

Capha Pharmaceuticals Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2017

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Background

This discussion and analysis of financial position and results of operations is prepared as at April 30, 2018. 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, 2017 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 Canadian dollars. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com.

Company Overview

The Company is incorporated under the laws of the Province of British Columbia and was formed as a result of an amalgamation on September 1, 2004. On January 16, 2017, the Company changed its name from FPS Pharma Inc. to Capha Pharmaceuticals Inc.

During 2015, the Company ceased 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., a company based in Florida, United States of America but was not successful. As part of the attempted acquisition, the Company received net loans of US \$1,527,750 which were forgiven as partial consideration of the Company ceasing to pursue the acquisition.

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 \$ 56,400 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 has applied to re-list its shares on the Canadian Securities Exchange.

In December 2017, the Company entered into a Letter of Intent with Blockagram Inc. to carry out a business combination transaction; as the parties have not been able to receive approval from security regulators within the required time frame. Including the listing of the Company's common shares on the Canadian Securities Exchange, the transaction will not be completed.

In December 2017, the Company received proceeds of \$ 617,500 in exchange for 12,350,000 subscription receipts. The subscription receipts and the gross proceeds are being held in escrow pending approval of the listing of the Company's common shares on the Canadian Securities Exchange. The Company has until April 30, 2018 to satisfy the listing conditions. Upon release

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from escrow, each subscription receipt will automatically be exchanged for one common share and one share purchase warrant exercisable at \$ 0.10 for two year from the date of issuance.

As the share subscriptions are repayable should the Company not receive approval to list on the Canadian Securities Exchange, as at December 31, 2017, the amount is recorded as current liabilities and the funds received have been accounted for as restricted cash. Subsequent to December 31, 2017, as the Company has not been able to receive approval from securities regulators, including the approval of the listing of the Company's common shares on the Canadian Securities Exchange within the required time frame, the transaction will not be completed, and the proceeds will be returned to the subscribers.

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.

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.

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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, 2017, the Company had a working capital deficit of \$521,822. 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.

Selected Financial Data

The following selected financial information, expressed in Canadian 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 had been presented in Canadian dollars. In August 2015, its functional currency changed to United States dollars and its financial statements were presented in United States dollars for the years ended December 31, 2015 and 2016. In January 2017, its functional currency reverted back to Canadian dollars and its financial statements are now presented in Canadian dollars.

The Company's change to a new presentation currency from the U.S. dollar to the Canadian dollar is treated as a change in accounting policy. For comparative purposes, the consolidated financial statements of financial position as at December 31, 2015 and January 1, 2015 include adjustments to reflect the change in accounting policy resulting from the change in presentation currency.

	Years Ended December 31,		
	2017	2016	2015
Revenues	\$ -	\$ -	\$ -
Net income/(loss)	(267,532)	(883,758)	139,230
Basic and diluted loss per share	(0.00)	(0.02)	0.00
Working capital	(521,822)	(251,345)	646,451
Total assets	628,023	5,554	773,539
Total long-term liabilities	-	-	-

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

	2017				2016			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept 30	June 30	Mar. 31
	\$	\$	\$	\$	\$	\$	\$	\$
Net Income (Loss):	(76,794)	(16,130)	(74,607)	(100,001)	(156,225)	(186,377)	(241,720)	(299,436)
Basic and diluted income per share	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)
Working capital	(521,822)	(445,268)	(425,767)	(351,979)	(251,345)	(162,948)	17,040	245,455
Total assets	628,023	7,185	6,050	11,643	5,554	69,485	175,312	402,308
Total long-term liabilities	-	-	-	-	-	-	-	-

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Analysis of the year ended December 31/17 versus the year ended December 31/16

Throughout 2016, the Company had a subsidiary company, FPS Pharma Asia Limited ("FPS Asia"), which performed most of the operations for the Company. FPS Asia was closed at the end of 2016 and all assets were written off. Commencing from January 1, 2017, all operations are in Canada on a reduced basis.

