# AURORA CANNABIS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three and nine month periods ended March 31, 2017 and 2016

Dated as of May 15, 2017

Aurora Cannabis Inc. (the "Company" or "Aurora") was incorporated under the *Business Corporations Act* (British Columbia) on December 21, 2006. The Company's shares are currently traded on the TSX Venture Exchange (the "Exchange") under the symbol "ACB."

Below are the addresses of the Company:

| | |
|---|---|
| Head office: | Suite 1500 - 1199 West Hastings Street, Vancouver, British Columbia V6E 3T5 |
| Registered office: | Suite 1500 - 1055 West Georgia Street, Vancouver, British Columbia V6E 4N7 |
| Corporate: | 14613 - 134 Avenue, Edmonton, Alberta T5L 4S9 |
| Client Care Centre: | 14th Floor, 609 Granville Street, Vancouver, British Columbia V7Y 1H4 |
| Facility: | 4439 TWP Road 304, Cremona, Alberta T0M 0R0 |

This Management's Discussion and Analysis ("MD&A") reports on the consolidated financial condition and operating results of the Company for the three and nine month periods ended March 31, 2017 and is prepared as of May 15, 2017. The MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and nine month periods ended March 31, 2017 and related notes thereto ("Interim Financial Statements") and the audited consolidated financial statements for the year ended June 30, 2016 and related annual MD&A. The Interim Financial Statements were prepared in accordance with IAS 34 *Interim Financial Reporting* of the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Interim Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, Aurora Marijuana Inc. ("AMI"), Aurora Cannabis Enterprises Inc. ("ACE"), 1769474 Alberta Ltd. ("1769474"), Australis Capital Inc. ("ACI"), CanvasRx Inc. ("CanvasRx") and 10094595 Canada Inc. All significant intercompany balances and transactions were eliminated on consolidation.

All dollar amounts referred to in this MD&A are expressed in Canadian dollars except where indicated otherwise.

The Company's continuous disclosure documents are available on SEDAR at www.sedar.com.

## FORWARD-LOOKING STATEMENTS

This MD&A may contain "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this MD&A and Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation. Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events. 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" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "intends" and "estimates". By their very nature 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. The Company provides 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.

Certain forward-looking statements in this MD&A include, but are not limited to the following:

- the construction of the Company's new facility, its costs and receipt of licenses from Health Canada to produce and sell medical cannabis from this facility;
- the expected growth in the Company's growing capacity;
- its expectations regarding production capacity and production yields; and
- the expected demand for products and corresponding forecasted increase in revenues.

The above and other aspects of the Company's anticipated future operations are forward-looking in nature and, as a result, are subject to certain risks and uncertainties. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, undue reliance should not be placed on them as actual results may differ materially from the forward-looking statements. Such forward-looking statements are estimates reflecting the Company's best judgment based upon current information and involve a number of risks and uncertainties, and there can be no assurance that other factors will not affect the accuracy of such forward-looking statements. Such factors include but are not limited to the Company's ability to obtain the necessary financing and the general impact of financial market conditions, the yield from marijuana growing operations, product demand, changes in prices of required commodities, competition, government regulations and other risks as set out under "Risk Factors" below.

**BUSINESS OVERVIEW**

The Company is in the business of producing and distributing medical marijuana consisting of dried cannabis and cannabis oil, pursuant to the *Access to Cannabis for Medical Purposes Regulations* ("ACMPR"). ACE received its license to produce and sell medical cannabis on February 17, 2015 and November 27, 2015 respectively. The Company received its license to produce and sell cannabis oil products on February 16, 2016 and January 20, 2017, respectively.

Aurora's principal market is patients who are authorized to use medical cannabis in Canada. Under the ACMPR, Aurora sells dried cannabis and cannabis oil, offering delivery to patients directly through secure physical delivery services, as well as ordering services through the phone and innovative means such as the Company's online shop and mobile application. Aurora currently sells dried medical cannabis at $8 per gram with compassionate pricing set at $5 per gram and cannabis oils at $115 per 30 ml. bottle with compassionate pricing set at $80 per 30 ml. bottle.

The Company's operations related to the cultivation of medical cannabis are located in a 55,200 square foot facility that is a licensed production space, which is of pharmaceutical production grade quality with hydroponic greenhouse high pressure sodium, plasma, metal halide and LED lighting. A custom designed nutrient delivery equipment, automated potting and trim which is licensed to produce and sell up to 5,400 kilograms of medical cannabis per year. It is located off Highway 22 and situated on approximately 154 acres of land in Mountain View County north of Cremona, Alberta. The land is nestled in the foothills of the Rocky Mountains, allowing for a substantial supply of mountain-fed water, as well as being a superior location in respect of security, low power costs, tax benefits, shipping, farm credit eligibility and product growth.

The facility cost approximately $10 million as of March 31, 2017. MNP LLP conducted a valuation of the Company's Facility in accordance with Canadian Uniform Standards of Professional Appraisal Practice propagated by the Appraisal Institute of Canada and determined that as of March 1, 2015, the fair market value ("FMV") of the Facility, which includes the land that has yet to be acquired (FMV of $750,000), building, site improvements, fixture and equipment, to be between $11.6 million and $12.6 million.

The Company operates in two segments, the production and sale of medical cannabis and patient counselling and outreach services. Patient counselling became a segment on the completion of the acquisition of CanvasRx on August 17, 2016.

The Company's strategic priorities are to leverage its strong financial position to build on and accelerate its rapid market penetration and revenue growth trajectory since beginning commercial operations in January 2016. Furthermore, the Company intends to transition its facility operations to full capacity production, further enhance its increasing revenues, complete construction of the recently acquired Peloton facility and Aurora Sky, its new state-of-the-art 800,000 square foot production facility expansion in Alberta, identify opportunities and make accretive acquisitions, seek exclusive partnerships in international jurisdictions, and transition to profitable operations and positive earnings per share.

***Financial and Operational Highlights***

| | Q3 2017 | Q2 2017 | Q1 2017 | Q4 2016 |
|---|---|---|---|---|
| | # | # | # | # |
| Active registered patients (cumulative) [1] | 13,110 | 12,200 | 8,200 | 4,500 |
| Grams sold | 653,008 | 538,045 | 435,720 | 200,310 |
| | $ | $ | $ | $ |
| Revenues | 5,175,304 | 3,884,462 | 3,071,422 | 1,220,041 |
| Adjusted gross profit [2] | 3,142,464 | 1,479,838 | 1,348,546 | (184,819) |
| Working capital | 126,530,392 | 60,060,454 | 23,212,674 | (2,751,400) |
| Investment in capital assets | 10,464,414 | 4,157,709 | 645,101 | 278,414 |

(1) As of the date hereof, the Company has approximately 13,600 active registered patients.
(2) Adjusted gross profit is a non-GAAP financial measure that does not have a standardized meaning under IFRS and may not be comparable to other companies. See reconciliation under "Results of Operations".

***Recent and Significant Developments***

**Key developments occurring subsequent to March 31, 2017:**

- Achieved sales pace exceeding $2 million in gross monthly revenues.
- Commenced sales of cannabis oils.

