

# APHRIA INC.

## MANAGEMENT'S DISCUSSION & ANALYSIS

### APHRIA INC.

#### MANAGEMENT'S DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") of the financial condition and results of operations of Aphria Inc., (the "Company" or "Aphria"), is for the three and nine months ended February 28, 2018. It is supplemental to, and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and the accompanying notes for the three and nine months ended February 28, 2018, as well as the financial statements and MD&A for the year ended May 31, 2017. The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" ("NI 51-102") of the Canadian Securities Administrators. Additional information regarding Aphria Inc. is available on our website at [www.aphria.com](http://www.aphria.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com).

In this MD&A, reference is made to "all-in" cost of sales, cash costs to produce, gross profit before fair value adjustments (previously referred to as adjusted gross profit), adjusted gross margin, adjusted EBITDA and strategic investments, which are not measures of financial performance under IFRS. The Company calculates each as follows:

- "All-in" cost of sales of dried cannabis per gram is equal to production costs less the costs of accessories less cannabis oil conversion costs ("cost of sales of dried cannabis") plus (minus) increase (decrease) in plant inventory divided by gram equivalents of cannabis sold in the quarter. Gram equivalents is determined by actual grams sold as dried cannabis and a formula, based on an 'equivalency factor' that can be specific to each strain. At the current time, the Company's 'equivalency factor' is 1 gram per 6 mL of cannabis oil. Management believes this measure provides useful information as a benchmark of the Company against its competitors.
- Cash costs to produce dried cannabis per gram is equal to cost of sales of dried cannabis less amortization and packaging costs plus (minus) increase (decrease) in plant inventory divided by gram equivalents of cannabis sold in the quarter. Management believes this measure provides useful information as it removes non-cash and post production expenses tied to our growing costs and provides a benchmark of the Company against its competitors.
- Gross profit before fair value adjustments is equal to gross profit less the non-cash increase (plus the non-cash decrease) in the fair value adjustments on sale of inventory and on growth of biological assets, if any. Management believes this measure provides useful information as it removes fair value metrics tied to increasing stock levels (decreasing stock levels) required by IFRS.
- Adjusted gross margin is gross profit before fair value adjustments divided by revenue. Management believes this measure provides useful information as it represents the gross profit based on the Company's cost to produce inventory sold and removes fair value metrics tied to increasing stock levels (decreasing stock levels) required by IFRS.
- Adjusted EBITDA is net income (loss), plus (minus) income taxes (recovery) plus (minus) finance income, net, plus amortization, plus share-based compensation, plus (minus) non-cash fair value adjustments on sale of inventory and on growth of biological assets, plus amortization of non-capital assets, plus impairment of intangible assets, plus (minus) loss (gain) on disposal of capital assets, plus (minus) loss (gain) on foreign exchange, plus (minus) loss (gain) on marketable securities, plus (minus) loss (profit) from equity investee, minus deferred gain on sale of intellectual property recognized, plus (minus) loss (gain) on dilution of ownership in equity investee, plus (minus) unrealized loss (gain) on embedded derivatives, plus (minus) loss (gain) on long-term investments and certain one-time non-operating expenses, as determined by management. Management believes this measure provides useful information as it is a commonly used measure in the capital markets and as it is a close proxy for repeatable cash generated by operations exclusive of its equity investee.
- Strategic investments are the total cash out flows used in investing activities relating to investment in long-term investments and equity investees as well as both notes and convertible notes advanced. Management believes this measure provides useful information as it helps provide an indication of the use of capital raised by the Company outside of its operating activities.
- Capital and intangible asset expenditures - wholly owned subs are all cash out flows used in investing activities relating to investment in capital assets and investment in intangible assets, net of shares issued for wholly owned subsidiaries. Management believes this measure provides useful information as it helps provide indication of the use of capital raised by the Company outside of its operating activities.
- Capital and intangible asset expenditures - majority owned subs are all cash out flows used in investing activities relating to investment in capital assets and investment in intangible assets, net of shares issued for majority owned subsidiaries. Management believes this measure provides useful information as it helps provide indication of the use of capital raised by the Company outside of its operating activities.

These measures are not necessarily comparable to similarly titled measures used by other companies.

All amounts in this MD&A are expressed in thousands of Canadian dollars, except share and per share amounts, unless otherwise indicated.

This MD&A is prepared as April 13, 2018.

## COMPANY OVERVIEW

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Aphria Inc. is continued in Ontario, the Company's common shares are listed under the symbol "APH" on the Toronto Stock Exchange ("TSX") and under the symbol "APHQF" on the United States OTCQB Venture Market exchange.

Pure Natures Wellness Inc. (o/a Aphria) ("PNW"), a wholly-owned subsidiary of the Company, is licenced to produce and sell medical cannabis under the provisions of the *Access to Cannabis for Medical Purposes Regulations* ("ACMPR"). PNW received



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its licence to produce and sell medical cannabis on November 26, 2014, followed by its licence to sell cannabis extracts on August 18, 2016. PNW's operations are based in Leamington, Ontario. The Leamington greenhouse facility provides Aphria with the opportunity to be a scalable low-cost producer of medical cannabis.

Broken Coast Cannabis Ltd. ("Broken Coast"), a subsidiary of the Company, acquired in February 2018, is licenced to produce and sell medical cannabis under the provisions of the ACMPR. Broken Coast's purpose-built, indoor cannabis production facility on Vancouver Island provides Aphria with a leading premium cannabis brand.

1974568 Ontario Ltd. is a 51% majority owned subsidiary of the Company, incorporated in November 2017. This entity is the Company's venture with Double Diamond Farms. 1974568 Ontario Ltd. has applied for its cultivation licence under the provisions of the ACMPR.

On a go-forward basis, Aphria will refer to its original Leamington campus as "Aphria One" and its investment in 1974568 Ontario Ltd. as "Aphria Diamond".

The Company is focused on producing and selling medical cannabis and its derivatives through a two-pronged growth strategy, including both retail sales and wholesale channels. Retail sales are primarily sold through Aphria's online store as well as telephone orders. Wholesale shipments are sold to other ACMPR Licenced Producers and in the future will include sales to Shoppers Drug Mart, once they are licensed under the ACMPR, and the provincial / territorial control boards under *The Cannabis Act*.

**INVESTOR HIGHLIGHTS**

	Q3 - 2018	Q2 - 2018
Revenue	\$ 10,267	\$ 8,504
Kilograms equivalents sold	1,428.1	1,237.0
Production costs	\$ 2,355	\$ 2,746
Cash cost to produce dried cannabis / gram <sup>1</sup>	\$ 0.96	\$ 1.45
"All-in" cost of sales of dried cannabis / gram <sup>1</sup>	\$ 1.56	\$ 2.13
Adjusted gross margin <sup>1</sup>	77.1%	67.7%
Adjusted EBITDA <sup>1</sup>	\$ 2,940	\$ 1,621
Cash and cash equivalents & marketable securities	\$ 173,683	\$ 171,942
Working capital	\$ 234,589	\$ 178,782
Capital and intangible asset expenditures - wholly owned subsidiaries <sup>1</sup>	\$ 35,427	\$ 35,319
Capital and intangible asset expenditures - majority owned subsidiaries <sup>1</sup>	\$ 59,155	\$ --
Strategic investments <sup>1</sup>	\$ 34,016	\$ 5,600

<sup>1</sup> – Non-GAAP measure

- Production capacity increased to 30,000 kgs (annualized) in March 2018 after Health Canada approval of Aphria One's Part III expansion
- Mid-term capacity upgrade to 225,000 kgs (annualized) production capability expected by November 2018, with a further 5,000 kgs (annualized) within one year thereafter
- Long-term capacity available via additional 200 acre property located beside Aphria Diamond
- Acquisition of Broken Coast leading premium cannabis brand to serve the future recreational market
- Acquisition of Nuuvera Inc. ("Nuuvera") and launch of Aphria International Inc. to focus on established regulated international cannabis markets
- Began divesting of the Company's equity investment in passive US assets
- Letter of intent with SAQ to supply up to 12,000 kg of cannabis annually to Quebec market
- No crop failures since inception
- Ten consecutive quarters of positive adjusted EBITDA

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- Bought deal closed during the period for net proceeds of \$109,000
- Strong executive team
  - 20+ years of Pharmaceutical experience
  - 35+ years of potted plant greenhouse growing experience
  - 30+ years of vegetable greenhouse growing experience

### QUARTERLY HIGHLIGHTS

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#### ***Focus shifts to inventory build for adult use market in Canada and International opportunities***

As the Company focuses on the emerging adult use market and develops a larger international presence, the Company will de-emphasize its short-term wholesale opportunities with other LPs to build inventory. The inventory build will be deployed as part of the pipeline fill for the introduction of adult use cannabis in Canada. This modification of corporate strategy is expected to result in lower sales level in the Company's fourth quarter of 2018, with those sales occurring in the first or second quarter of its 2019 fiscal year.

