AURORA CANNABIS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three and six month periods ended December 31, 2016 and 2015

Dated as of February 24, 2017

AURORA CANNABIS INC.

Management's Discussion & Analysis
For the three and six month periods ended December 31, 2016

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 six month periods ended December 31, 2016 and is prepared as of February 24, 2017. The MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and six month periods ended December 31, 2016 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") and CanvasRx Inc. ("CanvasRx"). 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 Company's expansion plans as outlined under "Business Overview";
- 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

ACE is licensed to produce and sell medical marijuana under the provisions of 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 23, 2017 respectively.

The Company's operations are located in a state-of-the-art, 55,200 square feet of expandable licensed production space (the "Facility"). The Facility is of pharmaceutical production grade quality with hydroponic greenhouse high pressure sodium lighting and nutrient delivery equipment 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 near Cremona, Alberta. It is nestled in the foothills of the Rocky Mountains which allows for a never-ending supply of clean, pure, mountain-fed water, an ideal location for security, low power costs, tax benefits, shipping, farm credit eligibility and product growth.

The Facility cost approximately $10 million as of December 31, 2016. 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's strategic priorities are to leverage its strong financial position, 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 its new state-of-the-art 800,000 square foot greenhouse 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.

Investor Highlights

	Q2 2017	Q1 2017	Q4 2016	Q3 2016
	#	#	#	#
Active registered patients (cumulative) [1]	12,200	8,200	4,500	1,000
Grams sold	538,045	435,720	200,310	56,770
	$	$	$	$
Revenues	3,884,462	3,071,422	1,220,041	219,230
Adjusted gross profit	4,360,360	86,265	(184,819)	(617,062)
Working capital	60,060,454	23,212,674	(2,751,400)	2,365,255
Investment in capital assets	4,157,709	645,101	278,414	1,606,419

[1] As of the date hereof, the Company has approximately 12,800 active registered patients.

Recent and Significant Developments

Key developments occurring subsequent to December 31, 2016:

- Obtained oil sales license;
- Announced a bought deal private placement financing upsized to $60 million with an over-allotment option to increase the offering by an additional $15 million for total gross proceeds of up to $75 million.
- Raised approximately $5.5 million in cash from the exercise of warrants, options and compensation options as of the date of this MD&A.
- Approximately $23 million in additional gross cash proceeds remains available from the future exercise of warrants, stock options and compensation options/warrants.
- Signed a Memorandum of Understanding with Radient Technologies Inc. ("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 confirm the effectiveness of Radient's MAP technology for cannabis extraction.
- Invested in Radient by way of a $2,000,000 10% convertible debenture. Additionally, Aurora announced its intention to participate in Radient's private placement financing of up to $1,250,000 units at $0.45 per unit.
- Sales pace now exceeding $1.5 million in gross monthly revenues.
- Achieved a seven-day sales record between February 2 and 8, 2017, with more than 68 kilograms sold over that period.

Developments occurring during the three months ended December 31, 2016:

- Significantly strengthened its balance sheet and liquidity position with up to $41.9 million in new financings as follows:
    - Generated approximately $16.9 million in additional gross cash proceeds from exercise of warrants, stock options and compensation options.
    - $25 million in completed brokered private placement of 8% unsecured convertible debentures
- On November 29, 2016, announced start of construction on an 800,000 square foot hybrid greenhouse at Edmonton International Airport.
- Commenced trading on the TSX-V on October 5, 2016;
- Achieved new sales milestones:
    - Sales pace for the quarter in excess of $1.2 million per month, and
    - November, 2016 was a record month, with product sales in excess of 200 kilograms and gross revenue in excess of $1.7 million;
- Began establishment of on-site analytical laboratory, to accelerate product time to market and increase sales capacity;
- Converted approximately $15 million of convertible debentures into common shares;
- Generated revenues of approximately $3.9 million, as compared to $nil for the 2015 comparable period, up 26% or approximately $0.8 million from Q1 2016;
    - Sold 538,045 grams of cannabis, up 23.5% from Q1 2016.
- Delivered industry leading innovation with first mobile app launched for purchase of legal cannabis:
    - To date downloaded by approximately 23,200 individuals, averaging 60 secure system logins per hour during business hours from registered Aurora patients; and
    - Since launch of the app, patient orders by phone have reduced by 50%.
- Further strengthened board governance with the appointment of Michael Singer as Chairman of the board and the appointment of Joseph del Moral and Barry Fishman (independent) as members of the board; and
- Appointed Cam Battley as Executive Vice-President.

