

MedReleaf Reports First Quarter Fiscal 2018 Results

Cannabis oil extracts drive sequential improvement in average selling price, adjusted product contribution margin, and Adjusted EBITDA

MARKHAM, ON, August 14, 2017 – MedReleaf Corp. (TSX: LEAF) (“MedReleaf” or the “Company”), Canada’s first and only ISO 9001 and ICH-GMP certified cannabis producer, today announced financial and operating results for the first quarter fiscal 2018 ending June 30, 2017. All amounts expressed are in Canadian dollars unless otherwise noted.

“Over the past two quarters, we have maintained our revenue run rate through the addition of new patient volumes and by growing cannabis-oil extract sales, which have successfully mitigated the anticipated impact of the Veterans Affairs Policy (“VAC”) change,” said Neil Closner, CEO of MedReleaf. “With our product mix from extracts increasing, the recent completion of our first harvest at our Bradford facility and our first successful international transaction in Brazil, we are well positioned for sustainable growth over the long-term.”

First Quarter Fiscal 2018 Financial Summary

CAD\$ (in 000s, except grams sold)	Three Months June 30,	
	2017	2016
Dried Cannabis	8,573	8,582
Extracts	1,501	--
Other	387	222
Total Sales	10,461	8,804
Gross Profit	11,629	8,275
Adjusted Product Contribution Margin*	7,549	6,538
Adjusted EBITDA*	1,939	3,486
Net Income	408	3,293
Earnings per share – diluted	\$0.00	\$0.04
Total grams sold*	1,156,929	655,275
Average selling price per gram – Dried Cannabis	\$8.37	\$13.10
Average selling price per gram – Extracts	\$11.29	--
Total average selling price per gram	\$9.04	\$13.44
Adjusted product contribution per gram sold*	\$6.53	\$9.98
Cash cost per gram produced*	\$1.49	\$2.67

*Non-IFRS Measures

In the first quarter of fiscal 2018, MedReleaf successfully increased production and sales of cannabis-based extracts and matched an all-time low for the Company in cash cost per gram produced.

First Quarter Fiscal 2018 Highlights

- Sales of \$10.4 million, an increase of 19% year-over-year

- Sales of \$1.5 million from cannabis-based extract products representing 14% of total revenue; sales of cannabis-based extracts began in the third quarter of fiscal 2017
- Adjusted Product Contribution Margin of \$7.5 million, an increase of 15% year-over-year
- Adjusted EBITDA of \$1.9 million, a decline of \$1.5 million from the prior year period due to the projected impact of the VAC policy change, overhead costs associated with the Bradford facility construction and operating investments towards future growth; Adjusted EBITDA increased by \$0.3 million from \$1.6 million in the fourth quarter of fiscal 2017
- Sold 1,157 kilograms of cannabis products, an increase of 77% year-over-year
- Average selling price per gram of \$9.04, an increase from \$8.87 for the fourth quarter of fiscal 2017; average selling per gram declined from \$13.44 in the prior year period due to the reduction in VAC reimbursement pricing
- Adjusted product contribution margin per gram sold of \$6.53 compared to \$9.98 in the prior year period and \$6.34 for the fourth quarter of fiscal 2017
- Cash cost per gram produced of \$1.49, down from \$2.67 in the prior year period and from \$1.53 for the fourth quarter of fiscal 2017
- In the first week of July, MedReleaf successfully completed the first harvest from Phase One of the Bradford Facility, with anticipated sales commencing upon completion of its rigorous quality assurance process before the end of the second quarter of fiscal year 2018

In addition, during the first quarter and subsequent to the quarter end, MedReleaf continues to advance several of its international growth initiatives:

Brazil

- In July 2017, MedReleaf successfully completed its first commercial ICH-GMP certified cannabis-based pharmaceutical export to a patient in Brazil, obtaining an import permit from ANVISA (translated as “National Health Surveillance Agency”), which management believes resulted in the first ever export of medical cannabis oil to Brazil

Australia

- In May, MedReleaf’s Australian partners submitted an application for cultivation of cannabis plants and manufacture of cannabis oils pursuant to medicinal cannabis guidelines by the Australian Office of Drug Control

Germany

- In June, MedReleaf, through its wholly owned subsidiary, MedReleaf Germany GmbH, submitted an application for Phase 1 of the domestic cultivation licensing process to “BfArM” the German Federal Institute for Drugs and Medical Devices
- In July, MedReleaf was informed that it has been invited to participate in the next phase of the licensing process to submit a proposal on all 10 available production lots, where any one party is eligible to be awarded a maximum of 7 of the available lots, representing the maximum possible participation in the German domestic cultivation and manufacturing opportunity

Financial Review

Sales

Sales were \$10.5 million for the first quarter of fiscal 2018, an increase of 19% from \$8.8 million in the prior year period. Sales of dried cannabis for the first quarter of fiscal 2018 were \$8.6 million, flat from the prior year period due to a 36% reduction in average selling price as a result of the VAC policy change offset by 56% growth in volume driven by new patients.

