

MedReleaf Reports Fourth Quarter and Year End Fiscal 2018 Results
Record sales and grams sold while reducing cash cost per adjusted total gram sold

MARKHAM, ON, June 19, 2018 – MedReleaf Corp. (TSX: LEAF) (“MedReleaf” or the “Company”), today announced financial and operating results for the fourth quarter and year end fiscal 2018 ending March 31, 2018. All amounts expressed are in Canadian dollars unless otherwise noted.

“In fiscal 2018 we set new records for sales and volume, introduced brands for the adult-use market, expanded our international presence, commercialized new proprietary cannabis varieties, more than doubled our production capacity and MedReleaf was named Top Licensed Producer at the 2017 Canadian Cannabis Awards,” said Neil Closner, CEO of MedReleaf. “I’m immensely proud of our achievements to build a reputable, respected, and enduring business founded on integrity, high quality and strong execution, and I am confident MedReleaf will bring tremendous value to Aurora, as we combine to create a preeminent global cannabis company.”

Fourth Quarter and Year End Fiscal 2018 Financial Summary

CAD\$ (in 000s, except grams sold)	Three Months Ended March 31,		Year Ended March 31,	
	2018	2017	2018	2017
Dried Cannabis	9,222	9,062	34,061	37,950
Extracts	2,370	967	7,980	1,263
Other	422	331	1,605	1,126
Total Sales	12,014	10,360	43,646	40,339
Gross Profit	13,309	10,316	46,670	37,939
Adjusted Product Contribution Margin*	8,464	7,398	30,434	30,903
Adjusted EBITDA*	(4,685)	1,622	(2,294)	13,851
Net (Loss) Income	(812)	2,187	(7,531)	10,958
Net (Loss) Income per share – Diluted	(\$0.01)	\$0.03	(\$0.08)	\$0.13
Adjusted total grams sold*	1,424,643	1,196,957	5,034,406	3,697,736
Average selling price per gram – Dried Cannabis*	\$8.12	\$8.48	\$8.21	\$10.78
Average selling price per adjusted gram – Extracts*	\$8.22	\$7.57	\$9.03	\$7.17
Average selling price per adjusted total gram*	\$8.43	\$8.66	\$8.67	\$10.91
Adjusted product contribution per adjusted total gram sold*	\$5.94	\$6.18	\$6.05	\$8.36
Cash cost per adjusted total gram sold*	\$1.40	\$1.49	\$1.51	\$1.72

*Non-IFRS Measures

Fiscal 2018 Financial Highlights:

- Record sales of \$43.6 million, an increase of 8%, compared to the prior fiscal year.
- Extract sales of \$8.0 million represented 18% of total sales, as compared to 3% of total sales in the prior fiscal year.
- Record sales volumes of 5,034 adjusted total kilograms, representing a 36% increase from the prior fiscal year driven by growth in extract sales.

- Adjusted EBITDA loss of \$2.3 million, compared to \$13.9 million for the prior fiscal year due to increased overhead costs and investments in recreational brands, international business initiatives, and increased research and development efforts.
- Cash cost per adjusted total gram sold of \$1.51 improved from \$1.72 for the prior fiscal year.
- Adjusted product contribution margin per total adjusted gram sold of \$6.05 compared to \$8.36 for the prior fiscal year period.

Fourth Quarter Fiscal 2018 Financial Highlights:

- Sales of \$12.0 million, an increase of 16% from the prior year period, and a 6% increase from the third quarter of fiscal 2018.
- Sold a record 1,425 adjusted kilograms of cannabis products, an increase of 19% from the prior year period and an 8% increase from the third quarter of fiscal 2018.
- Adjusted EBITDA loss of \$4.7 million, a decrease of \$6.3 million from the prior year period due to increased overhead costs and investments in recreational brands, international business initiatives, and increased research and development efforts.
- Average selling price per adjusted gram of \$8.43, a decrease from \$8.66 for the prior year period.
- Cash cost per gram sold of \$1.40, a decrease from \$1.49 for the prior year period due to increased production and yield improvements that resulted in improved efficiencies in labour utilization and allocation of fixed costs.
- Adjusted product contribution margin per gram sold of \$5.94, a decrease from \$6.18 for the prior year period.

