECTED STATEMENT OF INCOME(/LOSS) INFORMATION

	Three months ended		Six months ended	
	June 30, 2022 $'000s	June 30, 2021 $'000s	June 30, 2022 $'000s	June 30, 2021 $'000s
Revenue	4,362	5,072	9,239	10,567
Gross profit	(532)	(7,733)	(935)	(8,413)
Gross margin %	(12%)	(152%)	(10%)	(80%)
Net loss	(8,987)	(11,812)	(16,444)	(25,680)
Loss per share – basic and diluted	(0.03)	(0.05)	(0.06)	(0.11)
Adjusted EBITDA [(1)]	(6,345)	(7,434)	(11,958)	(13,594)

(1) Adjusted EBITDA is a non-IFRS measure. See "Reconcilation of non-IFRS Measures" for reconcilation to IFRS measures.

SUMMARY OF QUARTERLY RESULTS

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

	Three months ended			
	June 30 2022 $'000s	**March 31 2022 $'000s**	**December 2021 $'000s**	**September 31 2021 $'000s**
Revenue	4,362	4,877	5,743	5,401
Gross profit	(532)	(403)	(4,973)	(1,860)
Adjusted gross profit [(1)]	(47)	(403)	(1,068)	(1,354)
Gross margin%	(12%)	(8%)	(87%)	(34%)
Adjusted gross profit% [(1)]	(1%)	(8%)	(19%)	(25%)
General administrative expenses	(4,746)	(4,886)	(10,429)	(4,591)
Marketing and selling expenses	(1,553)	(1,493)	(1,414)	(886)
R&D expenses	(308)	(300)	(582)	(277)
Share based compensation expense	(580)	(741)	(611)	(435)
Other operating income/(expense), net	(1,350)	319	(4,156)	593
Operating loss	(9,069)	(7,504)	(22,165)	(7,456)
Net loss	(8,987)	(7,457)	(21,766)	(7,356)
Loss per share – basic and diluted	(0.03)	(0.03)	(0.08)	(0.03)
Adjusted EBITDA [(2)]	(6,345)	(5,684)	(6,573)	(6,518)

SUMMARY OF QUARTERLY RESULTS (CONTINUED)

	Three months ended			
	June 30 2021 $'000s	**March 31 2021 $'000s**	**December 2020 $'000s**	**September 30 2020 $'000s**
Revenue	5,072	5,495	6,058	4,947
Gross profit	(7,733)	(680)	(24,720)	(10,588)
Adjusted gross profit [(1)]	(1,418)	(680)	(6,813)	(2,828)
Gross profit %	(152%)	(12%)	(408%)	(214%)
Adjusted gross profit % [(1)]	(28%)	(12%)	(112%)	(57%)
General administrative expenses	(5,187)	(4,001)	(5,222)	(4,389)
Marketing and selling expenses	(1,054)	(1,278)	(1,274)	(1,345)
R&D expenses	(144)	(352)	(635)	(209)
Share based compensation expense	(476)	(880)	2,398	(800)
Other operating income/(expense), net	3,214	(724)	66	584
Operating loss	(11,380)	(7,915)	(29,389)	(16,747)
Net loss	(11,812)	(13,867)	(30,951)	(15,308)
Loss per share – basic and diluted	(0.05)	(0.07)	(0.21)	(0.11)
Adjusted EBITDA (2)	(7,434)	(6,159)	(10,586)	(8,142)

(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 is a non-IFRS measure. 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, the sale of dried flower and pre-roll products for the adult recreational market 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 profit

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.

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 instituion 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.

Discussion and Analysis of the Results for the Three-Month Period Ended June 30, 2022

Results of operations for the three months ended June 30, 2022, as compared to the three months ended June 30, 2021.

