

# **Capha Pharmaceuticals Inc.**

(formerly FPS Pharma Inc.)

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2016

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**Background**

This discussion and analysis of financial position and results of operations is prepared as at April 28, 2017. The Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2016 and related notes thereof which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). Except as otherwise disclosed, all dollar figures included therein and the following MD&A are presented in United States dollars. Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**Company Overview**

During 2015, the Company determined to cease carrying on a mineral exploration business. The Company's existing mineral exploration agreement was terminated and all related carrying costs were written off. The Company began exploring opportunities in the pharmaceutical distribution business.

During 2015, the Company attempted to acquire a 100% equity interest in Florida Pharmacy Solutions, Inc. ("FPSI"). FPSI was based in Florida, United States of America, and carried on a pharmaceutical compounding business. The Company was ultimately not successful in completing the acquisition. As part of the attempted acquisition, the Company received net loans of \$1,527,750 which were forgiven as partial consideration of the Company ceasing to pursue the acquisition. The Company also received reimbursement of certain legal and other expenses it had incurred.

During 2015, the Company incorporated a subsidiary in Hong Kong, called FPS Pharma Asia Limited and set up offices in Asia. All offices in Asia were closed in December 2016 and the Company recognized a write-off of \$ 42,572 relating to prepaid expenses and equipment. In January 2017, the Company changed its name to Capha Pharmaceuticals Inc.

On September 9, 2015, the Company's common shares were de-listed from the TSX Venture Exchange ("TSXV") and commenced trading on the Canadian Securities Exchange ("CSE") on September 10, 2015 in United States dollars. On January 21, 2016, the Company's shares were suspended from trading by the CSE. On April 4, 2016, the CSE granted the Company's request to withdraw from listing all of the Company's securities on the CSE. The common shares of the Company are not currently trading. The Company intends to re-list its shares on the TSXV. The Company's outstanding stock options and share purchase warrants are not listed.

**Forward Looking Statements**

All statements made in this MD&A, other than statements of historical fact, are forward looking statements. The Company's actual results may differ significantly from those anticipated in the forward looking statements and readers are cautioned not to place undue reliance on these forward looking statements. Except as required by securities regulations, the Company undertakes no obligation to publicly release the results of any revisions to forward looking statements that may be made to reflect events or circumstances after the date of this MD&A or to reflect the occurrence of unanticipated events.

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Forward looking statements include, but are not limited to, statements with respect to the timing of the development of new ventures, currency fluctuations, requirements for additional capital, government regulations, environmental risks, limitations on insurance coverage and the timing and possible outcome of pending litigation and the settlement of same. In certain cases, forward looking statements can be identified by the use of words such as “plans”, “expects”, or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” “does not anticipate”, “believes”, or variations of such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”. Forward looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward looking statements. Such factors include, among others, risks related to the integration of acquisitions; risks related to international operations; actual results of current activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the pharmaceutical industry; delays in obtaining governmental approvals or financing or in the completion of development activities; risks relating to the timing of obtaining the final approval order for the settlement agreement. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward looking statements, there may be other factors that cause actions, events or results to not be as anticipated, estimated or intended. There can be 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. Accordingly, readers should not place undue reliance on forward looking statements.

### **Evaluation and Exploration Projects**

The Company’s only exploration and evaluation asset was the Croxall Property located in Northern Ontario under an option and joint venture agreement with Temex Resources Corp. (“Temex”). As the Company terminated its existing mineral exploration agreement with Temex and undertook a change of business, its investment in the Croxall Property was written off in 2015.

### **Financial Condition / Capital Resources**

Historically, the Company’s activities have been funded through equity financings and short term shareholder loans. The financial condition and resources of the Company remain uncertain and it is expected that the Company will be funded through equity financings until it develops cash flows from operations, subject to stock market and general economic conditions. There is no assurance, however, that the Company will be successful in its efforts.

As at December 31, 2016, the Company had a working capital deficit of \$187,304. To support operations over the next year the Company requires financing from equity or debt. If such funds are not available or other sources of finance cannot be obtained, then the Company will be forced to curtail all its activities until funding is available and can be obtained.

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**Selected Financial Data**

The following selected financial information, expressed in United States dollars, is derived from the audited annual consolidated financial statements of the Company prepared in accordance with IFRS.