Fourth Quarter Fiscal 2018 Business Highlights:

- Introduced Equiposa, Orellium and Trutiva – three proprietary varieties of premium medical cannabis developed by MedReleaf's internal R&D program.
- On January 31, 2018, MedReleaf closed a short form prospectus offering on a "bought deal basis", pursuant to which the Company issued an aggregate of 5,000,000 units of the Company at a price of \$26.50 per Unit for aggregate gross proceeds of \$132,500.
- Received Health Canada approval for and launched the first colour-coded and strain-specific cannabis oil softgel capsules on the market.
- Launched San Rafael '71™, the Company's first brand for the adult-use market. To mark the launch and to introduce Canada to the San Rafael '71™ brand, the Company developed and launched in partnership with Amsterdam Brewing the first San Rafael '71™ product – 4:20 Pale Ale.
- Entered into an exclusive licensing agreement with Woodstock Cannabis Company for the use of the iconic Woodstock brand in the Canadian cannabis market.
- Signed an agreement to become the largest supplier to Cannamedical Pharma GmbH, a leading medical cannabis distributor in Germany with a network of over 1,800 pharmacies.

Subsequent to the Fourth Quarter Fiscal 2018:

- Completed a supply agreement with Société des alcools du Québec ("SAQ") to supply the future Société québécoise du cannabis ("SQDC") with 8 tons of cannabis products per year for a minimum three-year term.
- Completed the purchase of a 164-acre property in Exeter, Ontario, including a 1 million square foot greenhouse to be retrofitted for cannabis production with an estimated production capacity of up to 105,000 kilograms annually.
- Launched AltaVie, the Company's second premium brand for the adult-use market.

- On May 14, 2018, Aurora Cannabis Inc. (“Aurora”) and the Company entered into an arrangement agreement (the “Original Agreement” and, as amended by an amending agreement dated May 24, 2018, the “Arrangement Agreement”) pursuant to which Aurora will acquire all of the outstanding common shares of the Company and each shareholder of the Company will be entitled to receive 3.575 common shares of Aurora and \$0.000001 in cash in exchange for each Common Share held.

Financial Review

Sales

Sales for the three months ended March 31, 2018 were \$12.0 million and increased \$1.7 million or 16% compared to the three months ended March 31, 2017 of \$10.4 million. Sales for the year ended March 31, 2018 were \$43.6 million and increased \$3.3 million or 8% compared to the year ended March 31, 2017 of \$40.3 million.

Sales growth was primarily the result of increased production capacity, patient demand, yield improvements, and the continued growth of cannabis oil extracts for sale. Throughout the year ended March 31, 2018 and 2017, the Company’s Markham Facility was operating at full capacity (based on square footage). In November 2016, Health Canada approved the Company to produce and sell cannabis oil extracts.

Extract sales for the fourth quarter were \$2.4 million, an increase of \$1.4 million from the prior year period, and represented 20% of total sales. With the launch of topical creams, softgel capsules, future product development initiatives, and growing industry demand, MedReleaf expects sales of extract products to account for an increasing percentage of the Company’s overall revenue in the future.

During the three months ended March 31, 2018, 1,425 adjusted kilograms of cannabis products were sold at an average selling price of \$8.43 per adjusted gram. This represents an increase in volume of 228 adjusted kilograms sold compared to an adjusted 1,197 kilograms sold during the three months ended March 31, 2017, at an average selling price of \$8.66 per adjusted gram.

During the year ended March 31, 2018, 5,034 adjusted kilograms of cannabis products were sold at an average selling price of \$8.67 per adjusted gram. This represents an increase of 1,336 kilograms or 36% compared to the adjusted 3,698 kilograms sold during the year ended March 31, 2017, at an average selling price of \$10.91 per adjusted gram.