- Construction of Aurora Sky, the Company's flagship new 800,000 square foot production facility at the Edmonton International Airport, is proceeding well and on schedule. The Company currently estimates the capital cost of the project to be in the range of $110 million.
- Production at the new facility is expected to commence late in calendar 2017 upon completion of the initial phases of the project, with the full 800,000 square feet completed in 2018 and full capacity reached in 2019.
- Further strengthened its financial position with completion of $75 million 7% unsecured convertible debentures, and converted $17,500,000 of outstanding 8% convertible debentures into approximately 8,750,000 additional common shares.
- Completed the acquisition of Peloton Pharmaceuticals Inc. including access to a 40,000-square foot cannabis production facility in Pointe Claire, Quebec, currently 80 % complete. Subsequent to acquisition, Aurora has re-initiated construction activities towards completion and licensing.
- Commenced international expansion with the participation in Cann Group Limited's initial public offering on the Australian Stock Exchange (ASX: CAN) for A$6.5 million, and now holds 19.9% of the shares issued and outstanding in Australia's first licensed cannabis company.
- Approximately $86.5 million in additional gross cash proceeds remains available from the future exercise of warrants, stock options and compensation options/warrants.
- Completed phase II of the research collaboration with Radient Technologies Inc. ("Radient"), and a report is expected from Radient, subject to confirmation of analytical results from Anandia Labs, by May 31, 2017.
- Appointed Glen Ibbott as Chief Financial Officer.
- Appointed Andrea Paine as Director, Québec Affairs.

**Developments occurring during the three months ended March 31, 2017:**

- Obtained cannabis oil sales license in January 2017.
- Significantly strengthened its balance sheet and liquidity position with up to $127.4 million in new financings as follows:
    - Generated approximately $27.4 million in additional cash proceeds from exercise of warrants, stock options and compensation options.
    - $25 million in completed brokered private placement of 8% unsecured convertible debentures.
    - $75 million in completed brokered private placement of 33,337,500 units at a price of $2.25 per unit.
- Generated revenues of approximately $5.2 million, up 33% or approximately $1.3 million from Q2 2017;
    - Sold 653,008 grams of cannabis, up 21% from Q2 2017.
- Achieved new sales milestones:
    - Sales pace for the quarter in excess of $1.5 million per month; and
    - March 2017 was a record month, with product sales in excess of 250 kilograms and gross revenue in excess of $2 million.
- Launched the second generation of the Company's highly successful mobile application.
- Graduated from the OTCQB to the OTCQX.

- Signed a Memorandum of Understanding with Radient for a joint development and commercialization of superior and standardized cannabinoid extracts. Entered into a joint venture research agreement pursuant to which Radient and Aurora are working to validate the effectiveness of Radient's MAP technology for cannabis extraction.
- Invested an aggregate of $3,250,010 in Radient's convertible debenture and private placement financings, resulting in an 18% ownership.
- Appointed Neil Belot as Chief Global Business Development Officer.
- Appointed Dr. Barry Wasglass as Medical Director.

***Operations Update***

The Company currently has reached approximately 13,200 active registered patients in less than 17 months after initiating product sales, which management believes to be the fastest rate of patient registration for a Licensed Producer after the launch of commercial operations.

<u>Investment in Australian Medical Cannabis IPO</u>

On May 2, 2017, the Company completed its subscription to the initial public offering ("IPO") of Cann Group Limited ("Cann") on the Australian Stock Exchange (ASX: CAN) as the cornerstone investor, securing a 19.9% stake in Cann. Aurora subscribed for 21,562,314 fully paid ordinary shares in Cann at a price of A$0.30 per share for a total investment of A$6,468,694, representing approximately 47% of the IPO.

Cann was issued Australia's first cannabis research and cultivation license which permits the cultivation of medicinal cannabis for research purposes. Cann has also obtained the necessary medicinal cannabis license to undertake the cultivation of cannabis plants for the supply of cannabis or cannabis resin for medicinal purposes, subject to Cann obtaining one or more necessary related medicinal cannabis permits.

<u>Acquisition of Peloton Pharmaceuticals Inc.</u>

On April 4, 2017, the Company completed the acquisition of Peloton Pharmaceuticals Inc. ("Peloton"), a late-stage ACMPR applicant, out of bankruptcy protection was approved by Peloton's creditors. Peloton is constructing a 40,000-square-foot cannabis production facility in Pointe Claire, Quebec, which received a ready-to-build letter from Health Canada in 2014. The Company estimates that construction of the Peloton facility is 80% complete and expects it to be ready for Health Canada inspection pursuant to a license to produce by the summer of 2017. Under the terms of the acquisition, the Company provided a total investment pool of approximately $7 million of cash for potential distribution to the creditors subject to: (i) the creditors' election to receive payments in cash, shares or a combination thereof; and (ii) post-closing adjustments.

<u>Product Testing Disclosure Process</u>

In March 2017, the Company introduced the cannabis industry's most comprehensive product testing disclosure process. The purpose of the new protocol is to provide clients with secure knowledge that every Aurora product available for purchase has been certified by an independent third-party laboratory as having passed testing for the widest possible range of potential contaminants. The new system, developed in partnership with Anandia Labs Inc. ("Anandia") provides a certification link for each product featured on Aurora's menu, both through the Company's website and through its one-of-a-kind mobile application. Clicking the link will take clients to a product-specific webpage, providing a simplified Certificate of Analysis indicating that the product in question has been analyzed with accuracy for potency, and passed Anandia's rigorous testing procedures for the presence of contaminants.

Second Generation Mobile Application

On March 1, 2017, Aurora unveiled the second generation of its popular mobile application, incorporating a number of enhanced features to provide a significantly upgraded user experience to new and existing clients of the Company. Coupled with Aurora's industry leading same-day and next-day delivery services, the app further expands the Company's e-commerce strategy, a key differentiator in the legal cannabis market. The next generation app, which includes an updated look and feel, enables the Company to communicate directly with clients via real-time push notifications for new product releases, send automated text reminders for upcoming account renewals, and introduces clients to a new message center with personalized Aurora Newsfeed. Registered clients can conveniently scroll through high resolution images, view product descriptions and cannabinoid profiles, and view account and prescription details. Payment methods can be added and removed, answers to frequently asked questions (FAQs) easily accessed, and clients can place orders and choose from multiple courier options. The app allows clients to complete orders in seconds, from any location, via their phone or tablet device, and also integrates Canada Post and Purolator Application Programming Interfaces (APIs) to allow for real-time tracking of shipments from directly within the app.

License for the Sale of Cannabis Oils

On January 20, 2017, Aurora received its Health Canada for the sale of cannabis oils.

The Company received its cannabis oils production license in February 2016, and in anticipation of receiving its selling license, has since dedicated a portion of its production output toward the stockpiling of cannabis oils and concentrates. The granting of the license allows the Company to sell oil products to registered patients under the *Access to Cannabis for Medical Purposes Regulations* (ACMPR).

Aurora operates best-in-class, pharmaceutical-grade CGMP-compliant supercritical carbon dioxide fluid extraction (SFE) equipment, designed for solvent-free extraction of the active compounds of the cannabis plant, while preserving its full terpene profile.

Exclusive Collaboration Arrangement with Radient Technologies Inc.