Operations Update

The Company currently has reached approximately 12,800 active registered patients in less than 14 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.

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.

<u>Exclusive Collaboration Arrangement with Radient Technologies Inc. ("Radient")</u>

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 MOU and on February 13, 2017, the Company completed its investment in Radient by way of a $2,000,000 convertible debenture. The debenture has a term of 2 years, payable on demand within five months, bears interest at 10% per annum and is convertible into units of Radient at a price of $0.14 per unit. Each unit will consist of one common share and one share purchase warrant of Radient. Each warrant will be exercisable into one common share of Radient at an exercise price of $0.33 per warrant for a period of 2 years.

The Company also announced on February 13, 2017, that it intends to participate in Radient's private placement financing of up to $1,250,000 units at $0.45 per unit. Each unit consists of one common share and one-half share purchase warrant of Radient. Each whole warrant is exercisable into one common share of Radient at a price of $0.70 per share for a period of two years.

<u>Voluntary Recall of Product</u>

On January 16, 2017, the Company announced a voluntary recall of products purchased from 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.

The licensed producer that had sold the recalled cannabis to Aurora has agreed to fully reimburse the Company as follows: A cash payment in the amount of $384,835, constituting a full refund for product returned; and credit in the amount of $450,000, fully covering Aurora's costs incurred via extension of purchase credits by Aurora to its affected clients.

<u>Aurora Sky Facility Construction</u>

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 98,460 registered patients to the end of September, 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, with respect to which the government has stated it will introduce legislation in the spring of 2017. 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 more than 100,000 kilograms of cannabis per year.

Establishment of On-Site Analytical Laboratory

On November 10, 2016, Aurora announced that has begun taking receipt of the analytical equipment required for the establishment of its on-site laboratory. The equipment includes ultraperformance liquid chromatography, inductively coupled plasma-mass spectrometry and gas chromatography mass spectrometry. Once commissioned, and once approved by Health Canada, the laboratory will save Aurora substantial time and money by allowing the company to perform Health Canada-mandated testing in-house.

The facility will ensure that testing methodologies are applied consistently and accurately from batch to batch.
Additionally, the on-site lab facilities will accelerate releases by quality control of new batches of Aurora products to registered patients, shortening time to market and increasing sales capacity as the company scales up to full production capacity.

Financing

Up to $75 Million Bought Deal Private Placement Financing

On January 24, 2017, the Company announced a brokered private placement, led by Canaccord Genuity Corp., on a bought deal basis for gross proceeds of up to $50,625,000. Subsequently, on January 25, 2017, the Company announced upsizing of the financing to 26,670,000 units at a price of $2.25. Additionally, the Company granted the underwriters an option to purchase up to an additional of 6,667,500 units. If the underwriters' option is exercised in full, aggregate total gross proceeds will be $75,009,375.

Each unit will consist one common share and one-half of one common share purchase warrant of the Company. Each warrant will be exercisable into one common share at an exercise price of $3.00 per share for a period of two years. The warrants will be subject to a forced exercise provision if the Company's volume-weighted average share price is greater than $4.50 for 10 consecutive trading days.

In conjunction with the financing, the directors and officers of the Company signed an undertaking with the underwriters which restricts them from selling any securities for a period of 120 days from the date of closing of the Offering.

$25 Million Unsecured Convertible Debentures

On November 1, 2016, the Company closed a brokered private placement (the "Offering") of unsecured convertible debentures in the aggregate principal amount of up to $25,000,000. The debentures bear interest at 8% per annum, payable semi-annually, and have a maturity of 24 months from the closing date. The debentures are convertible into common shares of the Company at a price of $2.00 per share, at any time during the term, at the option of the holder. Forced conversion of the principal amount of the Convertible

Debentures into common shares will occur if the volume weighted average price of the Company's common shares equals or exceeds $3.00 per share for 10 consecutive trading days.