Historically, the Company's functional currency and its' financial statements have been presented in Canadian dollars. Following the attempted acquisition of FPSI, its functional currency and its financial statements are now presented in United States dollars. The Company's financial statements have accordingly been converted to a U.S. dollar functional currency on a retrospective basis on the date of change. The resulting translated amounts for non-monetary items are treated as their historical cost.

The Company's change to a new presentation currency from the Canadian dollar to the U.S. dollar is treated as a change in accounting policy. For comparative purposes, the consolidated financial statements of financial position as at December 31, 2014 and January 1, 2014 include adjustments to reflect the change in accounting policy resulting from the change in presentation currency.

	<b>Years Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Revenues	\$ -	\$ -	\$ -
Net income/(loss)	(667,085)	108,884	(548,743)
Basic and diluted loss per share	(0.01)	0.00	(0.02)
Working capital	(187,304)	467,088	(196,026)
Total assets	4,392	558,915	363,033
Total long-term liabilities	-	-	-

The table below presents selected financial information, expressed in U.S. dollars, for the Company's most recently completed quarters.

	2016				2015			
	Dec. 31	Sept 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
	\$	\$	\$	\$	\$	\$	\$	\$
Net Income (Loss):	(68,780)	(142,850)	(172,392)	(283,063)	1,262,483	(623,528)	(386,282)	(143,790)
Basic and diluted income per share	(0.00)	(0.00)	(0.00)	(0.01)	0.02	(0.01)	(0.01)	(0.00)
Working capital	(187,304)	(124,237)	23,192	184,814	385,741	(747,607)	(518,468)	(338,827)
Total assets	4,392	52,963	135,722	304,539	558,915	1,269,369	360,718	359,125
Total long-term liabilities	-	-	-	-	-	-	-	-

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**Analysis of the year ended December 31/16 versus the year ended December 31/15**

For most of 2015, the Company was seeking an investment in a different business sector and, from August 21, 2015, it was operating in the pharmaceutical compounding business. During 2016, the majority of its operations were conducted through a wholly owned subsidiary, FPS Pharma Asia Limited; in December 2016, the Company ceased operations in Asia and wrote off all assets in Asia at the end of 2016.

Expenses in the year ended December 31, 2016 were \$674,755, a decrease of \$345,333 from the previous year. Significant changes were a) decreases of \$33,303 in professional fees due to large legal bills in 2015 associated with the attempted acquisition of Florida Pharmacy Solutions Inc., \$42,000 in management fees as the CEO of the Asian subsidiary invoiced for all of 2016 offset by a reduction of \$160,00 in fees for the President and CEO of the parent company, \$196,272 in share-based compensation as options were granted in 2015 and none in 2016, and \$127,000 in consulting fees which were all incurred in 2015 in the search for an investment in a different business sector; and b) increases of \$17,410 in office expenses and \$58,685 in travel costs, both associated with operating in Asia for all of 2016.

During 2016, the Company received a refund of \$13,128 for reclamation costs on one of its mining properties and realized a gain of \$959 on a sale of assets in exchange for services. The Company also recorded a gain of \$38,395 on the fair value liability for warrants outstanding, wrote off assets of \$42,572 of its Asian subsidiary and incurred exchange losses of \$2,240. The net loss for the year was \$667,085 or \$0.01 per share.

During 2015, the Company wrote off its exploration and evaluation assets for \$355,960, recorded the fair value liability of \$38,743 for warrants outstanding, and realized a gain of \$1,527,750 on the forgiveness of a loan from FPSI; the company also had incurred exchange losses of \$4,075. Net income in the year ended December 31, 2015 was \$108,884 or \$0.00 per share.

**Analysis of the three months ended December 31, 2016 versus the three months ended December 31, 2015**

The Company incurred net expenses of \$46,394 in the three months ended December 31, 2016 compared with expenses of \$248,389 in the same period of 2015. The major decreases were due to the cancellation of fees for management, office services, and rent, totalling \$67,500; the other major decrease was \$61,824 in professional fees, primarily due to fewer legal matters..