On December 13, 2016, the Company entered into a Memorandum of Understanding ("MOU") with Radient to evaluate an exclusive partnership for the Canadian market with regard to the joint development and commercialization of superior and standardized cannabinoid extracts.

On January 4, 2017, in accordance with the MOU, the parties entered into a joint venture research agreement pursuant to which Radient and Aurora are working to confirm the effectiveness of Radient's MAP technology for cannabis extraction.

Pursuant to the terms of the MOU, on February 13, 2017, the Company completed its investment in Radient by way of a $2,000,000 unsecured convertible debenture. The debenture bears interest at 10% per annum and is convertible at any time into units of Radient at a price of $0.14 per unit. Each unit consists of one common share and one share purchase warrant, exercisable into one common share at a price of $0.33 per share expiring February 13, 2019. The debenture has a term of 2 years, is payable on demand during the first 5 months following issuance, and is subject to a mandatory conversion if, after 5 months from the date of issuance, (i) the volume weighted average trading price of Radient's shares is equal to or greater than $0.40 for 10 consecutive days; or the Company and Radient enter into an exclusivity, licensing, service or similar agreement.

On March 9, 2017, the Company participated in Radient's private placement of units for a total investment of $1,250,010. Each unit consisted of one common share and one-half share purchase warrant of Radient at a price of $0.45 per unit. Each whole warrant is exercisable into one common share of Radient at $0.70 per share expiring March 9, 2019.

Voluntary Recall of Product

On January 16, 2017, the Company announced a voluntary recall of products purchased from Organigram, another licensed producer, that contained a pesticide not currently registered for use on medical cannabis under the Pest Control Products Act. This recall is defined by Health Canada as a Type II recall, a situation in which the use of, or exposure to, a product may cause temporary adverse health consequences or where the probability of serious adverse health consequences is remote. The Company has proactively and diligently contacted all clients affected by the recall.

Organigram fully reimbursed the Company as follows: Aggregate cash payments of $834,835, constituting a full refund of $384,835 for product returned and a reimbursement of $450,000, fully covering Aurora's costs incurred via extension of purchase credits by Aurora to its affected clients. The Company no longer purchases any further products from Organigram.

Aurora Sky Facility Construction

Construction on the new 800,000 square foot Aurora Sky production facility at Edmonton International Airport is proceeding well and on schedule. Contracts have been awarded for the general contractor, and engineering and architectural suppliers. Cut and fill has been completed on the first 500,000 square feet, while screw piles have been sunk for the first 300,000 square feet. The new facility is required to satisfy the rapidly increasing demand for medical cannabis under the ACMPR - which reached 129,876 registered patients to the end of December 2016 and is growing at a pace of approximately 10 per cent per month – as well as the projected future adult non-medical market once the Canadian government legalizes the consumer use of marijuana. Aurora's new facility will be the largest yet constructed in the Canadian cannabis sector, and management believes it will represent the most advanced, automated cannabis production facility in the world. Upon completion of the entire expansion, the Company will have the capacity to produce approximately 100,000 kilograms of cannabis per year.

***Financings***

$75 Million Bought Deal Convertible Debentures

On May 2, 2017, the Company closed its bought deal private placement of unsecured convertible debentures in the aggregate principal amount of $75,000,000. The debentures bear interest at 7% per annum, payable semi-annually and mature on May 2, 2019. The debentures are convertible into common shares of the

Company at a price of $3.29 per share, at the option of the holder, subject to a forced conversion if the volume weighted average price of the Company's common shares exceeds $4.94 per share for 10 consecutive trading days. Furthermore, and in connection with this private placement, certain holders have agreed to convert $17,500,000 of outstanding convertible debentures bearing interest at 8% per annum, into approximately 8,750,000 additional common shares.

<u>$75 Million Bought Deal Private Placement</u>

On February 28, 2017, the Company closed a brokered private placement of 33,337,500 units at a price of $2.25 per unit for gross proceeds of $75,009,375. Each unit consisted one common share and one-half of one common share purchase warrant of the Company. Each warrant is exercisable into one common share at an exercise price of $3.00 per share for a period of two years, subject to a forced exercise if the Company's volume-weighted average share price is greater than $4.50 for 10 consecutive trading days.

<u>$27.4 Million on Exercise of Securities</u>

During the nine months ended March 31, 2017, the Company raised $27,409,583 on the exercise of warrants, options and compensation options.

## RISK FACTORS

This section discusses factors relating to the business of Company that should be considered by both existing and potential investors. The information in this section is intended to serve as an overview and should not be considered comprehensive and the Company may face risks and uncertainties not discussed in this section, or not currently known to us, or that we deem to be immaterial. All risks to the Company's business have the potential to influence its operations in a materially adverse manner.

### *Reliance on Licensing*

The ability of Aurora to continue its business of growth, storage and distribution of medical marijuana is dependent on the good standing of all licenses, including the licenses to produce and sell cannabis oil products, and adherence to all regulatory requirements related to such activities. Any failure to comply with the terms of the licenses, or to renew the licenses after their expiry dates, would have a material adverse impact on the financial condition and operations of the business of the Company. Although the Company believes that it will meet the requirements of the ACMPR for future extensions or renewals of the licenses, there can be no assurance that Health Canada will extend or renew the licenses, or if extended or renewed, that they will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the licenses or should they renew the licenses on different terms, the business, financial condition and operating results of the Company would be materially adversely affected.

### *Regulatory Risks*

Achievement of the Company's business objectives are contingent, in part, upon compliance with the regulatory requirements, including those imposed by Health Canada, enacted by these government authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. Aurora cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by government authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the Company's business, results of operation and financial condition.

***Change in Laws, Regulations and Guidelines***

Aurora's business is subject to a variety of laws, regulations and guidelines relating to marketing, acquisition, manufacture, management, transportation, storage, sale and disposal of medical marijuana but also laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Changes to such laws, regulations and guidelines may cause adverse effects to the Company's operations.

On February 24, 2016, the Federal Court released its decision in the case of Allard et al v. Canada, declaring that the MMPR, as it was drafted, was unconstitutional in violation of the plaintiffs' rights under section 7 of the Charter of Rights and Freedoms. On August 24, 2016, the ACMPR came into force, replacing the MMPR as the regulations governing Canada's medical cannabis regime which permits patients to produce a limited amount of cannabis for their own medical purposes or to designate a person to produce a limited amount of cannabis. The ACMPR could potentially decrease the size of the market for the Company's business, and potentially materially and adversely affect the Company's business, its results of operations and financial condition.

***Limited Operating History and No Assurance of Profitability***

Aurora Marijuana Inc., which prior to the completion of the RTO was the entity in which Aurora's business was organized, was incorporated in 2013, and the business of the Company began operations in 2015, and started generating revenues from the sale of medical cannabis in January 2016. The Company is subject to all of the business risks and uncertainties associated with any early-stage enterprise, including under-capitalization, cash shortages, limitation with respect to personnel, financial and other resources, and lack of revenues.

The Company has incurred operating losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable. There is no assurance that the Company will be successful in achieving a return on shareholders' investments and the likelihood of success must be considered in light of the early stage of operations.