#### ***Continued progress on expansion projects***

##### *Aphria One*

The Company continues to work towards the completion of Aphria One's Part IV fully capitalized expansion project. The construction of the 700,000 sq. ft. state-of-the-art greenhouse facility is progressing as scheduled with the first sale expected in January 2019.

##### *Aphria Diamond*

Aphria Diamond continues with its retrofits and has applied to Health Canada for a cultivation license on the property. The Company continues to anticipate the first sale from Aphria Diamond to Aphria to be in the month of January 2019.

##### *Broken Coast*

As of today's date, Broken Coast's production capacity is 2,600 kgs annually. Broken Coast's Phase III expansion project, increasing capacity to 4,500 kgs annually, is awaiting approval by Health Canada. The Company previously announced that Broken Coast's Phase IV expansion project would be complete by January 2019. After making several changes to the design of the project, to integrate best practices from both companies and maximize the use of the property owned by Broken Coast, Aphria has changed the expected completion date to July 2019 and expected first sale to October 2019.

#### ***Acquisition of Broken Coast Cannabis Ltd.***

During the quarter, the Company completed the acquisition of 99.86% of the issued and outstanding common shares of Broken Coast. The combined purchase price was \$214,168 satisfied through the issuance of an aggregate of 14,373,675 common shares. The Company issued 1,000,000 options to key management of Broken Coast. The options have an exercise price of \$20.19, exercisable for 3 years and vest over 3 years. Broken Coast operates a fully licensed, purpose-built, indoor cannabis production facility on Vancouver Island, and represents one of the leading premium cannabis producers in Canada.

#### ***Acquisition of Nuuvera Inc. and launch of Aphria International Inc.***

Subsequent to quarter-end, the Company completed an arrangement agreement (the "Arrangement") under the provision of the Business Corporations Act (Ontario), pursuant to which, among other things, the Company acquired all the common shares of Nuuvera. Under the terms of the Arrangement, the Company paid \$0.62 and 0.3546 of a common share of the Company, for each Nuuvera common share held prior to the Arrangement. Nuuvera will be renamed to Aphria International Inc. and will focus on existing and future opportunities in established regulated international cannabis markets including, but not limited to, Germany, Italy, Spain, Portugal, Malta, Australia and Lesotho.

The Company also acquired the only Canadian Cannabis GMP-certified lab, enabling the Company to process cannabis products under a GMP license for export internationally. Further, Aphria now has a strong presence in the Maritimes, including an existing supply agreement in New Brunswick and a relationship with Breathing Green Solutions in Nova Scotia.

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### *Divestiture of equity investment in passive US assets*

During the quarter, the Company began the divestiture process of its equity investment in Liberty Health Sciences Inc. ("Liberty") and of its wholly owned subsidiary Aphria (Arizona) Inc., which holds minority interests in Copperstate Farms, LLC ("Copperstate") and Copperstate Farms Investors, LLC ("CSF").

The Company sold 26,716,025 common shares of Liberty, representing 25% of the shares held by the Company in exchange for a promissory note receivable of \$33,395, which note was repaid subsequent to quarter-end. The Company recognized a gain from the sale of these shares of \$26,347. The Company also entered into a call/put obligation ("Obligation Agreement") to dispose of the remaining 80,148,077 shares in Liberty that are currently subject to mandatory CSE escrow requirements. As each new tranche of shares becomes freely trading, the Obligation Agreement results in the buyers acquiring the newly freely trading shares at an 18% discount to the market price of Liberty, based on Liberty's 10 day volume weighted trading price. Based on the share price on February 28, 2018 of Liberty, with an 18% discount, the Company would receive proceeds on the remaining shares of \$80,180 and recognize an additional gain of \$59,561 as a result of this agreement, although future results may vary.

The Obligation Agreement includes an opt-out for Aphria's benefit. In the event that the Toronto Stock Exchange amends their regulations such that it permits U.S. based cannabis investments, the Obligation Agreement would be automatically terminated. In exchange for the opt-out, the Company agreed to pay the buyers a \$2,500 termination fee.

The Company entered into a definitive agreement with respect to the sale of the Company's subsidiary Aphria (Arizona) Inc., its sole holdings being the minority interests in Copperstate and CSF to Liberty for a purchase price of \$20,000. The sale is subject to various closing conditions, including a right of first refusal by CSF shareholders and is expected to close before the end of the first quarter of Aphria's 2019 fiscal year. The total cost of the investments in Aphria (Arizona) Inc. is \$11,162 and the investment is recorded in the Company's financial statements at its fair value of \$20,000.

### *Tenth consecutive quarter of positive adjusted EBITDA*

The Company reported adjusted EBITDA, as defined above, of \$2,940 for the quarter. This marks the tenth consecutive quarter where the Company has reported positive adjusted EBITDA. The Company has recorded total adjusted EBITDA of \$8,689 for the trailing twelve-month period.

### *Additional investment in Green Acre Capital Fund*

During the quarter, the Company funded an additional \$500 of its \$2,000 commitment to Green Acre Capital Fund. Cumulative contributions to Green Acre Capital Fund is \$1,200.

### *Investment in Aphria Diamond*

During the quarter, the Company entered a strategic relationship with Double Diamond Farms to form a corporation, known as Aphria Diamond. Aphria Diamond has been capitalized with \$10,200 of seed capital from Aphria and \$9,800 of seed capital from Double Diamond Farms. Aphria Diamond completed a purchase and sale agreement with Double Diamond Farms to acquire 100 acres of land, including almost 32 acres of greenhouses for \$41,000. The Company incurred \$879 in closing costs with the acquisition which have been capitalized. Aphria Diamond is expected to require \$40,000 to \$60,000 of additional capital to complete the necessary retrofits of the greenhouses to legally grow cannabis.

Aphria Diamond anticipates securing bank financing for a portion of the capital required. Any remaining capital needs will be loaned by Aphria to Aphria Diamond. As at February 28, 2018, the Company funded \$44,384 related to the purchase and the necessary retrofits of the greenhouses.

### *Investment in Hiku Brands Company Ltd.*

During the quarter, TS BrandCo Holdings Inc. ("Tokyo Smoke") merged with DOJA Cannabis Company Ltd. and renamed the reporting issuer Hiku Brands Company Ltd. ("Hiku"). As part of the merger, each common share of Tokyo Smoke was exchanged for 13 common shares of Hiku. The Company held 140,845 common shares in Tokyo Smoke at the time of the merger. Post-merger, the Company invested \$10,000 in Hiku for 7,194,244 common shares. As a result of these transactions, the Company holds 9,025,229 common shares in Hiku.

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*Investment in Althea Company Pty Ltd.*

During the quarter, the Company entered into a subscription agreement with Althea Company Pty Ltd. ("Althea") for the purchase of 2,500 common shares, for a total cost of \$2,500 AUD (\$2,483 CAD). Subsequent to quarter-end, Althea secured its Medical Cannabis Licence, granted by the Australian Government's Office of Drug Control. The Licence provides Althea with authorization to cultivate medical cannabis. Althea has not completed construction of their facility to begin cultivation activities to date and intends on relying on Aphria for supply of medical cannabis until its facility is completed. Subsequent to Althea receiving its Licence, the Company acquired an additional 2,000 common shares of Althea for \$2,500 AUD (\$2,496 CAD). As a result of these transactions, the Company holds 33.1% of the issued and outstanding common shares of Althea.

*Closing of bought deal financing*

During the quarter, the Company closed its bought deal financing. Under the bought deal, the Company issued 8,363,651 common shares for net proceeds of \$109,000 after accounting for underwriting, legal and other costs. The Company plans to use the proceeds primarily to fund International strategic investments, including the direct investment in, construction of or acquisition of production facilities in new federally legal markets, all related to cannabis production facilities; strategic investments to enhance the Company's product offerings or cultivation capabilities; construction or acquisition of domestic retail facilities for distribution of cannabis under *The Cannabis Act*, in those provinces which may allow it; construction of or acquisition of domestic production facilities, if required, to support provincialism within *The Cannabis Act*; and general corporate purposes.