Cash Cost Per Gram Sold (Non-IFRS Measure)

The following are the Company’s cash production costs, on an adjusted total and per gram sold basis, for the three and twelve months ended March 31, 2018 and 2017, 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 Ended March 31,		Year Ended March 31,	
	2018	2017	2018	2017
Production costs	3,550	2,962	13,212	9,436
Amortization included in production cost	(870)	(426)	(2,924)	(1,197)
Post production costs	(681)	(751)	(2,699)	(1,896)
Cash production costs	1,998	1,785	7,589	6,343

Adjusted total grams sold	1,424,643	1,196,957	5,034,406	3,697,736
Adjusted cash cost per total gram sold	\$1.40	\$1.49	\$1.51	\$1.72

The cash cost per adjusted total gram sold for the three months ended March 31, 2018 and 2017, was \$1.40 and \$1.49, respectively. Cash cost per adjusted gram sold for the three months ended March 31, 2018 decreased \$0.09 or 6% compared to the three months ended March 31, 2017.

The cash cost per adjusted gram sold for the years ended March 31, 2018 and 2017, were \$1.51 and \$1.72, respectively. Cash cost per adjusted gram sold for the year ended March 31, 2018 decreased \$0.21 or 12% compared to the year ended March 31, 2017. The cost improvements per adjusted gram were due to increased production and yield improvements that resulted in improved efficiencies in labour utilization and allocation of fixed costs.

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 fair value adjustments on biological assets in accordance with IFRS, for the three and twelve months ended March 31, 2018 and 2017.

	Three Months Ended		Year Ended	
	March 31,		March 31,	
CAD\$ (in 000s, except grams sold)	2018	2017	2018	2017
Gross profit	13,309	10,316	46,670	37,939
Adjustments:				
Fair value adjustment on inventory sold	6,107	7,652	26,553	24,216
Fair value adjustment on biological assets	(12,261)	(10,570)	(44,098)	(31,252)
Fair value adjustment on carrying inventory	1,309	-	1,309	-
Net fair value adjustments	(4,845)	(2,918)	(16,236)	(7,036)
Adjusted Product Contribution Margin	8,464	7,398	30,434	30,903

Adjusted total grams sold	1,424,643	1,196,957	5,034,406	3,697,736
Adjusted product contribution margin per adjusted total gram sold	\$5.94	\$6.18	\$6.05	\$8.36

Adjusted product contribution margin for the three months ended March 31, 2018 was \$8.5 million, an increase of \$1.1 million, compared to \$7.4 million for the three months ended March 31, 2017. This increase was due to sales growth which was primarily the result of increased patient demand, yield improvements, and continued growth of cannabis oil extracts for sale.

Adjusted product contribution margin for the year ended March 31, 2018 was \$30.4 million or \$6.05 per adjusted gram sold, compared to \$30.9 million or \$8.36 per adjusted gram for the year ended March 31, 2017. This marginal decrease in Adjusted Product Contribution Margin was the result of increased labour costs and depreciation attributable to the scale-up of the Bradford Facility, in addition to both price and volume limits imposed by the Veteran Affairs Canada Policy whereby the Company began to offer discounts to qualifying Veterans to assist with the non-reimbursable portion of their medication.

Adjusted EBITDA (Non-IFRS Measure)

CAD\$ (in 000s)	Three Months Ended		Year Ended	
	March 31,		March 31,	
	2018	2017	2018	2017
Income (loss) before income taxes	(3,172)	2,891	(5,647)	15,642
Adjustments:				
Depreciation and amortization	1,872	588	5,517	1,692
Fair value change in DSU	16	-	428	-
Stock based compensation	2,177	604	11,418	3,053
Interest income	(909)	(56)	(1,271)	(75)
Finance costs	176	59	694	121
Initial public offering related fees	-	454	2,611	454
Fair value loss on shareholder loans	-	-	192	-
Net impact, fair value of biological assets	(4,845)	(2,918)	(16,236)	(7,036)
Adjusted EBITDA	(4,685)	1,622	(2,294)	13,851

Adjusted EBITDA loss for the three and twelve months ended March 31, 2018 was \$4.7 million and \$2.3 million, representing a decrease of \$6.3 million and \$16.1 million, compared to the three and twelve months ended March 31, 2017, respectively. The adjusted EBITDA decrease was mainly due to our investment in the recreational market and its international business initiatives, as well as continuous improvements in R&D activities. As a result, increased operating and overhead expenses, such as advertising and promotion, were incurred for the preparation of the Company's launch of its recreational brand and other initiatives.