During the three months ended December 31, 2016, the Company issued an aggregate of 13,110,184 common shares on the conversion of $15,000,000 principal amount of the convertible debentures and interests of $76,712.

$16.9 Million on Exercise of Securities

During the three months ended December 31, 2016, the Company raised $16,934,335 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 License

The ability of the Company to successfully grow, store and sell medical marijuana in Canada is dependent on Aurora's current production and sales licenses from Health Canada (the "Licenses"). The Licenses are subject to ongoing compliance and reporting requirements. Failure to comply with the requirements and terms of the Licenses or any failure to maintain the Licenses or any failure to renew the Licenses after its expiry date, would have a material adverse impact on the business, financial condition and operating results 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 it 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

The activities of the Company are subject to regulation by governmental authorities, particularly Health Canada. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company 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 governmental 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 operations and financial condition.

Change in Laws, Regulations and Guidelines

The Company's business is subject to particular laws, regulations, and guidelines. The production and distribution of medical marijuana is a highly regulated field, and although the Company intends to comply with all laws and regulations, there is no guarantee that the governing laws and regulations will not change which will be outside of the Company's control.

On February 24, 2016, the Federal Court released its decision in the case of Allard et al v. Canada. The impact of this decision 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. However, it is not expected that the changes in ACMPR regulations would have an effect on the Company's operations that are materially different than the effect on similar-sized companies in the industry.

Limited Operating History and No Assurance of Profitability

Aurora was incorporated in 2013, 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-staged 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 continue 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 product 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 of this date, there are 38 licensed producers in Canada. 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 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 product 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 condition and operations.

Uninsured or Uninsurable Risk

The Company may become 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.

Conflicts of Interest

Certain of the Company directors and officers are also directors and operators 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.

In addition, the directors and the officers are required to act honestly and in good faith with a view to its best interests. However, in conflict of interest situations, the Company's directors and officers may owe the same duty to another company and will need to balance their competing interests with their duties to the Company. Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavourable to the Company.

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.
Subsequent to December 31, 2016, the Company has settled all claims and is no longer subject to any legal proceedings, claims or litigation. See Note 13 to the Company's Interim Financial Statements.

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 not 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 revenues, if any, are expected to be in 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 the 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 or trademarked business methods 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.

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.

Share Price Volatility

The Company's shares are listed for trading on the Exchange. As such, external factors outside of the Company's control such as actual or anticipated fluctuations of quarterly operating results, changes in the economic performance or market valuations of companies in the industry in which the Company operates and sentiments toward the medical marijuana sector stocks may have a significant impact on the market price of the Company's shares.

Global stock markets, including the Exchange, have from time-to-time experienced extreme price and volume fluctuations that have often been unrelated to the operations of particular companies. Accordingly, the market price of the 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 deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in 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 the common shares may be materially adversely affected.

SUMMARY OF QUARTERLY RESULTS

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

Quarter ended	Revenue	Income (Loss)	Earnings (Loss) per share
	$	$	$
December 31, 2016	3,884,462	(2,677,804)	(0.01)
September 30, 2016	3,071,422	(5,612,806)	(0.03)
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)
March 31, 2015	-	(773,178)	(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 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 six months ended December 31, 2016, the Company continued its efforts and operational spending on the construction of its Aurora Sky facility, registration of new patients, increasing production to meet anticipated increase in product demand and negotiations for equity and debt financings. 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 six months ended December 31, 2016 were $3,884,462 and $6,955,884 respectively ($nil and $nil in the three and six months ended 2015). Revenues for the three and six months ended December 31, 2016, consisted of the sale of dried medical cannabis of $3,206,463 and $5,958,530 respectively and patient counselling and outreach services of $677,999 and $997,354 respectively. Total product sold for the period was 973,765 grams ($nil in 2015) at an average selling price of $6.12 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.

From July 1, 2016 to date, the Company has sold a total of 1,282,485 grams of medical cannabis at an average selling price of $6.38 per gram.