In the fourth quarter of 2016, the Company received a refund of \$13,128 for reclamation costs on one of its mining properties and realized a gain of \$959 on a sale of assets in exchange for services. The Company also recorded a gain of \$2,818 on the fair value liability for warrants outstanding, wrote off assets of \$42,572 of its Asian subsidiary and realized exchange gains of \$4,240. In the fourth quarter of 2015, the Company realized a gain of \$1,527,750 on the forgiveness of a loan from FPSI, had other income of \$7,501 and incurred exchange losses of \$40.

The net loss in the three months ended December 31, 2016 was \$68,780 or \$0.00 per share, compared to net income of \$1,247,468 or \$0.02 per share in the prior year.

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**Related party disclosures**

Transactions with key management personnel

a) Management fees of \$ 20,000 (2015 - \$ 180,000), office services of \$ 10,000 (2015 - \$ 90,000), and rent of \$ 2,500 (2015 - \$ 22,500) were paid to the Chief Executive Officer and the Chief Financial Officer during the year ended December 31, 2016.

Included in accounts payable and accrued liabilities at December 31, 2016 is \$ 46,519 (2015 - \$ Nil) due to directors.

During the year ended December 31, 2016, management fees of \$ 160,000 (2015 - \$ 42,000) and consulting fees of \$ Nil (2015 - \$127,000) were paid to the Chief Executive Officer of the Company's wholly owned subsidiary FPS Pharma Asia Limited.

b) Transactions with other related parties

Included in share-based compensation expense is \$ Nil (2015 - \$ 196,272) relating to directors.

c) As at December 31, 2016, a loan payable of \$ 114,805 (2015 - \$ Nil) was due to a director. The loan does not bear interest.

**Outstanding Share Data**

On June 10, 2013 the Company's shares were consolidated on a basis of 17:1, and on August 29, 2014, the Company's shares were split on a basis of 1:2; all references to share transactions are on a post-consolidated and post-split basis.

The Company's authorized share capital is an unlimited number of common voting shares of no par value. As at December 31, 2016, there were 54,431,030 common shares issued and outstanding. There were 705,884 warrants outstanding, exercisable at Cdn. \$0.85 until March 30, 2017 and there were 2,947,058 share options outstanding, exercisable at prices ranging from Cdn. \$0.10 to Cdn. \$0.85 and expiry dates ranging from October 2017 to May 2020.

**Business Development**

The Company closed its wholly-owned subsidiary, FPS Pharma Asia Limited, at the end of 2016. On January 16, 2017 the Company changed its name to Capha Pharmaceuticals Inc. On January 17, 2017, Kyle J. Remenda was appointed President and Chief Operating Officer of the Company. Under Kyle's leadership, the Company intends to focus on the medical marijuana industry.

**Risks Inherent in the Pharmaceutical Business**

The Company's ability to continue its operations is dependent on its ability to generate revenue and/or obtain additional financing. Should the Company be unable to generate sufficient revenues and/or obtain additional financing, it may have no alternative but to significantly curtail, or cease to carry on, business operations.

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**Legal proceedings**

The nature of the Company's business may subject it to numerous regulatory investigations, claims, lawsuits, and other proceedings. The result of these legal proceedings cannot be predicted with certainty. There can be no assurances that these matters will not have a material adverse effect on the Company.

**Credit risk**

Credit risk arises due to the potential for one party to a financial instrument to fail to discharge its obligations and cause the other party to suffer a loss. Financial instruments that potentially subject the Company to credit risk consist of cash and amounts receivable. The maximum credit risk represented by the Company's financial assets is represented by their carrying amounts. The Company holds its cash with financial institutions that are believed to be creditworthy. The Company does not believe it is exposed to significant credit risk.

**Liquidity risk**

Liquidity risk arises when adequate funds cannot be raised to settle liabilities and commitments when they become payable. The Company manages its liquidity by maintaining adequate cash to meet anticipated cash needs. As at December 31, 2016, the Company had a working capital deficit of \$187,304 and the Company requires financing from equity or debt to meet its obligations.

**Foreign currency risk**

The Company is not subject to foreign exchange rate risk as the majority of the Company's transactions are in the Company's functional currency, which is the United States dollar.

**Investor Relations Activities**

The Company provides information packages to investors; the package consists of materials filed with regulatory authorities.