***Unfavourable Publicity or Consumer Perception***

The success of the medical marijuana industry may be significantly influenced by the public's perception of marijuana's medicinal applications. Medical marijuana is a controversial topic, and there is no guarantee that future scientific research, publicity, regulations, medical opinion and public opinion relating to medical marijuana will be favourable. The medical marijuana industry is an early-stage business that is constantly evolving with no guarantee of viability. The market for medical marijuana is uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion relating to the consumption of medical marijuana may have a material adverse effect on our operational results, consumer base and financial results.

***Competition***

The market for the Company's products does appear to be sizeable and Health Canada has only issued a limited number of licenses under the ACMPR to produce and sell medical marijuana. As a result, the Company expects significant competition from other companies due to the recent nature of the ACMPR regime. A large number of companies appear to be applying for production licenses, some of which may have significantly greater financial, technical, marketing and other resources, may be able to devote greater resources to the development, promotion, sale and support of their products and services, and may have more extensive customer bases and broader customer relationships.

Should the size of the medical marijuana market increase as projected the demand for products will increase as well, and in order for the Company to be competitive it will need to invest significantly in research and development, marketing, production expansion, new client identification, and client support. If the Company is not successful in achieving sufficient resources to invest in these areas, the Company's ability to compete in the market may be adversely affected, which could materially and adversely affect the Company's business, its financial conditions and operations.

***Realization of Growth Targets***

Aurora's ability to continue production of marijuana, at the same pace as of the date of this MD&A or at all, is affected by a number of factors, including plant design errors, non-performance by third party contractors, increases in materials or labour costs, construction performance falling below expected levels of output or efficiency, environmental pollution, contractor or operator errors, breakdowns, aging or failure of equipment or processes, labour disputes, as well as factors specifically related to indoor agricultural practices, such as reliance on provision of energy and utilities to the facility, and potential impacts of major incidents or catastrophic events on the facility, such as fires, explosions, earthquakes or storms.

***Uninsured or Uninsurable Risk***

The Company may be subject to liability for risks against which it cannot insure or against which the Company may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for the Company's usual business activities. Payment of liabilities for which the Company does not carry insurance may have a material adverse effect on the Company's financial position and operations.

***Key Personnel***

The Company's success will depend on its directors' and officers' ability to develop and execute on the Company's business strategies and manage its ongoing operations, and on the Company's ability to attract and retain key quality assurance, scientific, sales, public relations and marketing staff or consultants now that production and selling operations have begun. The loss of any key personnel or the inability to find and retain new key persons could have a material adverse effect on the Company's business. Competition for qualified technical, sales and marketing staff, as well as officers and directors can be intense and no assurance can be provided that the Company will be able to attract or retain key personnel in the future, which may adversely impact the Company's operations.

***Conflict of Interest***

Certain of the Company's directors and officers are also directors and officers in other companies. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers conflict with or diverge from the Company interests. In accordance with the BCBCA, directors who have a material interest in any person who is a party to a material contract or a proposed material contract are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract.

***Litigation***

The Company may become party to litigation, mediation and/or arbitration from time to time in the ordinary course of business which could adversely affect its business. Monitoring and defending against legal actions, whether or not meritorious, can be time-consuming, divert management's attention and resources and cause the Company to incur significant expenses. In addition, legal fees and costs incurred in connection with such activities may be significant and we could, in the future, be subject to judgments or enter into settlements of claims for significant monetary damages. While the Company has insurance that may cover the costs and awards of certain types of litigation, the amount of insurance may not be sufficient to cover any costs or awards. Substantial litigation costs or an adverse result in any litigation may adversely impact the Company's business, operating results or financial condition.

***Agricultural Operations***

Since the Company's business will revolve mainly around the growth of medical marijuana, an agricultural product, the risks inherent with agricultural businesses will apply. Such risks may include disease and insect pests, among others. Although the Company expects to grow its product in a climate controlled, monitored, indoor location, there is no guarantee that changes in outside weather and climate will not adversely affect production. Further, any rise in energy costs may have a material adverse effect on the Company's ability to produce medical marijuana.

***Transportation Disruptions***

The Company will depend on fast, cost-effective and efficient courier services to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Company. Rising costs associated with the courier service used by the Company to ship its products may also adversely impact the business of the Company and its ability to operate profitably.

***Fluctuating Prices of Raw Materials***

The Company's revenues are in a large part derived from the production, sale and distribution of marijuana. The price of production, sale and distribution of marijuana will fluctuate widely due to how young the marijuana industry is and is affected by numerous factors beyond the Company's control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new production and distribution developments and improved production and distribution methods. The effect of these factors on the price of product produced by the Company and, therefore, the economic viability of any of the Company's business, cannot accurately be predicted.

***Environmental and Employee Health and Safety Regulations***

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land; the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to obtain an Environmental Compliance Approval or otherwise comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

***Intellectual Property***

The success of the Company's business depends in part on its ability to protect its ideas and technology. Aurora has no patented technology at this time nor has it applied to register any patents. AMI has applied to register the trademark "AURORA" and has received an approval notice from the Canadian Intellectual Property Office. CanvasRx has registered a trademark for "CanvasRx". Even if the Company moves to protect its technology with trademarks, patents, copyrights or by other means, Aurora is not assured that competitors will not develop similar technology, business methods or that Aurora will be able to exercise its legal rights. Other countries may not protect intellectual property rights to the same standards as does Canada. Actions taken to protect or preserve intellectual property rights may require significant financial and other resources such that said actions have a meaningfully impact our ability to successfully grow our business.

***Political and Economic Instability***

The Company may be affected by possible political or economic instability. The risks include, but are not limited to, terrorism, military repression, extreme fluctuations in currency exchange rates and high rates of inflation. Changes in medicine and agriculture development or investment policies or shifts in political attitude in certain countries may adversely affect the Company's business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, distribution, price controls, export controls, income taxes, expropriation of property, maintenance of assets, environmental legislation, land use, land claims of local people and water use. The effect of these factors cannot be accurately predicted.

***Facility Expansion***

The construction of the Company's facility is subject to various potential problems and uncertainties, and may be delayed or adversely affected by a number of factors beyond our control, including the failure to obtain regulatory approvals, permits, delays in the delivery or installation of equipment by our suppliers, difficulties in integrating new equipment with our existing facilities, shortages in materials or labor, defects in design or construction, diversion of management resources, or insufficient funding or other resource constraints. Moreover, actual costs for construction may exceed our budgets. As a result of construction delays, cost overruns, changes in market circumstances or other factors, we may not be able to achieve the intended economic benefits from the construction of the new facility, which in turn may materially and adversely affect our business, prospects, financial condition and results of operations.

***Market Risk for Securities***

The market price for the common shares of the Company could be subject to wide fluctuations. Factors such as commodity prices, government regulation, interest rates, share price movements of peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of the Company. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies.

***Global Economy Risk***

An economic downturn of global capital markets has been shown to make the raising of capital by equity or debt financing more difficult. The Company will be dependent upon the capital markets to raise additional financing in the future, while it establishes a user base for its products. As such, the Company is subject to liquidity risks in meeting its development and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the Company’s ability to raise equity or obtain loans and other credit facilities in the future and on terms favorable to the Company and its management. If uncertain market conditions persist, the Company’s ability to raise capital could be jeopardized, which could have an adverse impact on the Company’s operations and the trading price of the Company’s shares on the Exchange.