Revenue growth was limited during the period due to the Company's available supply, which was limited during the quarter due to certain procedures recently implemented to test results of high producing yields that will be available for sales subsequent to December 31, 2016. The Company believes these new production methods and efficiencies will help maximize the quality and quantity of its production yields thereby improving future operating results.

Cost of Sales

Included in cost of sales for the three and six months ended December 31, 2016 were the unrealized gain on changes in fair value of biological assets of $2,880,522 and $1,618,241 respectively, inventory expensed of $1,056,611 and $1,538,254 respectively and production costs of $1,348,013 and $2,589,246 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 primarily includes 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.

During the six months ended December 31, 2016, the Company recorded a gain on changes in fair value of biological assets of $1,618,241. The gain reported during the period was lower than expected due to a non-recurring unrealized loss on changes in fair value of biological assets of $1,262,281 during the three months ended September 30, 2016 resulting from a reduction in product yields primarily due to equipment disruptions. During the three months ended December 31, 2016, as a result of equipment repairs, reinstallation and production efficiencies, the Company has resolved the above noted issues and recorded a gain on changes in fair value of biological assets of $2,880,522.

On January 13, 2017, the Company initiated a voluntary Type II recall of certain lots of product purchased from the LP that contained natural pesticide not currently registered for use on medical cannabis under the Pest Control Products Act. A Type II recall is defined by Health Canada as 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.

As a result of testing performed by the Company, certain product lots were returned to the supplier for a full cash refund of $384,835. In addition, the supplier agreed to reimburse the Company for its costs related to the recall of approximately $450,000.

Gross Profit

Gross profit was $4,360,360 and $4,446,625 for the three and six months ended December 31, 2016. During the prior period, the Company did not generate any revenue from operations as the Company had not commenced sales of medical cannabis. However, in anticipation of obtaining its license, the Company had been building up its inventory levels and recorded a gain on the changes in fair value of its biological assets of $2,219,696.

General and Administration

General and administration costs increased by $825,771 and $1,522,301 respectively, for the three and six months ended December 31, 2016. The over-all increase was primarily attributable to the increase in corporate and general administrative activities of the Company as it scaled up its business operations and completed several equity and debt financings totaling $63,000,000 and closed its acquisition of CanvasRx. In the prior period, the Company began scaling up its business operations as it transitioned to a fully licensed producer.

Consulting fees increased by $123,668 and $90,440, respectively during the three and six months ended December 31, 2016 as a result of various advisory and other fees incurred in connection with the financings and related due diligence activities.

Management fees increased by $193,100 and $349,350, respectively during the three and six months ended December 31, 2016 as a result of:

- management fees paid to the CEO and the President of the Company effective January 1, 2016; the executives did not receive any fees or compensation for their services in the prior period;
- fees paid to the new and former CFOs of the Company;
- 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 $232,111 and $631,495 respectively, during the three and six months ended December 31, 2016. The non-recurring increase was largely attributable to legal fees as the Company completed various debt financings, business acquisition and related due diligence as well as ongoing potential joint ventures, acquisitions and financings and other corporate matters. A total of $165,291 in professional fees was incurred related to the acquisition of CanvasRx. The Company also entered into various consulting contracts, employment agreements and other business contracts to support its increasing business operations and legal fees related to ongoing litigations, mediation and/or arbitration. Subsequent to December 31, 2016, the Company has settled all outstanding claims and is no longer subject to any legal proceedings, claims or litigation. See note 13(b) to the Company's Interim Financial Statements.

The increase in regulatory and transfer agent fees of $121,461 and $209,874 during the three and six months ended December 31, 2016, was a result of costs incurred related to the transfer of the Company's listing to the TSX Venture Exchange and various convertible debt and equity financings completed during the period. The increase in wages and benefits of $167,681 and $235,397 respectively, during the three and six months ended December 31, 2016 was a result of the hiring of the Executive Vice President and 4 employees in the finance, corporate and human resources departments.

Sales and Marketing

Sales and marketing increased by $2,146,811 and $3,592,575 during the three and six months ended December 31, 2016. The overall increase was primarily due to the Company advancing its sales and marketing strategies during the periods.