**FAIR VALUE MEASUREMENTS**

*Impact of fair value metrics on biological assets and inventory*

In accordance with IFRS, the Company is required to record its biological assets at fair value. During the main growth phase, the cost of each plant is accumulated on a weekly basis. This occurs from the date of clipping from a mother plant up to the end of the twelfth week of growth for Aphria One and ninth week of growth for Broken Coast. For the remainder of the growing period, the cost of each plant continues to be accumulated on a weekly basis but also includes an allocation to recognize the eventual fair value of the plant. At the time of harvest, the accumulated cost of each plant is based on the number of grams harvested and the Company increases the cost value to its full fair value less costs to sell.

As at February 28, 2018, the Company's harvested cannabis and cannabis oil, as detailed in Note 6, and biological assets, as detailed in Note 7 of its financial statements, are as follows:

	February 28, 2018	November 30, 2017
Harvested cannabis - at cost	\$ 2,367	\$ 1,712
Harvested cannabis - fair value increment	4,149	3,472
Harvested cannabis trim - at cost	506	651
Harvested cannabis trim - fair value increment	775	1,416
Cannabis oil - at cost	1,591	518
Cannabis oil - fair value increment	1,668	511
Biological assets - at cost	1,916	1,001
Biological assets - fair value increment	1,185	397
<b>Cannabis products - at fair value</b>	<b>\$ 14,157</b>	<b>\$ 9,678</b>

In an effort to increase transparency, Aphria One's biological assets are carried at cost plus fair value increments of \$0.65, \$1.29, \$1.94 and \$2.51 per gram for weeks 13, 14, 15 and 16, respectively. Broken Coast's biological assets are carried at cost plus fair value increments of \$0.57, \$1.13, \$1.70 and \$2.26 per gram for weeks 10, 11, 12 and 13 respectively. Harvested cannabis, harvested cannabis trim and cannabis oil are carried at fair values of \$3.75 per gram, \$3.00 per gram and \$0.64 per mL, respectively. The individual components of fair values are as follows:

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	February 28, 2018	November 30, 2017
Harvested cannabis - at cost - per gram	\$ 1.36	\$ 1.24
Harvested cannabis - fair value increment - per gram	\$ 2.39	\$ 2.51
Harvested cannabis trim - at cost - per gram	\$ 1.19	\$ 0.94
Harvested cannabis trim - fair value increment - per gram	\$ 1.81	\$ 2.06
Cannabis oil - at cost - per mL	\$ 0.31	\$ 0.31
Cannabis oil - fair value increment - per mL	\$ 0.33	\$ 0.32

**COST PER GRAM**

*Calculation of "all-in" costs of sales of dried cannabis per gram*

The Company calculates "all-in" cost of sales of dried cannabis per gram as follows:

"All-in" cost of sales of dried cannabis per gram	Three months ended	
	February 28, 2018	November 30, 2017
Production costs	\$ 2,355	\$ 2,746
Add (less):		
Cost of accessories	\$ (71)	\$ (61)
Cannabis oil conversion costs	\$ (62)	\$ (54)
Adjusted "All-in" cost of sales of dried cannabis	\$ 2,222	\$ 2,631
Gram equivalents sold during the quarter	1,428,097	1,236,954
"All-in" cost of sales of dried cannabis per gram	\$ 1.56	\$ 2.13

<sup>1</sup> In prior quarters the Company recorded adjustments to "All-in" cost of sales of dried cannabis per gram, for increases in plant inventory. This adjustment was made as a result of the Company using a standard cost method and allocating additional costs to plant inventory, when there was a significant change in the number of plants, without a change in the overall costs of the Company, which occurs during the months prior to and just after an increase in production tied to an expansion. This adjustment is subjective, and requires management to make significant assumptions as to whether the increase in cost included in biological assets, is a result of improved operations, a result of an expansion or a result of other factors. The adjustment is not listed in the chart above because the adjustment is \$Nil in each of the quarters presented.

*Calculation of cash costs to produce dried cannabis per gram*

The Company calculates cash costs to produce dried cannabis per gram as follows:

Cash costs to produce dried cannabis per gram	Three months ended	
	February 28, 2018	November 30, 2017
Adjusted "All-in" cost of sales of dried cannabis	\$ 2,222	\$ 2,631
Less:		
Amortization	\$ (473)	\$ (500)
Packaging costs	\$ (373)	\$ (333)
Cash costs to produce dried cannabis	\$ 1,376	\$ 1,798
Gram equivalents sold during the quarter	1,428,097	1,236,954
Cash costs to produce per gram	\$ 0.96	\$ 1.45

## RESULTS OF OPERATIONS

### Revenue

Revenue for the three months ended February 28, 2018 was \$10,267 versus \$5,119 in the same period of the prior year and \$8,504 in the second quarter of fiscal 2018, representing an increase of 100.6% from the prior year and a 20.7% increase from the prior quarter.

Revenue for the nine months ended February 28, 2018 was \$24,891 versus \$14,721 in the same period of the prior year, representing a 69.1% increase.

The increase in revenue during the quarter from the prior quarter was related to:

- Acquisition of Broken Coast, which provided an additional 173,971 gram equivalents sold in the quarter;
- Continued patient onboarding, including sales of 272,464 gram equivalents to patients on-boarded in the quarter;
- Continued growth of sales to existing patients, including sales of 536,456 gram equivalents to patients on-boarded prior to the quarter;
- Increased sales to veterans in the quarter;
- Wholesale orders to other Licensed Producers of 445,206 grams; and,
- Increased average retail selling price (excluding wholesale) during the period from \$8.10 to \$8.30.

These factors were partially offset by:

- A minor decrease in the percentage of cannabis oil sold for retail sales, of 0.6%.

The increase in revenue for the year-to-date, as compared to the prior year's year-to-date, is consistent with the Company's increase in patients and the acquisition of Broken Coast.

### Gross profit and gross margin

The gross profit for the three months ended February 28, 2018 was \$8,570, compared to \$3,569 in the same quarter in the prior year and \$6,202 in the previous quarter. The increase in gross profit from the prior year is consistent with the much larger patient base over the prior year plus the acquisition of Broken Coast offset by changes in the fair value adjustment for biological assets.

	Three months ended	
	February 28, 2018	November 30, 2017
Revenue	\$ 10,267	\$ 8,504
Production costs	2,355	2,746
Gross profit before fair value adjustments	7,912	5,758
Fair value adjustment on sale of inventory	3,443	2,671
Fair value adjustment on growth of biological assets	(4,101)	(3,115)
	(658)	(444)
Gross profit	\$ 8,570	\$ 6,202
Gross margin	83.5%	72.9%

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Cost of sales currently consist of three main categories: (i) production costs (formerly defined as cost of goods sold) and, (ii) fair value adjustment on sale of inventory and (iii) fair value adjustment on growth of biological assets:

(i) Production costs include the direct cost of materials and labour, including supervisors and indirect labour, related to the medical cannabis sold. This would include growing, cultivation and harvesting costs, stringent quality assurance and quality control, cannabis oil processing costs, as well as packaging, labelling and amortization of production equipment and greenhouse infrastructure utilized in the production of medical cannabis. Included in indirect labour is the cost of all employees, such as custodial, maintenance, etc., who do not directly interact with the plants or inventory but operate within the greenhouse production area. All medical cannabis shipped and sold by Aphria has been grown and produced by the Company.

(ii) Fair value adjustment on sale of inventory is part of the Company's cost of sales due to IFRS standards relating to agriculture and biological assets (i.e. living plants or animals). This line item represents the effect of the non-cash fair value adjustment of inventory sold in the period.

(iii) Fair value adjustment on growth of biological assets is part of the Company's cost of sales due to IFRS standards relating to agriculture and biological assets (i.e. living plants or animals). This line item represents the effect of the non-cash fair value adjustment of biological assets (medical cannabis) produced in the period. In an effort to increase transparency, inventory of harvested cannabis (Note 6 – Consolidated financial statements for the three months and nine months ended February 28, 2018) consists of harvested cannabis, harvested cannabis trim and cannabis oil, of which harvested cannabis is carried at a value of \$3.75 per gram, harvested cannabis trim is carried at \$3.00 per gram and cannabis oil is carried at \$0.64 per mL (6mL of cannabis oil is equivalent to 1 gram of dried product).