The Company incurred net expenses of \$271,188 in the year ended December 31, 2017 compared with expenses of \$893,920 in the same period of 2016. All expenses were lower in the current period compared to the previous year due to the different levels of operation.

In 2017, the Company recorded a gain of \$467 on the fair value liability for warrants outstanding which expired in March 2017, realized exchange gains of \$13,389, and recorded a loss of \$10,200 from a legal settlement. The net loss in the year ended December 31, 2017 was \$267,532 or \$0.00 per share. In the year ended December 31, 2016, the Company received a refund of \$17,392 for reclamation costs on one of its mining properties and realized a gain of \$1,271 on a sale of assets in exchange for services. The Company also recorded a gain of \$50,866 on the fair value liability for warrants outstanding, wrote off assets of \$56,400 of its Asian subsidiary and incurred exchange losses of \$2,967. The net loss for the year was \$883,758 or \$0.02 per share.

Analysis of the three months ended December 31, 2017 versus the three months ended December 31, 2016

The Company incurred expenses of \$76,794 in the three months ended December 31, 2017 compared with net expenses of \$125,920 in the same period of 2016. The major decrease in 2017 was \$67,933 in lower travel costs as most of the work was done in British Columbia.

In the fourth quarter of 2017, the Company had an exchange loss of \$54, resulting in a net loss of \$76,794 or \$0.00 per share. In the prior year, the Company received a refund of \$17,392 for reclamation costs on one of its mining properties and realized a gain of \$1,271 on a sale of assets in exchange for services. The Company also recorded a gain of \$2,728 on the fair value liability for warrants outstanding, wrote off assets of \$56,400 of its Asian subsidiary and realized exchange gains of \$5,955, and incurred a net loss of \$156,225 or \$0.00 per share.

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Related party disclosures

The related parties include James R. Brown, Chief Executive Officer (“CEO”), Kyle J. Remenda, President and Chief Operating Officer (“COO”) from January 2017 to June 2017, and Janice Brown, Chief Financial Officer (“CFO”)

Transactions with key management personnel

Management fees of \$ 120,640 (2016 - \$ 238,465), office services of \$ 12,292 (2016 - \$ 12,862) and rent of \$ Nil (2016 - \$ 3,312) were paid to the CEO, the COO, and the CFO during the year ended December 31, 2017.

Included in accounts payable and accrued liabilities at December 31, 2017 is \$ 182,854 (2016 - \$ 62,461) due to the CEO and CFO.

During the year ended December 31, 2017, management fees of \$ Nil (2016 - \$ 211,969) were paid to the CEO of the Company’s former wholly owned subsidiary FPS Pharma Asia Limited.

As at December 31, 2017, loans payable of \$ 323,208 (2016 - \$ 154,149) were due to the CEO and CFO. The loans do not bear interest.

Outstanding Share Data

The Company’s authorized share capital is an unlimited number of common voting shares of no par value. As at December 31, 2017, there were 54,431,030 common shares issued and outstanding. There were no warrants outstanding and there were 1,500,000 share options outstanding, exercisable at prices ranging from \$0.10 to \$0.145 and expiry dates ranging from November 2018 to May 2020. On January 12, 2018, the Company issued 10,000,000 common shares at \$0.05 per share to retire \$500,000 of accounts payable and loans due the CFO.

Business Development

The Company closed it’s 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. and Kyle J. Remenda was appointed President and COO of the Company.

Effective June 30, 2017, Kyle J. Remenda resigned as President and COO of the Company. The current officers of the Company are James R. Brown (Chairman, President and CEO) and Janice Brown (CFO and Corporate Secretary).

In December 2017, the Company entered into a Letter of Intent (“LOI”) with Blockagram Inc. (“Blockagram”) to carry out a business combination transaction; as the parties have not been able to receive approval from security regulators within the required time frame, the transaction will not be completed.

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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.

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, 2017, the Company had a working capital deficit of \$521,822 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 Canadian dollar.

Investor Relations Activities

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