Consulting fees increased by $849,134 and $1,364,542 during the three and six months ended December 31, 2016. The increase was primarily attributable to fees paid during the three and six months ended December 31, 2016 of $844,529 and $1,150,016 respectively, to Canadian Cannabis Clinics ("CCC") pursuant to an existing services agreement to provide operational, administrative and consulting services to CanvasRx. No such expense was incurred in prior period.

The increase in selling and client care expenditures of $989,595 and $1,618,864 during the three and six months ended December 31, 2016 was mainly due to client care operational costs, promotional items and information materials, sales fees and commissions, shipping costs, and payment processing fees. These operations began in January 2016 and no such expenses were incurred in the prior period.

Wages and benefits increased by $293,411 and $475,401 during the three and six months ended December 31, 2016 respectively, as the Company hired 16 client care, public affairs and compliance staff.

Research and Development

Research and development for the three and six months ended December 31, 2016 were $99,087 and $138,999 respectively, compared to $109,067 and $205,627 for the three and six months ended December 31, 2015. 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. The experimental research and development of cannabis oils for future commercialization was completed during the year ended June 30, 2016.

Depreciation

Depreciation of property, plant and equipment ("PP&E") increased during the year mainly due to the purchase of computers and production equipment as well as additional leasehold improvements.

Share-based Payments

The Company recorded share-based payments of $2,510,075 and $2,889,893 for stock options granted and vested during the three and six months ended December 31, 2016 compared to $315,763 and $598,042 for stock options and warrants issued and vested during the three and six months ended December 31, 2015.

Finance and Other Costs

During the three months ended December 31, 2016, financing fees, accretion and interest charges were primarily from unsecured convertible debentures of $40,000,000 in aggregate closed during the period. Of these debentures, $10,000,000 and $5,000,000 were converted into common shares in October and November 2016 respectively.

During the six months ended December 31, 2016, 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 penalty of $252,793 was paid as a result of prepayments of $4,000,000 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 $9,548,645 during the six months ended December 31, 2016.

During the three and six months ended December 31, 2015, finance and other costs mainly consisted of interest expenses on the $500,000 unsecured loan and $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 six months ended December 31, 2016, the Company recorded a deferred tax recovery of $1,389,130 and $2,055,107 respectively, related to the issuance of $15,000,000 and $25,000,000 convertible debentures and recovered taxes of $11,364 and $19,004 related to SR&ED claims.

EBITDA and Adjusted EBITDA

	Three months ended December 31,		Six months ended December 31,	
	2016	2015	2016	2015
	$	$	$	$
EBITDA	(2,113,937)	835,361	(5,202,210)	(169,518)
Adjusted EBITDA	(2,484,384)	(1,068,572)	(3,930,558)	(1,791,172)

The Company uses Earnings (Loss) Before Interest, Depreciation, Tax and Amortization ("EBIDTA") and adjusted EBITDA as an additional non-GAAP financial measure in the MD&A. These are not defined terms under IFRS to assess performance. It is used by management to analyze operating performance but it is not intended to represent an alternative to net earnings or other measures of financial performance in accordance with IFRS.
EBITDA is an indication of earnings available for investment prior to debt service, capital expenditures, and income taxes, and is calculated as net consolidated earnings adjusted for current and deferred income taxes, debt service costs, depreciation and amortization. Adjusted EBITDA is calculated by eliminating share-based payments and the non-cash unrealized gain or loss on changes in fair value of biological assets.

LIQUIDITY AND CAPITAL RESOURCES

During the six months ended December 31, 2016, the Company generated revenues of $6,955,884 from operations and has 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.

Working capital as of December 31, 2016 was $60,060,454 as compared to a deficiency of $2,751,400 at June 30, 2016. The increase in working capital of $62,811,854 was primarily attributable to an increase in cash and cash equivalents of $55,587,214 offset by a decrease in short term loans of $4,389,778.

Net cash and cash equivalents on hand increased by $55,587,214 from $259,073 as at June 30, 2016 to $55,846,287 as at December 31, 2016. The increase in cash and cash equivalents resulted mainly from net cash generated from equity and debt financings of $69,856,231 offset by net cash used for operations of $6,008,581 and investments of $8,260,436.