Net Loss

Net loss for the three and twelve months ended March 31, 2018 was \$0.8 million and \$7.5 million (2017 – net income of \$2.2 million and \$11.0 million), respectively. The decrease in net income and comprehensive income was primarily due to increased overhead expenses partially offset by increased sales and gross profit as the Company expanded production capacity, specifically driven by fair value gains experienced at Bradford Facility. The main drivers of increased overhead expense for the three and twelve months ended March 31, 2018 were stock option expenses, IPO related costs, business development costs, investments in sales, marketing and brand development, and other G&A expenses incurred to support the current and future growth of the Company.

Balance Sheet

At the end of March 31, 2018, the Company had cash and cash equivalents of \$215.9 million and working capital of \$255.7 million.

Inventories as at March 31, 2018 were \$32.9 million, an increase of \$23.3 million from March 31, 2017. The increase in inventories was due to increased production, deemed costs arising from fair value gains on biological assets, and the addition of cannabis oil inventory that were previously not valued, partially offset by the fair value adjustment of the carrying value of inventory.

Biological assets as at March 31, 2018 were \$3.2 million, an increase of \$0.4 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 production and the addition of cannabis oil extracts that increased the expected yield and fair value of biological assets.

Cash flow used in operating activities for the year ended March 31, 2018 was \$13.2 million representing a decrease of \$25.3 million over the cash flow provided by operating activities of \$12.2 million for year ended March 31, 2017. Increased operating and overhead expenses due to advertising and promotional efforts related to the preparation of the Company's launch of its recreational brand, as well as increased professional fees to support ongoing strategy development and general corporate matters, payroll costs due to increased human resource talent, and costs required to report as a publicly listed entity, resulted in the additional use of cash flow during the year ended March 31, 2018, compared to the year ended March 31, 2017.

Capital expenditures for the year ended March 31, 2018 were \$40.9 million primarily put towards production rooms, building improvements, furniture and other equipment related to the construction and development of the Bradford Facility. MedReleaf is on track to complete its capacity expansion to 35,000 kilograms in production annually in 2018 to support initial demand from the adult-use market.

Financial Statements and Management's Discussion and Analysis

This news release, along with the unaudited condensed interim consolidated financial statements for the three and twelve month periods ended March 31, 2018 and 2017, including the notes thereto, 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 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.

(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.

On January 1, 2018, the Company changed its estimated conversion rate for extracts from 10 grams per 1,250 mg of THC/CBD to 10 grams per 960 mg of THC/CBD. Equivalent grams are estimated based on the expected yields of extracted plants and are dependent on the efficiency and output of the Company’s extraction processes.

The revised conversion factor resulted in a change to the calculation of equivalent grams sold during the year ended March 31, 2017, as well as the nine months ended December 31, 2017. Equivalent grams sold for the three months ended March 31, 2018 was calculated with the revised conversion rate and has been reflected in this news release. The revised conversion factor represents a change in the calculation method of equivalent grams sold relating to extract sales and does not represent a change in the physical sales volume.

(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 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.

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 include statements with respect to the potential growth of the Company and increasing

production capacity at the Bradford facility and expansion of pharmaceutical manufacturing capacities. The forward-looking information contained in this news release are based upon MedReleaf's current internal expectations, estimates, projections, assumptions and beliefs and views of future events which management believes to be reasonable in the circumstances, including expectations and assumptions regarding: 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, adverse economic, regulatory and/or legislative developments, delays with respect to expected construction and expansion of production facilities and those risks and uncertainties relating to described in the Company's management's discussion and analysis under the heading "Risks and Uncertainties" and in the Company's annual information form under the heading "Risk Factors" (both of which are available electronically 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.

Canada's most awarded licensed producer, MedReleaf is an R&D-driven company dedicated to innovation, operational excellence and the production of industry leading, top-quality cannabis. Sourced from around the world and carefully cultivated in one of two state-of-the-art ICH-GMP and ISO 9001 certified facilities in Ontario, with a third facility currently in development, a full range of premium MedReleaf products are delivered to the global medical market. We serve the therapeutic needs of patients seeking safe, consistent and effective medical cannabis and provide a compelling product offering for the adult-use recreational market.

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

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