Management believes that the use of non-cash IFRS adjustments in calculating gross profit and gross margin can be confusing due to the large value of non-cash fair value metrics required. Accordingly, management believes the use of gross profit before fair value adjustments and adjusted gross margin provides a better representation of performance by excluding non-cash fair value metrics required by IFRS.

Gross profit before fair value adjustments and adjusted gross margin are non-GAAP financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies.

The following is the Company's gross profit before fair value adjustments and adjusted gross margin as compared to IFRS for the three months ended February 28, 2018:

	Three months ended February 28, 2018 (IFRS)	Adjustments	Three months ended February 28, 2018 (Adjusted)
Revenue	\$ 10,267	\$ --	\$ 10,267
Production costs	2,355	--	2,355
Fair value adjustment on sale of inventory	3,443	(3,443)	--
Fair value adjustment on biological assets	(4,101)	4,101	--
	1,697	658	2,355
Gross profit	\$ 8,570	\$ (658)	\$ 7,912
Gross margin	83.5%		77.1%

The gross profit for the nine months ended February 28, 2018 was \$22,675, compared to \$11,472 in the same period of the prior year. The increase in gross profit from the prior year is consistent with the Company's much larger patient base combined with the increase in the net fair value adjustments for biological assets as a result of the Company's increased production levels.

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The following is the Company's gross profit before fair value adjustments and adjusted gross margin as compared to IFRS for the nine months ended February 28, 2018:

	Nine months ended February 28, 2018 (IFRS)		Adjustments	Nine months ended February 28, 2018 (Adjusted)	
Revenue	\$ 24,891		\$ --	\$ 24,891	
Production costs	6,447		--	6,447	
Fair value adjustment on sale of inventory	7,250		(7,250)	--	
Fair value adjustment on biological assets	(11,481)		11,481	--	
	2,216		4,231	6,447	
Gross profit	\$ 22,675		\$ (4,231)	\$ 18,444	
Gross margin	91.1%			74.1%	

*Selling, general and administrative*

Selling, general and administrative expenses are comprised of general and administrative, share-based compensation, selling, marketing and promotion, amortization, research and development and impairment of intangible asset. These costs increased by \$4,408 to \$12,609 from \$8,201 in the same quarter in the prior year and increased \$11,649 to \$26,478 from \$14,829 in the nine-month period of the prior year.

**Selling, general and administrative costs**

	Three months ended February 28, 2018		2017		Nine months ended February 28, 2018		2017	
General and administrative	\$ 2,794	\$ 1,231			\$ 6,502	\$ 3,415		
Share-based compensation	5,959	1,256			10,668	1,711		
Selling, marketing and promotion	2,991	1,855			7,758	5,054		
Amortization	755	263			1,270	715		
Research and development	110	96			280	434		
Impairment of intangible asset	--	3,500			--	3,500		
	\$ 12,609	\$ 8,201			\$ 26,478	\$ 14,829		

**General and administrative costs**

	Three months ended February 28, 2018		2017		Nine months ended February 28, 2018		2017	
Executive compensation	\$ 567	\$ 203			\$ 1,227	\$ 620		
Consulting fees	52	53			210	132		
Office and general	636	397			1,755	1,106		
Professional fees	665	151			1,362	391		
Salaries and wages	651	301			1,376	789		
Travel and accomodation	213	101			517	320		
Rent	10	25			55	57		
	\$ 2,794	\$ 1,231			\$ 6,502	\$ 3,415		

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The increase in general and administrative costs during the quarter was largely related to an increase in:

- Executive and director compensation increases in the quarter as a result of increased activity within the business over the same period in the prior year;
- Salaries and wages, office and general, and travel and accommodation as a result of increased activity within the business over the same period in the prior year;
- Professional fees, predominantly comprised of legal costs, associated with various negotiations and reviews of current and potential business relationships necessary to sustain growth of the Company, including recurring costs related to our listing on the TSX.

**Share-based compensation**

The Company recognized share-based compensation expense of \$5,959 for the three months ended February 28, 2018 compared to \$1,256 for the prior year. Share-based compensation was valued using the Black-Scholes valuation model and represents a non-cash expense. The increase in share-based compensation is a result of an increase in stock options vesting, as well as an increase in stock price used in the valuation of options issued in the current period. The Company issued 1,825,000 in the current period compared, which includes 1,000,000 stock options as part of the acquisition of Broken Coast, to 545,000 in the same period of the prior year. Of the stock options granted in the quarter, 204,995 vested in the quarter.

For the nine months ended February 28, 2018, the Company incurred share-based compensation of \$10,668 as opposed to \$1,711 for the prior year. The increase in share-based compensation is a result of an increase in stock options vesting, as well as an increase in stock price used in the valuation of options issued in the current period. The Company issued 3,953,000 in the current period compared to 2,113,000 in the same period of the prior year. Of the stock options granted in the quarter, 1,351,630 vested in the quarter.

**Selling, marketing and promotion costs**

For the three months ended February 28, 2018, the Company incurred selling, marketing and promotion costs of \$2,991, or 29.1% of revenue versus \$1,855 or 36.2% of revenue in the comparable prior period. These costs related to patient acquisition and ongoing patient maintenance, the Company's call center operations, shipping costs, marketing department, as well as the development of promotional and information materials. Patient acquisition and ongoing patient maintenance costs include payments to individual clinics to perform medical studies as well as reimbursement of operating costs incurred by clinics on the Company's behalf. The increase in selling, marketing and promotion cost is directly correlated with the increase in patient and sales volumes over the comparable period.

For the nine months ended February 28, 2018, the Company incurred selling marketing and promotion costs of \$7,758 or 31.2% of revenue, as opposed to \$5,054 or 34.3% of revenue, in the comparable prior period. The increase in costs in the nine-month period is consistent with the increase in the three-month period.

**Amortization**

The Company incurred amortization charges of \$755 for the three months ended February 28, 2018 compared to \$263 for the same period in the prior year. The increase in amortization charges are a result of the capital expenditures made during the prior fiscal year and their being put in to use during the current fiscal year.

The Company incurred amortization charges of \$1,270 for the nine months ended February 28, 2018 compared to \$715 for the same period in the previous year. The increase for the nine month period is consistent with the increase for the three month period.

**Research and development**

Research and development costs of \$110 were expensed during the three months ended February 28, 2018 compared to \$96 in same period last year. These relate to costs associated with the development of new cannabis products.

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For the nine months ended February 28, 2018, the Company incurred research and development costs of \$280 as opposed to \$434 in the same period in the previous year.

***Non-operating items***

	Three months ended		Nine months ended	
	February 28,		February 28,	
	2018	2017	2018	2017
Consulting revenue	\$ 213	\$ 217	\$ 689	\$ 217
Foreign exchange (loss) gain	(62)	65	69	65
(Loss) gain on marketable securities	(502)	14	(2,193)	14
(Loss) gain on sale of capital assets	(184)	--	(191)	11
Gain on dilution of ownership in equity investee	--	--	7,535	--
Loss from equity investee	--	--	(9,281)	--
Gain on sale of equity investee	26,347	--	26,347	--
Deferred gain on sale of intellectual property recognized	233	--	700	--
Finance income, net	1,621	406	3,533	698
Unrealized (loss) gain on embedded derivatives	(52)	--	576	--
Gain on long-term investments	14,544	8,880	39,701	9,143
Unrealized loss on derivative liability	(16,850)	--	(16,850)	--
Transaction costs	(4,253)	--	(4,253)	--
	\$ 21,055	\$ 9,582	\$ 46,382	\$ 10,148

During the quarter, the Company sold 25% of its interest in equity investee for \$33,395 recognizing a gain on the sale of \$26,347 for the three and nine months ended February 28, 2018. During the three and nine months ended February 28, 2018, the Company recognized approximately \$22,100 and \$25,700 of unrealized gain on the change in fair value of its Level 1 long-term investments due to changes in market price, and a realized gain of approximately \$2,200 and \$900 on the disposal of long-term investments. The Company also recognized unrealized (loss) gain of approximately \$(9,800) and \$13,000 for the three and nine months ended on February 28, 2018 on its Level 3 long-term investments. The Company recorded a derivative liability of \$16,850 as a result of the 18% discount to the market price of Liberty, based on Liberty's 10 day volume weighted trading price in the Obligation Agreement. Based on its closing share price of \$1.22 as at February 28, 2018, the Liberty shares held by Aphria have a fair value of \$97,781, which is \$77,161 higher than the carrying value recorded in assets held for sale. The Company also incurred \$4,253 of transaction costs for the three and nine months ended February 28, 2018, of which \$1,643 relate to the acquisition of Broken Coast, \$2,500 relate to the acquisition of Nuuvera, and the remaining transaction costs relate to other transactions which were abandoned.