During the six months ended December 31, 2016, the Company significantly strengthened its balance sheet and liquidity position with approximately $63 million in new equity and debt financings. Subsequent to December 31, 2016, the Company also generated approximately $5.5 million in additional gross cash proceeds from the exercise of warrants, stock and compensation options/warrants. The Company anticipates that it has sufficient liquidity and capital resources to meet all of its planned expenditures for the next twelve months.

Operating Activities

For the six months ended December 31, 2016, cash flow used for operating activities was $6,008,581 compared to $1,929,885 for the six months ended December 31, 2015. During the six months ended December 31, 2016, cash flow used for operations resulted primarily from cash inflows from gross profit of $2,977,342 and income tax recovery of $19,004 offset by increases in cash flows used for operating expenses of $6,885,809 and finance and other costs of $639,516 and cash outflow of $1,479,602 related to changes in non-cash working capital.

Investing Activities

For the six months ended December 31, 2016, the Company had net cash outflows related to investing activities of $8,260,436 as compared to $911,841 for the six months ended December 31, 2015. Investing activities during the period primarily included the acquisition of CanvasRx for consideration of $3,400,000, the purchase of production equipment, computers and furniture, and building improvements of $1,105,986 and the construction of the new Aurora Sky facility of $3,736,029. 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 six months ended December 31, 2016 were $69,856,231 compared to $3,069,511 for the six months ended December 31, 2015. During the period, the Company raised aggregate net cash proceeds of $79,340,706 as follows:

- private placement of units for net proceeds of $21,195,991;
- unsecured convertible debentures in the principal amount of $40,000,000 less financing fees of $1,610,000; and
- exercise of warrants and options for net proceeds of $19,754,715.

The net cash proceeds were offset by repayments of loans totaling $9,548,645 consisting of related party loans of $5,089,726, a third party unsecured loan of $458,919 and a third party secured loan of $4,000,000.

Subsequent to December 31, 2016, the Company raised $5.5 million from the exercise of warrants, stock options and compensation options/warrants.

For the six months ended December 31, 2015, the Company raised aggregate cash of $55,472,295 from short and long term loans and from the exercise of options and warrants. The proceeds were used partly to repay short term loans of $1,390,683 and convertible debentures of $1,087,101.

Capital Resource Measures

The Company's major capital expenditures in fiscal 2017 will 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 fund development activities for at least fiscal 2017.

Contractual Obligations

As of December 31, 2016, the Company had the following financial commitments:

Contractual Obligation	Total	Less than 1 year	1.5 - 3 years	After 3 years
	$	$	$	$
Short-term loans	1,657,630	1,657,630	-	-
Finance lease	117,091	17,469	99,622	-
Operating lease	157,500	30,000	120,000	22,500
Convertible notes	18,841,831	-	18,841,831	-
Office lease [1]	1,886,660	337,147	1,393,131	156,382

[1] Pursuant to a Settlement Agreement and Mutual Release, the parties agreed that the Company has no ongoing liability with respect to the lease agreement expiring January 31, 2020. The co-tenant (a company controlled by a former director and officer of the Company) indemnified the Company from and against all liabilities and claims of whatever nature in connection with the lease. As a result, subsequent to December 31, 2016, the Company reversed accrued rent of $73,618. See Notes 13(a)(ii) and 13(b)(ii)) to the Company's Interim Financial Statements.

Contingencies

The Company is subject to certain claims outlined in Note 13 to the Company's Interim Financial Statements.

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 to construct a new marijuana production and processing facility ("Bellingham Facility").

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 six months ended December 31, 2016 and 2015 as follows:

<u>Goods and Services</u>

Name and Relationship to Company	Transaction	Three months ended December 31,		Six months ended December 31,	
		2016	2015	2016	2015
		$	$	$	$
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	75,000	75,000
Consulting fees paid for services as Production Facilitator.					
Evolve Concrete, a company controlled by Chris Mayerson, a director of ACE	Consulting fees	20,000	37,500	31,250	75,000
Consulting fees paid for services as Chief Cultivator of the Company.					
Canadian Cannabis Clinics ("CCC"), a company in which Joseph del Moral, a	Service fees	844,529	-	1,150,016	-

director of the Company, is a director					
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	30,000	54,958	60,000	102,958
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.					
Avarone Metals Inc. ("Avarone"), a company controlled by Marc Levy, a former director and officer	Rent, accounting and administration	-	-	-	15,000
The Company terminated the services of Avarone effective August 1, 2015.					

