

# **Capha Pharmaceuticals Inc.**

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2018

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**Background**

This discussion and analysis of financial position and results of operations is prepared as at April 29, 2019. 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, 2018 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](http://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.

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 were being held in escrow pending approval of the listing of the Company's common shares on the Canadian Securities Exchange. In fiscal 2018, the Company was not 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 was not completed and the proceeds were returned to the subscribers.

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**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 cannabis 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.

**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, 2018, the Company had a working capital deficit of \$143,592. 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, 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 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 table below presents selected financial information, expressed in Canadian dollars.

	<b>Years Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Revenues	\$ -	\$ -	\$ -
Net income/(loss)	(123,046)	(267,532)	(883,758)
Basic and diluted loss per share	(0.00)	(0.00)	(0.02)
Working capital	(143,592)	(521,822)	(251,345)
Total assets	4,399	628,023	5,554
Total long-term liabilities	-	-	-

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

	2018				2017			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept 30	June 30	Mar. 31
	\$	\$	\$	\$	\$	\$	\$	\$
Net Income (Loss):	(36,344)	(12,926)	(47,877)	(25,899)	(76,794)	(16,130)	(74,607)	(100,001)
Basic and diluted income per share	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Working capital	(143,592)	(107,566)	(94,959)	(47,401)	(521,822)	(445,268)	(425,767)	(351,979)
Total assets	4,399	4,224	8,347	626,301	628,023	7,185	6,050	11,643
Total long-term liabilities	-	-	-	-	-	-	-	-

**Analysis of the year ended December 31/18 versus the year ended December 31/17**

The Company incurred expenses of \$122,939 in the year ended December 31, 2018 compared with expenses of \$271,188 in the same period of 2017, a reduction of \$148,249. The major decreases were reductions of \$120,640 in management fees, \$14,276 in office costs and \$44,915 in lower travel costs, partially offset by an increase of \$23,051 in professional fees primarily due to legal costs associated with the Blockagram transaction and the subscription receipts.

In the year ended December 31, 2018, the Company incurred exchange losses of \$107, resulting in a net loss of \$123,046 or \$0.00 per share. In the prior year, the Company recorded a gain of \$467 on the fair value liability for warrants outstanding and realized exchange gains of \$13,389, offset by a legal settlement of \$10,200 resulting in a net loss of \$267,532 or \$0.00 per share.

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**Analysis of the three months ended December 31, 2018 versus the three months ended December 31, 2017**

The Company incurred expenses of \$36,103 in the three months ended December 31, 2018 compared with expenses of \$76,740 in the same period of 2017. The major decrease in 2018 was \$36,640 as no management fees were charged in 2018.

In the fourth quarter of 2018, the Company had an exchange loss of \$241, resulting in a net loss of \$36,344 or \$0.00 per share. In the prior year, the Company incurred exchange losses of \$54, resulting in a net loss of \$76,794 or \$0.00 per share.

**Related party disclosures**

Management fees of \$ Nil (2017 - \$ 120,640) and office services of \$ 1,089 (2017 - \$ 12,292) were paid to the Chief Executive Officer (“CEO”), the President and Chief Operating Officer (“COO”), and the Chief Financial Officer (“CFO”) during the year ended December 31, 2018.

Included in accounts payable and accrued liabilities at December 31, 2018 is \$ 9,411 (2017 - \$182,854) due to the CEO and CFO.

As at December 31, 2018, loans payable of \$ 115,068 (2017 - \$ 322,053) were due to the CEO. The loans do not bear interest.

In January 2018, the Company issued 10,000,000 common shares at \$0.05 per share to retire amounts, including fees, expenses, and loans due to the CFO which total \$500,000.

**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, 2018, there were 54,431,030 common shares issued and outstanding. There were no warrants outstanding and there were 700,000 share options outstanding, exercisable at \$0.15 and expiring on March 11, 2019; the options expired unexercised. 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 to the CFO.

**Business Development**

In December 2017, the Company entered into a Letter of Intent with Blockagram Inc. to carry out a business combination transaction; as the parties were not able to receive approval from security regulators within the required time frame, the transaction was not completed.

The Company is currently exploring opportunities in the cannabis industry.

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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, 2018, the Company had a working capital deficit of \$143,592 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.