***Net income***

The Company recorded net income for the three months ended February 28, 2018 of \$12,944 or \$0.08 per share as opposed to net income of \$4,950 or \$0.04 per share in the same period of the prior year.

The Company recorded net income for the nine months ended February 28, 2018 of \$34,440 or \$0.23 per share as opposed to net income of \$6,791 or \$0.07 per share in the same period of the prior year.

***Adjusted EBITDA***

Adjusted EBITDA 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. The Company calculates adjusted EBITDA from operations as net income (loss), plus (minus) income taxes (recovery), plus (minus) finance income, net, plus amortization, plus share-based compensation, plus (minus) non-cash fair value adjustments on sale of inventory and on growth of biological assets, plus amortization of non-capital assets, plus impairment of intangible assets, plus (minus) loss (gain) on disposal of

## MANAGEMENT'S DISCUSSION &amp; ANALYSIS

capital assets, plus (minus) loss (gain) on foreign exchange, plus (minus) loss (gain) on marketable securities, plus (minus) loss (profit) from equity investee, minus deferred gain on sale of intellectual property recognized, plus (minus) loss (gain) on dilution of ownership in equity investee, plus (minus) unrealized loss (gain) on embedded derivatives, plus (minus) unrealized loss (gain) on long-term investments and certain one-time non-operating expenses, as determined by management, all as follows:

	Three months ended		Nine months ended	
	February 28,		February 28,	
	2018	2017	2018	2017
Net income	\$ 12,944	\$ 4,950	\$ 34,440	\$ 6,791
Income taxes	4,072	--	8,139	--
Transaction costs	4,253	--	4,253	--
Unrealized loss on derivative liability	16,850	--	16,850	--
Gain on long-term investments	(14,544)	(8,880)	(39,701)	(9,143)
Unrealized loss (gain) on embedded derivatives	52	--	(576)	--
Finance income, net	(1,621)	(406)	(3,533)	(698)
Deferred gain on sale of intellectual property recognized	(233)	--	(700)	--
Gain on sale of equity investee	(26,347)	--	(26,347)	--
Loss from equity investee	--	--	9,281	--
Gain on dilution of ownership in equity investee	--	--	(7,535)	--
Loss (gain) on sale of capital assets	184	--	191	(11)
Loss (gain) on marketable securities	502	(14)	2,193	(14)
Foreign exchange loss (gain)	62	(65)	(69)	(65)
Impairment of intangible asset	--	3,500	--	3,500
Amortization	1,465	499	2,869	1,433
Share-based compensation	5,959	1,256	10,668	1,711
Fair value adjustment on growth of biological assets	(4,101)	(1,090)	(11,481)	(4,197)
Fair value adjustment on sale of inventory	3,443	1,104	7,250	3,676
Disposition and usage of bearer plants	--	17	3	64
<b>Adjusted EBITDA</b>	<b>\$ 2,940</b>	<b>\$ 871</b>	<b>\$ 6,195</b>	<b>\$ 3,047</b>

## LIQUIDITY AND CAPITAL RESOURCES

Cash flow generated from operations for the period decreased by \$4,676 from cash flow generated from operations of \$5,246 in the nine-month period of the prior year to cash flow generated from operations of \$570 in the current period. The decrease in cash flow generated from operations is primarily a result of:

- Increase in non-cash working capital of approximately \$5,000, comprised primarily of increased HST receivable, inventory, prepaid assets and other current assets offset by increased accounts payable and accrued liabilities and income taxes payable.

*Cash resources / working capital requirements*

The Company constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations. As at February 28, 2018, Aphria maintained \$119,435 of cash and cash equivalents on hand plus \$54,248 in liquid marketable securities, compared to \$84,351 in cash and cash equivalents plus \$37,678 marketable securities at February 28, 2017 and \$79,910 in cash and cash equivalents plus \$87,347 in liquid marketable securities at May 31, 2017. Liquid sources of cash increased \$51,654 in the twelve-month period and increased \$6,426 in the nine-month period.

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Working capital provides funds for the Company to meet its operational and capital requirements. As at February 28, 2018, the Company maintained working capital of \$234,589. Management expects the Company to have adequate funds available on hand to meet the Company's planned growth and expansion of facilities over the next 12 months.

***Capital and intangible asset expenditures***

For the three months ended February 28, 2018, the Company invested \$35,427 in capital and intangible assets through wholly owned subsidiaries, exclusive of business acquisitions, of which \$763 are considered maintenance CAPEX and the remaining \$34,664 growth CAPEX, related to Broken Coast Phase IV expansion, Aphria One's Part III and Part IV Expansions.

For the three months ended February 28, 2018, the Company invested \$59,155 in capital and intangible assets through majority owned subsidiaries, exclusive of business acquisitions, of which \$nil are considered maintenance CAPEX and the remaining \$59,155 growth CAPEX, related to Aphria Diamond land and building acquisition and retrofits.

In addition, the Company paid non-cash consideration of \$214,168 in a business acquisition in the quarter, of which \$105,447 has been allocated to capital and intangible assets.

**Financial covenants**

The Company met its financial covenants at all times since they have come into effect. The Company believes that it has sufficient operating room with respect to its financial covenants for the next fiscal year and does not anticipate being in breach of any of its financial covenants during this period.

**Contractual obligations and off-balance sheet financing**

In April 2017, the Company indemnified the landlord of the office space to be used by its equity investee, Liberty Health Sciences Inc.

During the previous fiscal year, the Company terminated its lease commitment for rental of greenhouse and warehouse space in conjunction with the purchase of the 265 Talbot St. West property. The Company continues to lease office space from a related party. The lease commitment ends December 31, 2018 with the option to renew for two additional 5 year periods. As disclosed previously, the Company has agreed to contribute an additional \$800 to Green Acre Capital Fund. The Company has a lease commitments until September 2019 and August 2020 for the use of two motor vehicles.

Minimum payments payable over the next five years are as follows:

	Payments due by period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Outstanding capital related commitments	\$ 51,016	\$ 51,016	\$ --	\$ --	\$ --
Investment commitment	800	800	--	--	--
Operating leases	27	27	--	--	--
Motor vehicle leases	62	29	33	--	--
Long-term debt	37,532	8,009	4,534	24,989	--
<b>Total</b>	<b>\$ 89,437</b>	<b>\$ 59,881</b>	<b>\$ 4,567</b>	<b>\$ 24,989</b>	<b>\$ --</b>

Except as disclosed elsewhere in this MD&A, there have been no material changes with respect to the contractual obligations of the Company during the period.

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Share capital

Aphria has the following securities issued and outstanding, as at January 9, 2018:

	Presently outstanding	Exercisable	Exercisable & in-the- money	Fully diluted
Common stock	209,680,955	--	--	209,680,955
Warrants	3,215,504	3,215,504	1,547,272	1,547,272
Stock options	9,581,811	5,131,048	4,708,551	4,708,551
<b>Fully diluted</b>				215,936,778

\*Based on closing price on April 13, 2018

QUARTERLY RESULTS

The following table sets out certain unaudited financial information for each of the eight fiscal quarters up to and including the first quarter of fiscal 2018, ended February 28, 2018. The information has been derived from the Company's unaudited consolidated financial statements, which in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements filed in the Company's 2017 Annual Report and include all adjustments necessary for a fair presentation of the information presented. Past performance is not a guarantee of future performance and this information is not necessarily indicative of results for any future period.

	May/17	Aug/17	Nov/17	Feb/18
Revenue	\$ 5,718	\$ 6,120	\$ 8,504	\$ 10,267
Net income (loss)	(2,593)	15,041	6,455	12,944
Earnings (loss) per share - basic	(0.02)	0.11	0.05	0.08
Earnings (loss) per share - fully diluted	(0.02)	0.10	0.04	0.08
	May/16	Aug/16	Nov/16	Feb/17
Revenue	\$ 2,776	\$ 4,376	\$ 5,227	\$ 5,119
Net income	1,302	895	945	4,950
Earnings per share - basic	0.02	0.01	0.01	0.04
Income per share - fully diluted	0.02	0.01	0.01	0.04

RELATED PARTY BALANCES AND TRANSACTIONS

Prior to going public, the Company funded operations through the support of related parties. Since going public, the Company has continued to leverage the purchasing power of these related parties for certain of its growing related expenditures. Through these related parties, Aphria can leverage the purchasing power for growing related commodities and labour, which provides the Company with better rates than if Aphria was sourcing these on its own. These transactions are measured at their exchange amounts. The balance owing from related parties as at February 28, 2018 was \$nil (May 31, 2017 - \$464). These amounts were due upon demand and are non-interest bearing. These parties are related as they are corporations that are controlled by certain officers and directors of the Company (Mr. Cole Cacciavillani and Mr. John Cervini).