***Dividend Risk***

The Company has not paid dividends in the past and does not anticipate paying dividends in the near future. The Company expects to retain its earnings to finance further growth and, when appropriate, retire debt.

***Volatile Market Price for Company Common Shares***

The market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- recommendations by securities research analysts;
- changes in the economic performance or market valuations of companies in the industry in which the Company operates;
- addition or departure of the Company's executive officers and other key personnel;
- release or expiration of transfer restrictions on outstanding Company Common Shares;
- sales or perceived sales of additional Company Common Shares;
- operating and financial performance that vary from the expectations of management, securities analysts and investors;
- regulatory changes affecting the Company's industry generally and its business and operations;
- announcements of developments and other material events by the Company or its competitors;

- fluctuations to the costs of vital production materials and services;
- changes in global financial markets and global economies and general market conditions, such as interest rates and pharmaceutical product price volatility;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies; and
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Such volatility has been particularly evident with regards to the share prices of medical cannabis companies that are public issuers in Canada. Accordingly, the market price of Company Common Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are lasting and not temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in share price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of Company Common Shares may be materially adversely affected.

***Holding Company Status***

The Company is a holding company and essentially all of its operating assets are the capital stock of its subsidiaries. As a result, investors in the Company are subject to the risks attributable to its subsidiaries. As a holding company, the Company conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, the Company's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to the Company. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of the Company's subsidiaries, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to the Company.

## SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information from continuing operations for the most recent eight quarters:

| Quarter ended | Revenue | Net Income (Loss) | Earnings (Loss) per share |
|---|---|---|---|
| | $ | $ | $ |
| March 31, 2017 | 5,175,304 | 138,834 | - |
| December 31, 2016 | 3,884,462 | (2,677,804) | (0.01) |
| September 30, 2016 | 3,071,422 | (5,612,806) | (0.02) |
| June 30, 2016 | 1,220,041 | (7,474,107) | (0.05) |
| March 31, 2016 | 219,230 | 2,526,842 | 0.02 |
| December 31, 2015 | - | 592,927 | - |
| September 30, 2015 | - | (1,369,168) | (0.01) |
| June 30, 2015 | - | (546,743) | (0.01) |

The Company was incorporated in 2013, commenced commercial operations in January 2016 and began generating revenues from the sale of medical cannabis in January 2016. The net losses for the quarters ended September 30, 2016 and June 30, 2016 were primarily attributable to a decrease in unrealized gain on changes in fair value of biological assets and increased expenditures due to increased corporate activities related to scaling up of its operations, the acquisition of CanvasRx and various equity and debt financings. The net income for the quarter ended March 31, 2017 was primarily attributable to the unrealized gain on the changes in fair value of biological assets and unrealized gain on debenture and marketable securities. The net income for the quarters ended March 31, 2016 and December 31, 2015 was primarily attributable to the unrealized gain on the changes in fair value of biological assets. The increase in net loss each quarter was a result of increased expenditures incurred by the Company with respect to scaling up of its operations, the construction of the Facility, development of its medical cannabis operations, branding and product development, and RTO transaction.

## RESULTS OF OPERATIONS

During the nine months ended March 31, 2017, the Company continued to advance its very aggressive business and operating strategies that include increased operational and production efficiencies realized from the initial Cremona production facility, the advancement of construction on its Aurora Sky facility, continued registration and servicing of new and existing patients, increasing production to meet current and anticipated increases in product demand, strategic acquisitions and investment opportunities and several financing transactions resulting in equity and debt offerings. During the prior period, the Company's commenced commercial operations and focused its efforts on launching its product after the receipt of its sales license in November 2015, revamping its website, and hiring key employees to advance its business operations.

### *Revenues*

Revenues for the three and nine months ended March 31, 2017 were $5,175,304 and $12,131,188 respectively ($219,230 and $219,230 in the three and nine months ended 2016). Revenues for the three and nine months ended March 31, 2017, consisted of the sale of dried medical cannabis of $4,336,434 and $10,294,964 respectively and patient counselling and outreach services of $838,870 and $1,836,224 respectively. Total product sold for the period was 1,626,773 grams (56,770 grams in 2016) at an average selling price of $6.38 per gram. The Company received its license from Health Canada to sell medical cannabis under the ACMPR on November 27, 2015 and generated its first product sale on January 5, 2016. Aurora's strains are currently priced at $8 per gram with compassionate pricing set at $5 per gram.

To date, the Company has sold a total of 2,226,236 grams of medical cannabis at an average selling price of $6.42 per gram.

***Cost of Sales***

Included in cost of sales for the three and nine months ended March 31, 2017 were the unrealized gains on changes in fair value of biological assets of $2,620,160 and $4,238,401 respectively, inventory expensed of $620,487 and $2,158,741 respectively and production costs of $1,412,353 and $4,001,599 respectively.

Biological assets consist of cannabis plants at various pre-harvest stages of growth which are recorded at fair value less costs to sell at the point of harvest. Cost to sell are primarily related to shipping costs. At harvest, the biological assets are transferred to inventory at their fair value which becomes the deemed cost for inventory. Inventory is later expensed to cost of sales when sold and offset against the unrealized gain on biological assets. Production costs are expensed through cost of sales.

***Gross Profit***

Gross profit was $5,762,624 and $10,209,249 for the three and nine months ended March 31, 2017 respectively compared to $4,191,186 and $6,410,882 for the three and nine months ended March 31, 2016 respectively. The gross profit during the periods was partially attributable to the net effect of changes in fair value of biological assets.

Gross profit for the three months ended March 31, 2017 increased by $1,402,264 as compared to the previous quarter, from $4,360,360 for the three months ended December 31, 2016 to $5,762,624 for the three months ended March 31, 2017. The increase mainly resulted from a 33% increase in product sales and the unrealized gains on biological assets resulting from enhanced inventory production results.

Management uses an "Adjusted Gross Profit" measure to provide a better representation of performance during the periods by excluding non-cash fair value measurements required under IFRS. The Adjusted Gross Profit is a non-GAAP financial measure that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Gross profit for the three and nine months ended March 31, 2017 has been adjusted from IFRS by removing the non-cash unrealized gains in fair value of biological assets as follows:

| | Three months ended March 31 | | Nine months ended March 31 | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $ | $ | $ | $ |
| Revenues, as reported under IFRS | 5,175,304 | 219,230 | 12,131,188 | 219,230 |
| Gross profit, as reported under IFRS | 5,762,624 | 4,191,186 | 10,209,249 | 6,410,882 |
| Unrealized gain on changes in fair value of biological assets | 2,620,160 | 4,808,248 | 4,238,401 | 7,027,944 |
| Adjusted gross profit | 3,142,464 | (617,062) | 5,970,848 | (617,062) |
| Adjusted gross margin | 61% | - | 49% | - |

The Company commenced commercial operations in January 2016 and the adjusted gross loss during the three and nine months ended March 31, 2016 was $617,062 and $617,062 respectively.

### *General and Administration*

General and administration costs increased by $1,356,618 and $2,878,920 respectively, for the three and nine months ended March 31, 2017. The over-all increase was primarily attributable to increases in corporate and general administrative activities of the Company as it scaled up its business operations, completed various equity and debt financings, closed the acquisition of CanvasRx as well as other costs incurred related to ongoing negotiations for additional financings and other potential acquisition and investment opportunities. In the prior period, the Company began scaling up its business operations as it transitioned to a fully licensed producer.