Key Management Personnel

Name and Relationship to Company	Transaction	Three months ended December 31,		Six months ended December 31,	
		2016	2015	2016	2015
		$	$	$	$
Inspire Consulting Services Ltd., a company controlled by John Bean, former CFO of the Company	Management fees	-	10,800	9,900	21,600
Lola Ventures Inc., a company controlled by Terry Booth, CEO of the Company	Management fees	62,500	-	125,000	-
1771472 Alberta Ltd., a company controlled by Steve Dobler, President of the Company	Management fees	37,500	-	75,000	-
748086 Alberta Ltd. ("748086"), a company controlled by Jason Dyck, a director of the Company	R&D Consulting fees	13,500	51,100	13,500	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	8,500	-	32,443	-
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	67,500	-	87,500	-
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 December 31, 2016, 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:

	December 31, 2016	June 30, 2016
	$	$
(a) Accounts payable and accrued liabilities		
Companies controlled by directors and officers of the Company	177,662	101,765
Directors of the Company [1]	27,831	35,545
(b) Prepaid expenses and deposits [1][3]		
Avarone [2]	1,500	1,500
(c) Short-term loans		
Lola Ventures Inc. ("Lola"), a company controlled by Terry Booth, CEO & director	-	539,863
1771472	-	549,863
	-	1,089,726
(d) Long-term loans		
Lola	-	1,579,285
1771472	-	1,579,284
	-	3,158,569
(e) Note receivable		
Australis Holdings LLP	1,898,512	1,782,186
See Note 6 to the Company's Interim Financial Statements.		

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

(2) Subsequent to December 31, 2016, rent deposit has been reversed pursuant to the Settlement and Mutual Release. See Note 13(b)(ii) to the Company's Interim Financial Statements.

(3) Subsequent to December 31, 2016, an amount due to a former director and officer of the Company of $11,772 (June 30, 3016 - $11,772) has been forgiven pursuant to the Settlement and Mutual Release. Note 13(b)(ii) to the Company's Interim Financial Statements.

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 going concern assumptions, the estimated useful lives and depreciation of property, plant and equipment, valuation of convertible instruments and share-based payments and fair value measurements for inventory and biological assets.

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, restricted cash, accounts receivable, note receivable, accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values as at December 31, 2016.
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 December 31, 2016	Basis of measurement	Financial instruments
	$		
Financial Assets			
Cash and cash equivalents	55,846,287	Carrying value	Loans and receivables
Financial Liabilities			
Accounts payable	2,050,503	Carrying value	Other financial liabilities
Deferred revenue	726,565	Carrying value	Other financial liabilities
Finance lease	117,091	Carrying value	Other financial liabilities
Short term loan [1]	1,657,630	Carrying value	Other financial liabilities
Convertible notes [1]	18,841,831	Fair value / Carrying value	Other financial liabilities

[1] The fair value of the short-term loan includes both the debt and equity components.

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

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

	2016	2016
	$	$
Opening balance	233,444	-
Initial recognition	-	322,526
Reclassification upon repayment of loans	(233,444)	322,526
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 and cash equivalents 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 December 31, 2016, the Company's aging of receivables was approximately as follows:

	December 31, 2016	June 30, 2016
	$	$
0 – 60 days	1,260,830	-
61 – 120 days	409,375	86,170
	1,670,205	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 13 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	2,050,503	2,050,503	-	-
Deferred revenues	726,565	726,565	-	-
Finance lease	117,091	17,469	99,622	-
Loan	1,657,630	1,657,630	-	-
Convertible notes	18,841,831	-	18,841,831	-
	23,393,620	4,452,167	18,941,453	-

(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)	February 24, 2016
	#
Shares	303,339,989
Options	11,101,159
Warrants	12,550,625
Charitable Options	144,000
Convertible debentures	12,500,000

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