	Three months ended June 30		Change		Management Commentary
	2022 $'000s	2021 $'000s	$	%	
Revenue	4,362	5,072	(710)	(14%)	The revenue has decreased owing to the reduction in the private label bulk isolate and flower business to international customers but partially offset by an increase in white label vapes, formulated oils and shelter pre-rolls and dried flower to domestic customers.
Cost of sales	(4,894)	(12,805)	7,911	62%	The reduction in the cost of sales is driven by lower inventory input costs and lower revenue in Q2/2022. In addition, there was an inventory write down of $5.75M and accelerated depreciation of $566k in Q2/2021.
Gross profit	**(532)**	**(7,733)**	**7,201**	**93%**	The gross profit improvement is driven by mix and cost reductions as well as as a reduction in inventory write down and accelerated depreciation.
General administrative expenses	(4,746)	(5,187)	441	9%	General administrative expenses decreased due to lower salary expense, depreciation and bad debt expense in Q2/2022. Q2/2022 also includes $778K of severance while Q2/2021 did not have any severance.
Marketing and selling expenses	(1,553)	(1,054)	(499)	(47%)	Marketing and selling expenses increased due to higher advertising and promotion in Q2/2022.

	Three months ended June 30		Change		Management Commentary
	2022 $'000s	2021 $'000s	$	%	
R&D expenses	(308)	(144)	(164)	(114%)	The R&D expenses increased due to innovation and new product development.
Share-based compensation expenses	(580)	(476)	(104)	(22%)	The expense has increased in Q2/2022 due to issuance of Restricted Stock Units (RSUs) and Stock Options units in Q2/2022 as compared to no RSUs and stock options issued in Q2/2021.
Other operating (expense)/income,net	(1,350)	3,214	(4,564)	(142%)	Other net operating income decreased in Q2/2022 due to no COVID government grant income in Q2/2022 and an increase in unrealized foreign exchange loss on loans to the Australian subsidary as compared to Q2/2021.
Operating loss	**(9,069)**	**(11,380)**	**2,311**	**20%**	See comments above.
Adjusted EBITDA	**(6,345)**	**(7,434)**	**1,089**	**15%**	Adjusted EBITDA is a non-IFRS measure. See "Reconcilation of non-IFRS Measures" for reconcilation to IFRS measures.
Unrealized gain in reevaluation of derivative liabilities	1	329	(328)	(100%)	The unrealized gain in revaluation has decreased as compared to Q2/2021 mainly due to the change in the conversion option derivative liability which was extinguished in Q4/2021.
Finance income	84	39	45	115%	Interest income on cash balances.
Finance expense	(3)	(564)	561	100%	Finance expense has decreased as compared to Q2/2021 because of the extinguishment of the convertible notes in Q4/2021.
Loss before taxation	**(8,987)**	**(11,576)**	**2,589**	**22%**	See comments above.
Taxation (expense)/ recovery	**-**	**(236)**			
Net loss for the period	**(8,987)**	**(11,812)**	**2,825**	**24%**	See comments above.

Discussion and Analysis of the Results for the Six-Month Period Ended June 30, 2022

Results of operations for the six months ended June 30, 2022, as compared to the six months ended June 30, 2021.

	Six months ended June 30		Change		Management Commentary
	2022 $'000s	2021 $'000s	$	%	
Revenue	9,239	10,567	(1,328)	(13%)	The revenue has decreased owing to the reduction in the private label bulk isolate and flower business to international customers but partially offset by an increase in white label vapes, formulated oils and shelter pre-rolls and dried flower to domestic customers.
Cost of sales	(10,174)	(18,980)	8,806	46%	The reduction in the cost of sales is driven by lower inventory input costs and lower revenue. Moreover, there was an inventory write down of $5.75M and accelerated depreciation of $566k in 2021.
Gross profit	**(935)**	**(8,413)**	**7,478**	**89%**	The gross profit improvement is driven by mix and cost reductions as well as as a reduction in inventory write down and accelerated depreciation.
General administrative expenses	(9,632)	(9,190)	(442)	(5%)	General administrative expenses increased mainly due to higher insurance and severance cost in 2022. This was partially offset by a reduction in salary expense. YTD 2022 includes $1.1M of severance vs. no severance YTD 2021.
Marketing and selling expenses	(3,046)	(2,331)	(715)	(31%)	Marketing and selling expenses increased due to higher advertising and promotion in 2022.
R&D expenses	(608)	(496)	(112)	(23%)	The R&D expenses increased due to innovation, new product development and new product launches in 2022.
Share-based compensation expenses	(1,321)	(1,356)	35	3%	The expense is lower in 2022 due to a high number of termination of Restricted Stock Units (RSUs) and Stock Options in 2021.
Other operating (expense)/income,net	(1,031)	2,490	3,521	141%	Other net operating income decreased in 2022 due to a decrease in the COVID government grant income as compared to 2021.
Operating loss	**(16,573)**	**(19,296)**	**2,723**	**14%**	See comments above.
Adjusted EBITDA	**(11,958)**	**(13,594)**	**1,636**	**12%**	Adjusted EBITDA is a non-IFRS measure. See "Reconcilation of non-IFRS Measures" for reconcilation to IFRS measures