Consulting fees increased by $622,021 and $727,911 respectively during the three and nine months ended March 31, 2017. The increase resulted mainly from referral fees of $498,700 paid for successful acquisition activities. The Company also incurred various advisory and other fees in connection with the financings and related due diligence activities.

Management and directors' fees increased by $78,700 and $428,050, respectively during the three and nine months ended March 31, 2017, as a result of:

- management fees paid to the CEO and the President of the Company effective January 1, 2016;
- wages paid to the Executive Vice President effective March 2016;
- fees paid to the new interim CFO of the Company effective August 2016;
- fees paid to a director for scientific related services; no such fees were paid to the director in the prior period; and
- fees paid to a director for financial advisory services; no such fees were paid in the prior period.

Professional fees increased by $155,884 and $787,379 respectively, during the three and nine months ended March 31, 2017. The non-recurring increase was largely attributable to legal fees as the Company completed debt and equity financings, a business acquisition and related due diligence. In addition, the Company incurred costs for ongoing services related to potential joint ventures, acquisitions, financings and other corporate matters. The Company also entered into various consulting contracts, employment agreements and other business contracts to support its increasing business operations and incurred legal fees related to litigations, mediation and/or arbitration. During the nine months ended March 31, 2017, the Company settled all outstanding claims. As of the date hereof, management is not aware of any material claims or possible claims against the Company.

Regulatory and transfer agent fees increased by $32,275 and $342,148 during the three and nine months ended March 31, 2017, as a result of costs related to the transfer of the Company's listing from the CSE to the TSX Venture Exchange and from the OTCBB to the OTCQX. The Company also paid regulatory and transfer agent fees related to convertible debt and equity financings completed during the period.

Wages and benefits increased by $312,976 and $548,373 respectively during the three and nine months ended March 31, 2017, as a result of the hiring of the Executive Vice President and four (4) employees in the finance, corporate and human resources departments.

***Sales and Marketing***

Sales and marketing costs increased by $2,223,945 and $5,816,520 during the three and nine months ended March 31, 2017. The overall increase was largely attributable to increases in consulting fees, selling costs and wages as more particularly described below.

Consulting fees increased by $1,026,833 and $2,346,375 during the three and nine months ended March 31, 2017. The increase was primarily attributable to fees paid during the three and nine months ended March 31, 2017 of $1,048,200 and $2,368,730 respectively to Canadian Cannabis Clinics pursuant to a services agreement to provide operational, administrative and consulting services to CanvasRx. No such expense was incurred in the prior period.

Selling expenses were $866,011 and $2,230,660 during the three and nine months ended March 31, 2017 as compared to $44,819 and $54,859 during the three and nine months ended 2016. Selling expenses consist of shipping costs, sales fees and commissions and payment processing fees. The increase in selling expenses is directly related to the increase in sales volume during the periods. Selling expenses in the prior periods represent less than three months of costs as the Company commenced sales of medical cannabis in January 2016.

Wages and benefits increased by $199,003 and $666,211 during the three and nine months ended March 31, 2017 respectively, as the Company hired fifteen (15) client care, public affairs and compliance staff. The increase in size of the client care centre is required to support the increase in patient volume realized during the period.

***Research and Development***

Research and development costs for the three and nine months ended March 31, 2017 were $52,077 and $191,076 respectively, compared to $109,176 and $314,803 for the three and nine months ended March 31, 2016. During the period, research and development included method development and process validations related to laboratory procedures. During the prior period, research and development expenditures primarily related to research, development and documentation of the cannabis grow process and genetics of various cannabis strains.

***Share-based Payments***

The Company recorded share-based payments of $2,632,393 for 4,650,000 stock options granted and vested during three months ended March 31, 2017 and $5,522,286 for 9,465,000 stock options granted and vested during nine months ended March 31, 2017.

During the three and nine months ended March 31, 2016, the Company recorded share-based payments of $111,266 and $709,308 respectively for stock options granted and vested. 417,500 and 3,627,500 options were granted during the three and nine months ended March 31, 2016 respectively.

### *Finance and Other Costs*

During the three months ended March 31, 2017, included in finance and other costs were financing fees, accretion and interest charges from aggregate unsecured convertible debentures of $40,000,000 raised during the period. Of these debentures, $17,009,000 were converted into common shares during the period. During the nine months ended March 31, 2017, accretion of $904,798 was accelerated related to a prepayment of $4,000,000 interest free long-term related party loans. In addition, financing fees of $680,904 were fully amortized and a prepayment interest fee of $252,793 was paid as a result of a prepayment of $4,000,000 in short-term loans. Financing fees related to the fair value of 2,712,500 warrants of $876,502 was recognized as financing fees. These warrants were issued as consideration to the amendment of the terms of certain convertible debentures.

The Company repaid aggregate loans of $6,215,462 during the nine months ended March 31, 2017.

During the three and nine months ended March 31, 2016, finance and other costs mainly consisted of interest expenses on the $500,000 unsecured loan, $1,650,000 secured loan which bore interests at 8% and 12% respectively. Interest accretion and interest expense were also charged on the $1,250,000 secured convertible loans which bore interest at 8% per annum.

### *Income Tax Recovery*

During the three and nine months ended March 31, 2017, the Company recorded a deferred tax recovery of $2,055,107 in connection with its issuance of convertible debentures in the aggregate of $40,000,000 offset by a deferred tax expense of $138,857 related to its investments in a convertible debenture and private placement of units.

The current tax recoveries for the current and prior periods related to SR&ED claims.

### *EBITDA and Adjusted EBITDA Measures*

Although EBITDA is one indicator of financial performance and used as a proxy for the earnings potential of a business, in certain circumstances it may not provide useful or relevant information to readers due to inherent limitations in the results. One of these limitations include a company's growth phase, as is currently experienced by Aurora, where quarterly earnings can fluctuate and become less relevant during such periods as the Company focuses on building for long term and sustainable profitability. As such, although EBITDA is positive, management does not currently use measures such as EBITDA or EBITDA-derived metrics to analyze operating performance as the Company's strategy includes a significant emphasis on the building of production and corporate capacity in preparation for domestic and international expansion. In the future, management may determine that these metrics are an appropriate measure of the Company's performance and will disclose and reconcile to GAAP such metrics at that time, however, management's current emphasis remains focused on preparation and execution of well-managed growth.

## LIQUIDITY AND CAPITAL RESOURCES

During the nine months ended March 31, 2017, the Company generated revenues of $12,131,188 from operations and also financed its operations and met its capital requirements through debt and equity financings. The Company's objectives when managing its liquidity and capital resources are to generate sufficient cash to fund the Company's operating and working capital requirements. During the period, the Company completed various equity and debt financings to meet its current and anticipated future obligations, and expansion plans.

Working capital as of March 31, 2017 was $126,530,392 as compared to a deficiency of $2,751,400 at June 30, 2016. The increase in working capital of $129,281,792 was primarily attributable to an increase in cash and cash equivalents of $110,857,123 generated from debt and equity financings, offset by a decrease in short term loans of $6,047,408.