During the three and nine months ended February 28, 2018, related party corporations charged or incurred expenditures on behalf of the Company (including rent) totaling \$112 and \$205 (2017 - \$83 and \$350). Included in this amount was rent of \$10 and \$36 charged during the three and nine months ended February 28, 2018 (2017 - \$7 and \$40).

The Company funded the start-up costs and operations of Liberty Health Sciences Inc., a related party through an equity investment.

During the three months ended February 28, 2018, the Company entered into a definitive agreement with respect to the sale of Aphria's subsidiary Aphria (Arizona) Inc. and its sole holdings being the minority interests in Copperstate and CSF to Liberty Health Sciences Inc. for a purchase price of \$20,000. In addition, the Company has entered into an agreement which has changed the classification of its investment in Liberty Health Sciences Inc. from equity investee to assets held for sale.

## ISSUERS WITH U.S. CANNABIS-RELATED ACTIVITIES

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On October 16, 2017, the Canadian Securities Administrators published Staff Notice 51-352 *Issuers with U.S. Marijuana-Related Activities* (the "Staff Notice") which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the U.S. as permitted within a particular state's regulatory framework. All issuers with U.S. cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents.

Also on October 16, 2017, the TSX provided clarity regarding the application of Sections 306 (Minimum Listing Requirements) and 325 (Management) and Part VII (Halting of Trading, Suspension and Delisting of Securities) of the TSX Company Manual (collectively, the "Requirements") to applicants and TSX-listed issuers with business activities in the cannabis sector. In TSX Staff Notice 2017-0009, the TSX notes that issuers with ongoing business activities that violate U.S. federal law regarding cannabis are not in compliance with the Requirements. These business activities may include (i) direct or indirect ownership of, or investment in, entities engaging in activities related to the cultivation, distribution or possession of cannabis in the U.S., (ii) commercial interests or arrangements with such entities, (iii) providing services or products specifically targeted to such entities, or (iv) commercial interests or arrangements with entities engaging in providing services or products to U.S. cannabis companies. The TSX reminded issuers that, among other things, should the TSX find that a listed issuer is engaging in activities contrary to the Requirements, the TSX has the discretion to initiate a delisting review.

As a result of the Company's investments in certain U.S. entities (as described herein), Aphria is properly subject to the Staff Notice and accordingly provides the following disclosure:

### ***Nature of U.S. Investments:***

#### *Liberty Health Sciences Inc. (Florida)*

In May 2017, Aphria invested \$25,000 into DFMMJ Investments, Ltd. ("DFMMJ"), which acquired all or substantially all the assets of Chestnut Hill Tree Farm LLC, ("Chestnut") through its subsidiary DFMMJ Investments, LLC, and subsequently amalgamate into a subsidiary of SecureCom Mobile Inc. ("SecureCom"), a public company listed on the Canadian Securities Exchange, as part of a business combination. The funds, when combined with an additional \$35,000 raised in a brokered private placement led by Clarus Securities Inc., were invested and used in an entity renamed Liberty Health Sciences Inc. On July 20, 2017, DFMMJ completed its business combination with SecureCom through a reverse takeover acquisition. Upon the completion of the transaction, Liberty consolidated its issued and outstanding common shares and other securities on the basis of three pre-consolidation common shares held for one post-consolidation common share. As a result of the three-for-one exchange, Aphria held 106,864,102 common shares of Liberty, , representing a 37.6% ownership. Liberty, through its subsidiary, is licensed to produce and sell medical cannabis in the State of Florida through the Florida Department of Health, Office of Compassionate Use under the provisions of the Compassionate Medical Cannabis Act of 2014. The Company only licenses its name and branding to Liberty and Liberty cultivates its own product in Florida. In February 2018, the Company sold 25% of its ownership in Liberty and entered into an Obligation Agreement to dispose of its remaining interests in Liberty over the period to July 2020.

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### *Copperstate Farms, LLC & Copperstate Farms Investors, LLC (Arizona)*

On October 27, 2016, Aphria entered into an intellectual property transfer agreement with Copperstate Farms, LLC ("Copperstate"), a licensed producer and seller of medical cannabis under the *Arizona Medical Marijuana Act*. Copperstate maintains a 40-acre, high-tech, Dutch-style greenhouse facility in Snowflake, Arizona. Copperstate is one of the largest medical cannabis greenhouse facilities in Arizona. Under the terms of the agreement, Aphria received 5,000 membership units in Copperstate in exchange for a promissory note valued at US\$1,300 (the "Promissory Note"). Aphria also licensed certain of its intellectual property, to be delivered over a two-year term, to Copperstate in exchange for quarterly cash payments, equivalent to the value of the required quarterly payment on the Promissory Note, effectively offsetting each other. In addition, Aphria made a direct cash contribution of US\$1,300 to the parent company of Copperstate, Copperstate Farms Investors, LLC ("CSF"), in return for 2,600 membership units in CSF. The transaction was subject to TSXV approval and received final approval from the TSXV on December 21, 2016. Prior to receiving such final approval, Aphria acquired an additional 2,600 membership units in CSF, increasing its ownership in CSF to 5,200 membership units. On March 27, 2017, Aphria made an additional investment of US\$3,000 in CSF, for an additional 6,000 membership units.

On July 26, 2017, the Company purchased an additional 2,668 additional membership units of CSF for US\$1,334. Further, the Company lent CSF US\$2,000 in exchange for a senior secured convertible loan, as well as an additional US\$666 as a note payable with no set terms of repayment. The note payable was repaid in full. The convertible debenture bears interest at 9%, is due on May 15, 2018 and includes the right to convert the debenture into membership units at US\$500 per unit. The loan is pre-payable at any time by CSF; no principal payments are due prior to the Maturity Date. If at least US\$500 of the outstanding loan balance is not repaid by February 28, 2018, then an automatic conversion would be triggered for US\$500, plus any accrued but unpaid interest, net of any repayments towards the principal, of the loan balance at US\$500 per unit. If the outstanding loan balance has not been repaid before the Maturity Date, an automatic conversion would be triggered for the remaining loan balance at US\$500 per unit. The convertible loan is secured by a first charge on CSF's greenhouse assets and real property located in Snowflake, Arizona. In February 2018, the Company entered into a purchase and sale agreement to sell 100% of its interests in Aphria (Arizona) Inc. to Liberty for \$20,000. The transaction is expected to close in the first quarter of Aphria's 2019 fiscal year.

### ***Enforcement of U.S. Federal Laws***

Unlike in Canada, which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical cannabis under the ACMPR, in the United States, cannabis is largely regulated at the state level. To the Company's knowledge, there are to date a total of 37 states, plus the District of Columbia, Puerto Rico and Guam that have legalized cannabis in some form. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a Schedule I controlled substance under the Controlled Substances Act (the "CSA") and as such, violates federal law in the United States.

As a result of the conflicting views between state legislatures and the United States federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in August 2013 when then Deputy Attorney General, James Cole, authored a memorandum (the "Cole Memorandum") addressed to all United States district attorneys acknowledging that notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several US states have enacted laws relating to cannabis for medical purposes.

The Cole Memorandum outlined certain priorities for the Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the Department of Justice never provided specific guidelines for what regulatory and enforcement systems it deemed sufficient under the Cole Memorandum standard. On February 14, 2014, in conjunction with DOJ policies set forth in the Ogden-Cole Memos, the U.S. Department of the Treasury

## APHRIA INC. MANAGEMENT'S DISCUSSION & ANALYSIS

Financial Crimes Enforcement Network ("FinCEN") released guidance to banks clarifying Bank Secrecy Act expectations for financial institutions seeking to provide services to cannabis-related business ("FinCEN Guidance"). While the FinCEN Guidance made clear that it did not alter in any way DOJ's authority to enforce federal law, it placed enhanced due diligence obligations on banks transacting with cannabis-related businesses, and offered a pathway for banks to provide financial services to such businesses.