	Six months ended June 30		Change		Management Commentary
	2022 $'000s	2021 $'000s	$	%	
Unrealized gain in reevaluation of derivative liabilities	2	4,049	(4,047)	(100%)	The unrealized gain in revaluation has decreased as compared to 2021 mainly due to the change in the conversion option derivative liability which was extinguished in Q4/2021.
Finance income	132	96	36	38%	Interest income on cash balances.
Finance expense	(5)	(10,293)	10,288	100%	Finance expense has decreased as compared to 2021 because of the extinguishment of the convertible notes in Q4/2021.
Loss before taxation	**(16,444)**	**(25,444)**	**9,000**	**35%**	See comments above.
Taxation (expense)/ recovery	**-**	**(236)**			
Net loss for the period	**(16,444)**	**(25,680)**	**9,236**	**36%**	See comments above.

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, severance for restructuring, 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.

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

	Three months ended		Six months ended	
	June 30, 2022 $'000s	**June 30, 2021 $'000s**	**June 30, 2022 $'000s**	**June 30, 2021 $'000s**
Operating loss- as reported	**(9,069)**	**(11,380)**	**(16,573)**	**(19,296)**
Add / (deduct):				
Share-based compensation expense	580	476	1,321	1,356
Depreciation	759	1,480	1,578	2,356
Severance expenses	952	-	1,233	-
Government grants	-	(3,759)	(21)	(3,759)
Write-down of inventory to its net realizable value	338	5,749	338	5,749
Professional fees for sale of subsidiary	95	-	166	-
Adjusted EBITDA	**(6,345)**	**(7,434)**	**(11,958)**	**(13,594)**

Adjusted Gross Profit

Adjusted gross profit is defined as gross profit excluding the adjustments for accelerated depreciation, severance for restructuring, 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.

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

	Three months ended		Six months ended	
	June 30 2022 $'000s	**June 30 2021 $'000s**	**June 30 2022 $'000s**	**June 30 2021 $'000s**
Gross profit – as reported	(532)	(7,733)	(935)	(8,413)
Write down of inventory	338	5,749	338	5,749
Accelerated depreciation	-	566	-	566
Severance cost	147	-	147	-
Adjusted gross profit	(47)	(1,418)	(450)	(2,098)

Outstanding Equity Securities

Common Shares

The Group's authorized capital consists of an unlimited number of Common Shares. As at June 30, 2022, the Group had 276,522,038 Common Shares issued and outstanding. As at the date of this MD&A, the Group had 276,522,038 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 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 June 30, 2022, the Group had 57,500,000 Warrants issued and outstanding. Subsequent to the six months ended June 30, 2022, 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 June 30, 2022, the Group had 21,141,023 stock options outstanding. During the six months ended June 30, 2022, options to purchase up to 16,657,073 Common Shares were issued, no options to purchase Common Shares were exercised, and options to purchase up to 6,601,720 Common Shares were forfeited and/or expired.

As at June 30, 2022, the Group had 8,912,086 RSUs outstanding. During the six months ended June 30, 2022, 10,595,862 RSUs were granted, 2,984,848 RSUs were exercised and 2,359,966 RSUs were forfeited.

Subsequent to June 30, 2022, 2,276,577 options were issued, nil options were forfeited, and nil options were exercised, resulting in 23,417,600 stock options remaining outstanding as of the date of this MD&A.