In the last week of November 2016, MedReleaf began sales of its cannabis-based extract products, including both cannabis oil and cannabis oil capsules. Sales of extracts reached \$1.5 million in the first quarter of fiscal 2018, or 14% of sales, and were approximately 23% of total sales in the month of June 2017. Current public reports indicate cannabis oil represents approximately 50% of total industry sales, suggesting a potential for continued acceleration of MedReleaf's extract sales as the Company trends towards this industry average.

During the first quarter of fiscal 2018, a total of 1,156.9 kilograms of cannabis products were sold at an average selling price of \$9.04 per gram. This represents an increase of 501.7 kilograms sold, or 77% from the prior year period at an average selling price of \$13.44 per gram.

The reduction in average selling price per gram from the prior year period is a result of discounts offered to qualifying Veterans due to the VAC Policy change that provides for a maximum reimbursement rate of \$8.50 per gram effective November 22, 2016.

Total average selling price for the first quarter of fiscal 2018 increased by \$0.17 per gram from \$8.87 per gram for the fourth quarter of fiscal 2017 due to growth in extract sales that had a higher average selling price per gram of \$11.29 compared to dried cannabis at \$8.37.

Effective May 21, 2017, the new VAC Policy also specified a coverage limitation of three grams per day in lieu of an exemption request that may be submitted to VAC by a medical specialist. The Company successfully offset the expected decline in volume from Veterans patients with growth from new patients and cannabis extracts, with total volume sold decreasing by 10.4 kilograms, or 1% from the third quarter fiscal 2017.

Cash Cost Per Gram Sold (Non-IFRS Measure)

The following are the Company's cash production costs, on a total and per gram sold basis, for the three and months ended June 30, 2017 and 2016, as compared to reported production costs (excluding costs resulting from the fair value of biological assets), which represents cost of sales, in accordance with IFRS:

CAD\$ (in 000s, except grams sold)	Three Months June 30,	
	2017	2016
Production costs	2,912	2,266
Amortization included in production cost	(546)	(224)
Recovery of production costs	-	-
Post production costs	(639)	(290)
Cash production costs	1,727	1,752
Equivalent grams sold	1,156,929	655,275
Cash cost per gram sold	\$1.49	\$2.67

The cash cost per gram sold for the first quarter of fiscal 2018 was \$1.49, compared to cash cost per gram sold of \$2.67 in the prior year period and \$1.53 in the fourth quarter of fiscal 2017.

Over the past five quarters, increased production volumes and higher yields resulting in improved efficiencies in labour utilization and allocation of fixed costs have allowed MedReleaf to produce premium, indoor-grown medical cannabis on a comparable cash cost per gram basis to greenhouse peers.

Adjusted Product Contribution Margin (Non-IFRS Measure)

The following is the Company's Adjusted Product Contribution Margin as compared to the reported gross profit, which includes the gain on changes in fair value of biological assets in accordance with IFRS, for the three months ended June 30, 2017 and 2016.

CAD\$ (in 000s, except grams sold)	Three Months	
	June 30,	
	2017	2016
Gross profit	11,629	8,275
Cost of finished harvest inventory sold	6,593	4,810
Gain on fair value changes in biological assets	(10,673)	(6,547)
Net gain on fair value measurement of biological assets	(4,080)	(1,737)
Adjusted Product Contribution Margin	7,549	6,538
Grams sold	1,156,929	655,275
Adjusted product contribution margin, per gram sold	\$6.53	\$9.98

Adjusted Product Contribution Margin for the first quarter of fiscal 2018 was \$7.5 million or \$6.53 per gram sold, compared to \$6.5 million or \$9.98 per gram sold for the prior year period, and \$7.4 million or \$6.34 per gram sold in the fourth quarter of fiscal 2017.

The increase in Adjusted Product Contribution Margin from the prior year period was the result of operational growth in production capacity.

The decline in Adjusted Contribution Margin per gram sold for the first quarter of fiscal 2018 compared to the prior year period is a result of the impact of the VAC Policy change resulting in lower average selling price per gram, partially offset by lower production costs as reflected in a reduction in the cash cost per gram sold.

Improvements in Adjusted Product Contribution Margin per gram sold for the first quarter of fiscal 2018 compared to the fourth quarter of fiscal 2017 is in part due to increased extract sales which generate a higher contribution margin per gram than dried cannabis.