In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the Department of Justice should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority. In March 2017, newly appointed Attorney General Jeff Sessions again noted limited federal resources and acknowledged that much of the Cole Memorandum had merit, however, he disagreed that it had been implemented effectively and, on January 4, 2018, Attorney General Jeff Sessions issued a memorandum (the "Sessions Memo") that rescinded the Cole Memorandum. The Sessions Memo rescinded previous nationwide guidance specific to the prosecutorial authority of United States Attorneys relative to cannabis enforcement, including the First and Second Cole Memos, on the basis that they are unnecessary, given the well-established principles governing federal prosecution that already in place. Those principles are included in chapter 9.27.000 of the U.S. Attorneys' Manual and require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.

The result of the rescission of the Cole Memorandum is that federal prosecutors will now be free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws that may be inconsistent with federal prohibitions; however, discretion is still given to the federal prosecutor to weigh all relevant considerations of the crime, including the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community. No direction was given to federal prosecutors as to the priority they should ascribe to such activities, and resultantly it is uncertain how active federal prosecutors will be in relation to such activities. Furthermore, Attorney General Jeff Sessions's statement in relation to the rescission of the Cole Memorandum (the "Sessions Memorandum") did not discuss the treatment of medical cannabis by federal prosecutors. As it pertains to the FinCen guidance, while it was based upon the Cole Memorandum which was recently rescinded, it has not been terminated or rescinded by the United States Treasury Department to date, and thus remains in force. The Treasury Department has not released any additional guidance since the Sessions's Memorandum was released, and until additional guidance is provided it is unknown how federal banking regulators will react to the Session's Memorandum and the status of the FinCen Guidance.

Medical cannabis is currently protected against enforcement by enacted legislation from U.S. Congress in the form of the 2018 Leahy Amendment to the Omnibus Appropriations Bill (as defined below) which similarly prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, and the bill remains in force today after being passed by the United States Congress and signed into law by the President on March 23, 2018. Due to the ambiguity of the Sessions Memorandum in relation to medical cannabis, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law, however medical operators are still entitled to the protections of the Leahy Amendment legislation which has been utilized by medical operators to enjoin attempted prosecutions. Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, and also divert the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation, even if such proceedings were concluded successfully in favour of the Company.

For the reasons set forth above, the Company's existing investments in the United States, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction.

## APHRIA INC. MANAGEMENT'S DISCUSSION & ANALYSIS

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

Further, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

### *U.S. Enforcement Proceedings*

The United States Congress has passed appropriations bills each of the last three years that included the Rohrabacher Amendment Title: H.R.2578 — Commerce, Justice, Science, and Related Agencies Appropriations Act, 2016 ("Rohrabacher"), which by its terms does not appropriate any federal funds to the U.S. Department of Justice for the prosecution of medical cannabis offenses of individuals who are in compliance with state medical cannabis laws. American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state law. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business — even those that have fully complied with state law—could be prosecuted for violations of federal law. If Congress restores funding, the United States government will have the authority to prosecute individuals for violations of the law before it lacked funding under the CSA's five-year statute of limitations. The United States Congress recently passed the Leahy Amendment (which is substantially similar to the previously enacted Rohrabacher Amendment), as part of the Omnibus Appropriations Bill for fiscal year 2018.

### *Ability to Access Public and Private Capital*

The Company has historically, and continues to have, robust access to both public and private capital in Canada in order to support its continuing operations. This is evidenced by the Company's consistent ability to access public capital on separate occasions. The Company has had cannabis-related activities in the U.S. since 2015, including the Copperstate transaction, which was approved by the TSXV prior to its closing. As disclosed earlier in August of this year, the Company's Common Shares have traded on the TSX and previously the TSX Venture Exchange for three years during which time the Company has raised over \$446 million from investors by way of seven offerings by short form prospectus. In addition to certain Canadian Schedule 1 banks accepting deposits from entities positioned in the legal medical cannabis sectors, there are also a number of credit unions that have historically provided, and continue to provide, debt financings in this space. More particularly, the Company itself has previously closed a suite of financings with one of the largest credit unions in Ontario in amounts totaling approximately \$30,000 and at interest rates below 4%. The Company has never needed to access public equity capital in the United States. All capital requirements have been adequately met in Canada and the Company expects that to continue.

## MANAGEMENT'S DISCUSSION & ANALYSIS

In respect of Liberty and Copperstate, the Company has limited means to cause these subsidiaries to access capital as they each have their own boards and management that make such decisions largely independent of the Company. Each of Liberty and Copperstate has been successful in raising private capital with and without the participation of the Company. Liberty and Copperstate have each undertaken private placements. We are not aware of any inability of either Liberty or Copperstate to continue as a going concern, irrespective of their ability to access public equity capital.

### *Regulation of Medical Cannabis in Florida*

Liberty is licensed to produce and sell medical cannabis in the State of Florida through the Florida Department of Health, Office of Medical Marijuana Use under the provisions of the Senate Bill 8A, Fla. Stat. 386.981 et seq. The Florida Department of Health issued the license (the "Liberty License") to Chestnut on November 23, 2015 and Liberty acquired the rights to the Liberty License on May 23, 2017 via the exclusive management agreement entered into between Liberty and Chestnut. On September 28, 2017, the Florida Department of Health, Office of Medical Marijuana Use, approved the transfer of the Liberty License to DFMMJ, the wholly-owned subsidiary of Liberty, which now solely owns and is entitled to utilize the License in Florida.

The Liberty License permits the sale of low THC cannabis (now grandfathered to produce and sell high THC cannabis) and medical cannabis to treat a number of medical conditions in the State of Florida which are delineated in Florida Statutes section 386.981. Under the terms of the Liberty License, Liberty is permitted to sell medical cannabis only to qualified medical patients that are registered with the state. Only certified physicians who have successfully completed a medical cannabis educational program can register patients and their medical cannabis orders on the Florida Office of Compassionate Use Registry. Liberty maintains an open and collaborative relationship with the Florida Department of Health and Liberty's operations are in full compliance with all laws and regulations.

Under the Liberty License, Liberty can operate up to 25 dispensaries statewide. Currently, the dispensaries can be in any geographic location within the state as long as the local municipality's zoning regulations authorize such a use and/or the proposed site is zoned for a pharmacy use and is not within 500 feet of a church or school. In the State of Florida, only cannabis that is grown in the state can be sold in the state. As Florida is a vertically integrated system, Liberty (and other licensees) is required to cultivate, harvest, process and sell/dispense/deliver its own medical cannabis products. The state also allows Liberty to make a wholesale purchase of medical cannabis from, or a distribution of medical cannabis to, another licensed dispensing organization within the state. At the present time, Liberty's principal products include cannabis oil in capsule, oral solution, sublingual solution, and vaporizer forms due to regulatory restrictions on the sale of dry flower in the state.

### *Regulatory Framework*

The State of Florida Statutes 381.986(8)(a) provides a regulatory framework that requires licensed producers, which are statutorily defined as "Medical Marijuana Treatment Centers" ("MMTC"), to both cultivate, process and dispense medical cannabis in a vertically integrated marketplace.

### *Licensing Requirements*

Licenses issued by the Department of Health, Office of Medical Marijuana Use (the "Department") may be renewed biennially so long as the licensee meets requirements of the law and pays a renewal fee. License holders can only own one license and MMTC's can operate up to a maximum of 25 dispensaries throughout the State of Florida. Applicants must demonstrate (and licensed MMTC's must maintain) that: (i) they have been registered to do business in the State of Florida for the previous five years, (ii) they possess a valid certificate of registration issued by the Florida Department of Agriculture, (iii) they have the technical and technological ability to cultivate and produce cannabis, including, but not limited to, low-THC cannabis, (iv) they have the ability to secure the premises, resources, and personnel necessary to operate as an MMTC, (v) they have the ability to maintain accountability of all raw materials, finished products, and any byproducts to prevent diversion or unlawful access to or possession of these substances, (vi) they have an infrastructure

## MANAGEMENT'S DISCUSSION & ANALYSIS

reasonably located to dispense cannabis to registered qualified patients statewide or regionally as determined by the Department, (vii) they have the financial ability to maintain operations for the duration of the 2-year approval cycle, including the provision of certified financial statements to the department, (viii) all owners, officers, board members and managers have passed a Level II background screening, inclusive of fingerprinting, and ensure that a medical director is employed to supervise the activities of the MMTC, and (ix) they have a diversity plan and veterans plan accompanied by a contractual process for establishing business relationships with veterans and minority contractors and/or employees.