Net cash and cash equivalents on hand increased by $110,857,123 from $259,073 as at June 30, 2016 to $111,116,196 as at March 31, 2017. The increase in cash and cash equivalents resulted mainly from net cash generated from equity and debt financings of $147,096,912 offset by net cash used for operations of $15,191,526 and investments of $21,048,263.

During the nine months ended March 31, 2017, the Company significantly strengthened its balance sheet and liquidity position with approximately $165 million in new equity and debt financings. Subsequent to March 31, 2017, the Company also generated $75 million in additional gross cash proceeds from an unsecured convertible debenture financing. The Company anticipates that it has sufficient liquidity and capital resources to meet all of its planned expenditures for at least the next twelve months.

***Operating Activities***

For the nine months ended March 31, 2017, cash flows used for operating activities were $15,191,526 compared to $5,093,903 for the nine months ended March 31, 2016. During the nine months ended March 31, 2017, cash flows used for operations resulted primarily from cash inflows from gross profit of $5,970,848 and income tax recovery of $19,004 offset by increases in cash flows used for operating expenses of $11,207,739 and finance and other costs of $1,694,385 and cash outflows of $8,279,254 related to changes in non-cash working capital.

***Investing Activities***

For the nine months ended March 31, 2017, the Company had net cash outflows related to investing activities of $21,048,263 as compared to $1,606,419 for the nine months ended March 31, 2016. Investing activities during the period included the acquisition of CanvasRx for consideration and earn out cash payment of $4,622,689, the purchase of production equipment, computers and furniture, and building improvements of $1,458,662 and the construction of the new Aurora Sky facility of $11,507,364, investments in a private placement of $1,250,010 and a convertible debenture of $2,000,000, and a promissory note receivable of $191,117. Investing activities during the prior period consisted mainly of the purchases of production equipment, computers and furniture, and website design and creation.

***Financing Activities***

Net cash flows provided by financing activities for the nine months ended March 31, 2017 were $147,096,912 compared to $6,727,187 for the nine months ended March 31, 2016. During the period, the Company raised aggregate net cash proceeds of $157,489,710 as follows:

- private placement of units for gross proceeds of $98,009,375 less share issue costs of $6,269,248;
- unsecured convertible debentures in the principal amount of $40,000,000 less financing fees of $1,660,000; and
- exercise of warrants and options for net proceeds of $27,409,583.

The above financing proceeds were offset by repayments of loans totaling $10,215,462 consisting of related party loans of $5,756,543 and third party loans of $4,458,919.

For the nine months ended March 31, 2016, the Company raised aggregate net cash of $10,305,312 from short and long term loans, private placements and from the exercise of options and warrants. The proceeds were used partly to repay short term loans of $2,491,024 and convertible debentures of $1,087,101.

***Capital Resource Measures***

The Company's major capital expenditures in fiscal 2017 mainly consist of the construction of phase 1 of its 800,000 square foot fully automated greenhouse in Alberta, Canada. See "*Operations Update*". The Company anticipates that the aforementioned financing proceeds will be sufficient to fund the Company's operations to meet its planned growth and to fund development activities for at least fiscal 2017.

***Contractual Obligations***

As of March 31, 2017, the Company had the following financial commitments:

| Contractual Obligation | Total | Less than 1 year | 1.5 - 3 years | After 3 years |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Finance lease | 366,907 | 67,292 | 299,615 | - |
| Operating lease | 112,500 | 60,000 | 52,500 | - |
| Convertible notes | 18,422,596 | - | 18,422,596 | - |
| Office lease | 1,763,249 | 150,173 | 983,831 | 629,245 |

***Investment in Australis Holdings LLP***

Each of ACI and its joint venture partner, AJR Builders Group LLC ("AJR"), holds a 50% interest in Australis Holdings LLP ("AHL"), a Washington Limited Liability Partnership.

AHL purchased two parcels of land totaling approximately 24.5 acres (the "Property") in Whatcom county, Washington for USD$2,300,000.

Pursuant to a promissory note dated April 10, 2015, the Company through ACI loaned CAD$1,644,831 to AHL to fund the purchase of the Property. The note bears interest at a rate of 5% per annum and matures on October 31, 2017. In the event of a default, interest will be charged at 12% per annum. The note is secured by a first mortgage on one parcel of the Property and a second mortgage on the other title as well as a general security agreement granting ACI security over all present and after acquired property of AHL.

The Company is focusing its expansion projects in the Canadian market and currently constructing the first phase of its greenhouse in Alberta. As a result, the Company has decided to defer its development in Bellingham.

## OFF-BALANCE SHEET ARRANGEMENTS

As at the date of this MD&A, the Company had no material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company.

## TRANSACTIONS WITH RELATED PARTIES

### *Related Party Transactions*

The Company entered into certain transactions with related parties during the three and nine months ended March 31, 2017 and 2016 as follows:

Goods and Services

| Name and Relationship to Company | Transaction | Three months ended March 31, 2017 | Three months ended March 31, 2016 | Nine months ended March 31, 2017 | Nine months ended March 31, 2016 |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| W.L. Macdonald Law Corporation, a company controlled by William Macdonald, a former Secretary of the Company | RTO Listing expense and legal fees | - | - | - | 3,102 |
| Delcon Industries Ltd, a company controlled by Dale Lesack, a director of ACE | Consulting fees | 37,500 | 37,500 | 112,500 | 112,500 |
| Consulting fees paid for services as Production Facilitator. | | | | | |
| Evolve Concrete, a company controlled by Chris Mayerson, a director of ACE | Consulting fees | 15,000 | 37,500 | 46,250 | 112,500 |
| Consulting fees paid for services as part-time (full-time in the prior period) Chief Cultivator of the Company. | | | | | |

Goods and Services (Continued)

| | | | | | |
|---|---|---|---|---|---|
| Canadian Cannabis Clinics ("CCC"), a company in which Joseph del Moral, a director of the Company, is a director (the director has no direct financial interest in the transaction) | Service fees | 1,048,200 | - | 2,368,730 | - |
| The Company entered into a Master Services Agreement with CCC dated August 16, 2016, to provide operational, administrative and consulting services to CanvasRx. | | | | | |
| Superior Safety Codes ("Superior"), a company controlled by Terry Booth, CEO and Steve Dobler, President of the Company | Rent, accounting and administration | 48,000 | 24,000 | 108,000 | 141,958 |
| Rent for corporate offices in Edmonton and Calgary as well as accounting and administrative support at these offices pursuant to an Administrative Services and Office Space Agreement dated January 1, 2016. | | | | | |
| Belot Business Consulting Corp, a Company controlled by Neil Belot, Chief Global Business Development Officer | Consulting fees | 498,700 | - | 498,700 | - |

Key Management Personnel

| Name and Relationship to Company | Transaction | Three months ended March 31, 2017 | 2016 | Nine months ended March 31, 2017 | 2016 |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| Inspire Consulting Services Ltd., a company controlled by John Bean, former CFO of the Company | Management fees | - | 10,800 | 9,900 | 32,400 |
| Lola Ventures Inc., a company controlled by Terry Booth, CEO of the Company | Management fees | 62,500 | - | 187,500 | - |