Adjusted EBITDA (Non-IFRS Measure)

	Three Months	
	June 30,	
CAD\$ (in 000s)	2017	2016
Income (loss) before income taxes	730	4,787
Adjustments:		
Amortization	943	318
Stock based compensation	1,420	99
Interest income	(15)	(4)
Finance costs	240	23
Initial public offering related fees	2,509	-
Fair value loss on shareholder loans	192	-
Net impact, fair value of		
Biological assets	(4,080)	(1,737)
Adjusted EBITDA	1,939	3,486

Adjusted EBITDA for the first quarter of fiscal 2018 was \$1.9 million, a decrease of \$1.5 million from \$3.5 million for the prior year period, and an increase of \$0.3 million from \$1.6 million for the fourth quarter of fiscal 2017.

The decrease in Adjusted EBITDA for the first quarter of fiscal 2018 compared to the prior year period is the result of discounts to qualifying Veterans as part of the VAC Policy and overhead costs incurred to support the Bradford Facility; increased expenditures to support our growth plans related to the domestic recreational market and several international medical markets; and increased human resource talent to support current and future growth.

Net Income

Net income and comprehensive income for the first quarter of fiscal 2018 was \$0.4 million, down \$2.9 million from \$3.3 million in the prior year period. The decrease in net income and comprehensive income was primarily due to increased operating costs partially offset by increased sales and gross profit as the Company expanded production capacity. The main driver of increased operating costs was IPO related costs of \$2.5 million, and fair value loss on shareholder loans of \$0.2 million, stock option expenses \$1.4 million, and other G&A expenses incurred to support the current and future growth of the Company.

Balance Sheet

At the end of June 30, 2017, the Company had cash and cash equivalents of \$86.3 million and working capital of \$101.7 million.

Inventories as at June 30, 2017 were \$12.8 million an increase of \$3.3 million compared to March 31, 2017 of \$9.5 million. Of the total increase in inventories, \$2.5 million was due to changes in the fair value

associated with the deemed cost of inventory, the balance was due primarily to the production of work-in-process dried cannabis leaf product produced for future extraction.

Biological assets as at June 30, 2017 were \$4.7 million, an increase of \$1.9 million compared to March 31, 2017 of \$2.8 million. This increase was due to increased fair value gains on biological assets resulting from increased yields and the addition of biological assets at the Bradford Facility.

Cash flow provided by operating activities for the first quarter of fiscal 2018 was \$0.4 million compared to \$1.6 million for the prior year period. The decrease in cash flow provided by operating activities was mainly due to IPO related costs (\$2.5 million) and increased operating costs, that were partially offset by increased sales and gross profit.

Capital expenditures for the first quarter of fiscal 2018 were \$4.9 million put towards production rooms, building improvements, furniture and other equipment related to the construction and development of the Bradford facility.

MedReleaf is fully funded to increase capacity to 35,000 kilograms in production annually with \$40 million budgeted for the completion of the Bradford facility and an additional \$15 million budgeted for the expansion of pharmaceutical manufacturing capabilities.

First Quarter Fiscal Year 2018 Conference Call & Webcast

A conference call and webcast to discuss MedReleaf's first quarter fiscal year 2018 results will be held on Monday, August 14, 2017 at 8:00 a.m. (ET). The call will be hosted by Neil Closner, Chief Executive Officer, and Igor Gimelshtein, Chief Financial Officer, followed by a question and answer period.

To participate, interested parties are asked to dial (647) 427-7450 or (888) 231-8191 prior to the scheduled start of the call. A replay of the conference call will be available by dialing (855) 859-2056 and using the reference number 59994102. The replay of this call will be available until August 21, 2017.

The Conference Call will also be webcast live at
<http://bit.ly/2eEMhiZ>

Financial Statements and Management's Discussion and Analysis

This news release, along with the audited consolidated annual financial statements and the Company's corresponding management's discussion and analysis, are available on the Company's website at www.medreleaf.com and on SEDAR at www.sedar.com.

Non-IFRS Measures

This news release refers to certain non-IFRS financial measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing additional information regarding the Company's results of operations from management's perspective. Accordingly, non-IFRS measures should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS. All non-IFRS measures presented in this news release are reconciled to their closest reported IFRS measure.

- (a) Adjusted Product Contribution Margin

Management makes use of an “Adjusted Product Contribution Margin” measure to provide a better representation of performance in the period by excluding non-cash fair value measurements as required by IFRS. Management believes this measure provides useful information as it represents the gross margin for management purposes based on the Company’s complete cost to produce inventory sold, exclusive of any fair value measurements as required by IFRS. The metric is calculated by removing all amounts related to biological asset fair value accounting under IFRS including gains on transformation of biological assets and the cost of finished harvest inventory sold, which represents the fair value measured portion of inventory cost (“fair value cost adjustment”) recognized as cost of goods sold.