Subsequent to June 30, 2022, 6,482,759 RSUs were issued, nil RSUs were forfeited and nil RSUs were exercised, resulting in 15,394,845 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 June 30, 2022, the Group had a positive working capital of $43,958 (December 31, 2021: $56,670). The decrease in working capital was driven primarily by a decrease in cash and cash equivalents owing to the cash used in operations and a decrease in trade receivables offset by an increase 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.

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

	Six months ended June 30			
	2022 $'000s	2021 $'000s	Change	Management Commentary
Cash and cash equivalents, beginning of period	34,110	19,913	14,197	
Net cash used in operating activities	(13,014)	(8,925)	(4,089)	The increase in net cash used in opertaing activities is mainly attributable to inventory and receipt of wage subsidy amounting to $2.3M in the six months ended June 30, 2021.
Net cash used in investing activities	(231)	(288)	57	No significant change in the cashflow.
Net cash (used in)/from financing activities	1,338	28,403	27,065	Decrease in cashflow due to financing provided by bought deal in Q1/2021 partially offset by repayment of the convertible debenture during the period.
Effect of exchange rate change on cash and cash equivalents	(211)	(352)	141	
Cash and cash equivalents, end of period	21,992	38,751	(16,759)	Refer to the comments above.

Contractual Obligations

The Group's contractual obligations as at June 30, 2022, increased by $1,647 as compared to December 31, 2021, mainly as a result of settlement of the convertible debenture. The Group's short-term (less than one year) undiscounted contractual obligations are $8,012 and long-term undiscounted contractual obligations are $68.

Contractual Obligations	Payments due by Period				
	Total	< 1 year	1-3 years	4-5 years	> 5 years
Lease Liabilities	154	86	68	-	-
Trade and Other Payables	6,606	6,606	-	-	-
Loans and borrowings	1,320	1,320	-	-	-
Total Contractual Obligations	8,080	8,012	68	-	-

Under a cannabis material sales contract, the Group has an agreement for the purchase of cannabis products amounting to $9,500 until December 31, 2022. During the three and six months ended June 30, 2022, the Group fulfilled purchase of cannabis products amounting to $nil and $nil, respectively (2021: $nil and $nil, respectively) as the supplier did not ship any products ordered. The remaining agreement amount as at June 30, 2022, was cannabis products amounting to $5,329 (December 31, 2021: $5,329). However, this agreement, the amount outstanding, and other payment obligations by the third party owing to the Group are all subject to a dispute between the parties. The Group has fully reserved against the credit risk for the amount receivable from this counterparty.

Capital Resources

As of June 30, 2022, the Group had commitments for capital expenditures amounting to $491. 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".

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

- limited operating history;
- regulatory compliance risks;
- change of cannabis laws, regulations, and guidelines;
- reliance on licences and authorizations;
- lack of long-term client commitments;
- COVID-19 pandemic;
- supply chain;
- client and receivables risks;
- risks relating to research and development milestones and the Company's equipment;
- realization of growth targets including expansion of facilities and operations;
- management of growth;
- history of net losses;

- difficulty to forecast;
- competition;
- illicit market;
- inability to sustain pricing and inventory models;
- conflicts of interest;
- legal proceedings;
- product liability;
- unknown health impact use of cannabis products;
- product recall;
- insurance risks;
- environmental regulation and risks;
- climate change risks;
- catastrophic events;
- unfavourable publicity or consumer perception;
- reliance on production facilities;
- information technology system and cyber attack risks;
- 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;
- United States of America entry restrictions;
- perceived reputational risk for third parties;
- risks related to intellectual property;
- anti-money laundering laws and regulation risks;
- anti-bribery law violations;
- 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;
- Russian invasion of Ukraine;
- access to capital;
- estimates or judgments relating to critical accounting policies;
- tax risks;
- negative operating cash flow;
- market for the Common Shares (as defined below);
- investment in the cannabis sector;
- no history of payment of cash dividends;
- reporting issuer status;

- 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 three and six months ended June 30, 2022.

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 three and six months ended June 30, 2022, 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.