Key Management Personnel (Continued)

| | | | | | |
|---|---|---|---|---|---|
| 1771472 Alberta Ltd., a company controlled by Steve Dobler, President of the Company | Management fees | 37,500 | - | 112,500 | - |
| 748086 Alberta Ltd. ("748086"), a company controlled by Jason Dyck, a director of the Company | R&D Consulting fees | 15,000 | - | 28,500 | 51,100 |
| Consulting fees paid to 748086 for Scientific Research and Development Services. | | | | | |
| 8115966 Canada Inc. ("8115966"), a Company controlled by Michael Singer, a director of the Company | Consulting fees | 12,922 | - | 45,365 | - |
| The Company entered into a consulting agreement with 8115966 effective April 18, 2016, for financial and other advisory services. | | | | | |
| Branson Corporate Services Inc. ("Branson"), a company providing CFO services to the Company | Financial advisory services | 30,000 | - | 117,500 | - |
| The Company entered into a management services agreement with Branson dated June 24, 2016, which includes the services of the Company's CFO; Adam Szweras, a director of the Company, has a 24.5% indirect interest in Branson, through a family trust for the benefit of his minor children. | | | | | |

***Related Party Balances***

As at March 31, 2017, the following related party amounts were included in (a) accounts payable and accrued liabilities, (b) prepaid expenses and deposits, (c) short term loans and (d) long term loans, (e) note receivable:

| | March 31, 2017 | June 30, 2016 |
|---|---|---|
| | $ | $ |
| (a) Accounts payable and accrued liabilities | | |
| Companies controlled by directors and officers of the Company | 186,120 | 101,765 |
| Directors of the Company (1) | 17,485 | 35,545 |
| (b) Short-term loans | | |
| Lola Ventures Inc. ("Lola"), | - | 539,863 |
| 1771472 Alberta Ltd. ("1771472") | - | 549,863 |
| | - | 1,089,726 |
| (c) Long-term loans | | |
| Lola | - | 1,579,285 |
| 1771472 | - | 1,579,284 |
| | - | 3,158,569 |

| | | |
|---|---|---|
| (d) Note receivable | | |
| Australis Holdings LLP | 1,935,542 | 1,782,186 |

(1) The amounts are unsecured, non-interest bearing and have no specific repayment terms.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's Interim Financial Statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the Interim Financial Statements relate to the fair value measurements for inventory and biological assets, estimated useful lives and depreciation of property, plant and equipment, valuation of investments and valuation of convertible instruments and share-based payments.

## NEW ACCOUNTING PRONOUNCEMENTS

There were no new standards effective July 1, 2016 that had an impact on the Company's Interim Financial Statements. The following IFRS standards have been recently issued by the IASB. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

### *IFRS 7 Financial instruments: Disclosure*

IFRS 7 *Financial instruments: Disclosure,* was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018.

### *IFRS 9 Financial instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

### *IFRS 15 Revenue from contracts with Customers*

The IASB replaced IAS 18, *Revenue,* in its entirety with IFRS 15, *Revenue from contracts with Customers*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on January 1, 2017.

***IFRS 16 Leases***

In January 2016, the IASB issued IFRS 16 *Leases*, which will replace IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. The extent of the impact of adoption of the standard has not yet been determined.

## FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### (a) Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, promissory notes receivable, accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values as at March 31, 2017.

IFRS requires disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs for the asset or liability that are not based on observable market data.

| | Fair value at March 31, 2017 | Basis of measurement | Financial instruments |
|---|---|---|---|
| | $ | | |
| **Financial Assets** | | | |
| Cash and cash equivalents | 111,116,196 | Carrying value | Loans and receivables |
| Marketable securities | 1,833,348 | Fair value | Available for sale |
| **Financial Liabilities** | | | |
| Accounts payable | 3,795,423 | Carrying value | Other financial liabilities |
| Deferred revenue | 577,417 | Carrying value | Other financial liabilities |
| Finance lease | 366,907 | Carrying value | Other financial liabilities |
| Convertible notes [1] | 18,422,596 | Fair value | Other financial liabilities |

[1] The fair value of convertible notes includes both the debt and equity components.

There have been no transfers between fair value levels during the period.

The following is a summary of financial assets measured at fair value segregated based on the various levels of inputs (Notes 4(a) and 4(b)):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Marketable securities | 1,833,348 | - | - | 1,833,348 |
| Convertible debenture | - | - | 15,775,788 | 15,775,788 |
| Warrant derivative | - | - | 463,720 | 463,720 |

Changes in deferred gains on convertible debenture and derivative measured at fair value and included in level 3 of the fair value hierarchy were as follows:

| | Warrant derivative | Convertible Debenture |
|---|---|---|
| | $ | $ |
| Opening balance | - | - |
| Unrealized gains at inception deferred | 380,124 | 12,563,966 |
| Unrealized gains amortized | (11,456) | (791,702) |
| Ending balance | 368,668 | 11,772,264 |

Changes in derivative liabilities measured at fair value and included in level 3 of the fair value hierarchy were as follows:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Opening balance | 233,444 | - |
| Initial recognition | | 322,526 |
| Reclassification upon repayment of loans | (233,444) | - |
| Gain / loss on re-measurement to fair value at period end | - | (89,082) |
| Ending balance | - | 233,444 |

### (b) Financial Instruments Risk

The Company is exposed in varying degrees to a variety of financial instrument related to risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

#### (i) Credit Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash and cash equivalents and trade and other receivables. The risk exposure is limited to their carrying amounts at the balance sheet date. The risk is mitigated by holding cash with highly rated Canadian financial institutions. The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. The Company periodically assesses the quality of its investments and is satisfied with the credit rating of the financial institutions and the investment grade of its guaranteed investment certificates. Trade and other receivables primarily consist of trade accounts receivable and goods and services taxes recoverable ("GST").

The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk, but has limited risk as the majority of sales are transacted with credit cards.

As at March 31, 2017, the Company's aging of receivables was approximately as follows:

| | March 31, 2017 | June 30, 2016 |
|---|---|---|
| | $ | $ |
| 0 – 60 days | 688,555 | - |
| 61 – 120 days | 627,554 | 86,170 |
| | 1,316,109 | 86,170 |

**(ii) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.
In addition to the commitments outlined in Note 17 to the Company's Interim Financial Statements, the Company has the following contractual obligations:

| | Total | <1 year | 1 - 3 years | 3 -5 years |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 3,795,423 | 3,795,423 | - | - |
| Deferred revenues | 577,417 | 577,417 | - | - |
| Finance lease | 366,907 | 67,292 | 299,615 | - |
| Convertible notes | 18,422,596 | - | 18,422,596 | - |
| | 23,162,343 | 4,440,132 | 18,722,211 | - |

**(iii) Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company's short-term loan and convertible loans are either non-interest bearing or have fixed rates of interest and expose the Company to a limited interest rate risk.

## SUMMARY OF OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company had the following securities issued and outstanding:

| Securities [1] | May 15, 2017 |
|---|---|
| | # |
| Issued and outstanding shares | 355,172,810 |
| Options | 15,547,396 |
| Warrants | 24,488,375 |
| Compensation warrants | 1,865,249 |
| Charitable options | 72,000 |
| Convertible debentures | 25,153,352 |

[1] See the Company's Interim Financial Statements for a detailed description of these securities.