(b) Equivalent grams and kilograms

Equivalent gram or kilogram refers to the equivalent number of dried grams or kilograms of cannabis required to produce extracted cannabis in the form of cannabis oil. The Company estimates and converts its cannabis oil inventory to equivalent grams using the combined Tetrahydrocannabinol (“THC”) and Cannabidiol (“CBD”) content in extracted cannabis products. Any reference to grams in this news release includes the combined dried cannabis and equivalent grams of extracted cannabis.

(c) Cash Cost Per Gram Sold

The cash cost per gram sold is used by management to measure the estimated amount of direct production costs, on a per gram sold basis, that are required to produce dried cannabis and cannabis oil. Management uses this measure to track production cost trends and assess the sensitivity and tolerance for pricing changes. Management believes this measure provides useful information by removing non-cash and post production costs and provides a benchmark of the Company against its competitors. The metric is calculated by: removing from production costs incurred during the period, all non-cash based costs (including amortization and inventory write-downs or impairments) and all post production costs; and dividing such amount by the approximate number of grams of cannabis sold during the period. Post production costs include indirect overhead expenses such as: equipment rentals, payment processing fees, indirect labour expenses, shipping expenses, quality control, expenses, and other order fulfillment costs included in production costs.

(d) Adjusted Earnings Before Interest, Tax, Depreciation and Amortization (“Adjusted EBITDA”)

Adjusted EBITDA is used by management as a supplemental measure to review and assess operating performance and trends on a comparable basis. The Company defines Adjusted EBITDA as EBITDA adjusted for the impact of any unrealized expenses or gains, stock based compensation, fair value gains or costs arising from biological assets, expenses related to readying the Company for its initial public offering and other non-recurring costs the Company deems unrelated to current operations.

The Company believes that Adjusted EBITDA provides a useful tool for assessing the comparability between periods of its ability to generate cash from operations. Adjusted EBITDA is presented in order to provide supplemental information to the Financial Statements included elsewhere in this MD&A, and such information is not meant to replace or supersede IFRS measures.

Cautionary Statement Regarding Forward-Looking Information

This news release contains “forward-looking information” within the meaning of applicable Canadian securities legislation which are statements other than statements of historical fact and which can be identified by the use of forward-looking terminology such as “expect”, “likely”, “may”, “will”, “should”, “intend”, “anticipate”, “potential”, “proposed”, “estimate” and other similar words, including negative and

grammatical variations thereof, or statements that certain events or conditions “may”, “would”, “could” or “will” happen, or by discussions of strategy. Statements in this news release containing forward-looking information are based upon the expectations, estimates, projections, assumptions and views of future events of management at the date hereof and that management believes to be reasonable in the circumstances, including those relating to: general economic conditions, the expected timing and cost of expanding the Company’s production capacity, the expected timing of cannabis legalization in Canada, future growth of the Company’s business and international opportunities, the development of new products and product formats, the Company’s ability to retain key personnel, the Company’s ability to continue investing in its infrastructure to support growth, the impact of competition, trends in the Canadian medical cannabis industry and changes in laws, rules and regulations. Statements containing forward-looking information should not be read as guarantees of future events, performance or results, and will not necessarily be accurate indications as to whether, or the times at which, such events, performance or results will occur or be achieved. The forward-looking information contained in this news release is subject to known and unknown risks and uncertainties, including but not limited to those risks and uncertainties described under the heading “Risk Factors” in the Company’s annual information form dated June 27, 2017 (which will be available on the Company’s SEDAR profile at www.sedar.com), any of which could cause actual results to differ materially from those expressed or implied by the forward-looking information disclosed herein. Accordingly, readers are cautioned not to place undue reliance on such forward-looking information. Statements in this news release containing forward-looking information speak only as of the date on which they are made and MedReleaf does not undertake any obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

About MedReleaf Corp.

MedReleaf sets The Medical Grade Standard™ for cannabis in Canada and around the world. The first and only ICH-GMP and ISO 9001 certified cannabis producer in North America, MedReleaf is a R&D-driven company dedicated to patient care, scientific innovation, research and advancing the understanding of the therapeutic benefits of cannabis. Sourced from around the world and perfected in one of two state of the art facilities in Ontario, MedReleaf delivers a variety of premium products to patients seeking safe, consistent and effective medical cannabis.

For more information on MedReleaf, its products, research and how the Company is helping patients #livefree, please visit MedReleaf.com or follow @medreleafcanada.

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