Upon approval of the application by the Department, the applicant must post a performance bond of up to US\$5 million, which may be reduced by meeting certain criteria.

### *Dispensary Requirements*

An MMTC may not dispense more than a 70-day supply of cannabis. The MMTC employee who dispenses the cannabis must enter into the registry his or her name or unique employee identifier. The MMTC must verify that: (i) the qualified patient and the caregiver, if applicable, each has an active registration in the registry and active and valid medical cannabis use registry identification card, (ii) the amount and type of cannabis dispensed matches the physician certification in the registry for the qualified patient, and (iii) the physician certification has not already been filled. An MMTC may not dispense to a qualified patient younger than 18 years of age, only to such patient's caregiver. An MMTC may not dispense or sell any other type of cannabis, alcohol, or illicit drug-related product, except a cannabis delivery device as specified in the physician certification. An MMTC must, upon dispensing, record in the registry: (i) the date, time, quantity and form of cannabis dispensed, (ii) the type of cannabis delivery device dispensed, and (iii) the name and registry identification number of the qualified patient or caregiver to whom the cannabis delivery device was dispensed. An MMTC must ensure that patient records are not visible to anyone other than the patient, caregiver, and MMTC employees.

### *Security Requirements for Cultivation, Processing and Dispensing Facilities*

With respect to security requirements for cultivation, processing and dispensing facilities, an MMTC must maintain a fully operational alarm system that secures all entry points and perimeter windows, and is equipped with motion detectors, pressure switches, and duress, panic and hold-up alarms. The MMTC must also have a 24-hour video surveillance system with specified features. MMTCs must retain video surveillance recordings for at least 45 days, or longer upon the request of law enforcement. An MMTC's outdoor premises must have sufficient lighting from dusk until dawn.

An MMTC's dispensing facilities must include a waiting area with sufficient space and seating to accommodate qualified patients and caregivers and at least one private consultation area and such facilities may not display products or dispense cannabis or cannabis delivery devices in the waiting area and may not dispense cannabis from its premises between the hours of 9:00 p.m. and 7:00 a.m. but may perform all other operations and deliver cannabis to qualified patients 24-hours a day.

### *Transportation and Storage Requirements*

Cannabis must be stored in a secured, locked room or a vault. An MMTC must have at least two employees, or two employees of a security agency, on the premises at all times where cultivation, processing, or storing of cannabis occurs. MMTC employees must wear an identification badge and visitors must wear a visitor pass at all times on the premises. An MMTC must report to law enforcement within 24 hours after the MMTC is notified of or becomes aware of the theft, diversion or loss of cannabis. A cannabis transportation manifest must be maintained in any vehicle transporting cannabis or a cannabis delivery device. The manifest must be generated from the MMTC's seed-to-sale tracking system and must include the: (i) departure date and time, (ii) name, address, and license number of the originating MMTC, (iii) name and address of the recipient, (iv) quantity and form of any cannabis or cannabis delivery device being transported, (v) arrival date and time, (vi) delivery vehicle make and model and license plate number; and (vii) name and signature of the MMTC employees delivering the product. Further, a copy of the transportation manifest must be provided to each individual, MMTC that receives a delivery. MMTCs must retain copies of all cannabis transportation manifests for at least three years.

## APHRIA INC. MANAGEMENT'S DISCUSSION & ANALYSIS

Cannabis and cannabis delivery devices must be locked in a separate compartment or container within the vehicle and employees transporting cannabis or cannabis delivery devices must have their employee identification on them at all times. Lastly, at least two people must be in a vehicle transporting cannabis or cannabis delivery devices, and at least one person must remain in the vehicle while the cannabis or cannabis delivery device is being delivered.

### *Department Inspections*

The Department shall conduct announced or unannounced inspections of MMTCs to determine compliance with the laws and rules. The Department shall inspect an MMTC upon receiving a complaint or notice that the MMTC has dispensed cannabis containing mold, bacteria, or other contaminants that may cause an adverse effect to humans or the environment. The Department shall conduct at least a biennial inspection of each MMTC to evaluate the MMTC's records, personnel, equipment, security, sanitation practices, and quality assurance practices.

### *Regulation of Medical Cannabis in Arizona*

Copperstate is a licensed producer and seller of medical cannabis under the *Arizona Medical Marijuana Act, 2010* (the "Act"). In 2010, Arizona voters approved Proposition 203, an initiative which legalized the medical use of cannabis. The Arizona Department of Health Services ("ADHS") established the Arizona Department of Health Services Medical Marijuana Program ("MMJ Program"), which includes a vertically integrated license, meaning if allocated a Medical Marijuana Dispensary Registration Certificate ("Dispensary License"), entities are authorized to dispense and cultivate medical cannabis. Each Dispensary License allows the holding entity to operate one on-site cultivation facility, and one off-site cultivation facility which can be located anywhere within the State of Arizona. An entity holding a Dispensary License is required to file an application to renew with the ADHS on an annual basis, which must also include audited annual financial statements. While a Dispensary License may not be sold, transferred or otherwise conveyed, Dispensary License holders are permitted to contract with third parties to provide various services related to the ongoing operation, maintenance and governance of its dispensary and/or cultivation facility so long as such contracts do not violate the requirements of the Act or the MMJ Program.

### *Regulatory Framework*

Arizona citizens adopted the Arizona Medical *Marijuana Act* ("AMMA") via citizens' initiative in November 2010. The AMMA is codified in Arizona Revised Statutes ("ARS") § 36-2801 et. seq. The AMMA also appointed the Arizona Department of Health Services ("AZDHS") as the regulator for the program and authorized AZDHS to promulgate, adopt and enforce regulations for the AMMA. These AZDHS Regulations are embodied in the Arizona Administrative Code ("AAC") Title 9 Chapter 17 (the "Rules"). ARS § 36-2801(11) defines a "nonprofit medical cannabis dispensary" as not-for-profit entity that acquires, possesses, cultivates, manufactures, delivers, transfers, transports, supplies, sells or dispenses cannabis or related supplies and educational materials to cardholders (a "Dispensary").

### *Licensing Requirements*

In order for an applicant to receive a Dispensary Registration Certificate (a "Certificate") they must: (i) fill out an application on the form proscribed by AZDHS, (ii) submit the applying entity's articles of incorporation and by-laws, (iii) submit fingerprints for each principal officer or board member of the applicant for a background check to exclude felonies, (iv) submit a business plan and policies and procedures for inventory control, security, patient education, and patient recordkeeping that are consistent with the AMMA and the Rules to ensure that the Dispensary will operate in compliance and (v) designate an Arizona licensed physician as the Medical Director for the Dispensary. Certificates are renewed annually so long as the Dispensary is in good standing with AZDHS and pays the renewal fee and submits an independent third party financial audit.

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***Approval to Operate***

Once an applicant has been issued a Certificate, they are allowed to establish one physical retail dispensary location, one cultivation location which is co-located at the dispensary's retail site (if allowed by local zoning) and one additional off-site cultivation location. None of these sites can be operational, however, until the Dispensary receives an approval to operate from AZDHS for the applicable site. This approval to operate requires: (i) an application on the AZDHS form, (ii) demonstration of compliance with local zoning regulations, (iii) a site plan and floor plan for the applicable property, and (iv) an in-person inspection by AZDHS of the applicable location to ensure compliance with the Rules and consistency with the Dispensary's applicable policies and procedures.

***Security Requirements for Dispensary Facilities***

Any Dispensary facility (both retail and cultivation) must abide by the following security requirements: (i) ensure that access to the facilities is limited to authorized Dispensary Agents who are in possession of a Dispensary Agent card, (ii) equip the facility with: (a) intrusion alarms and surveillance equipment, (b) exterior and interior lighting to facilitate surveillance, (c) at least one 19-inch monitor for surveillance and a video capable of printing a high resolution still image, (d) high resolution video cameras at all points of sale, entrances, exits, and limited access areas, both in and around the building, (e) 30 days' video storage, (f) failure notifications and battery backups for the security system and (g) panic buttons inside each building.

***Transportation Requirements***

Dispensaries may transport medical cannabis between their own sites or between their sites and another Dispensary's sites and must comply with the following Rules: (i) prior to transportation, the Dispensary's agent must complete a trip plan showing: (a) the name of the dispensary agent in charge of transporting the cannabis, (b) the date and start time of the trip, (c) a description of the cannabis, cannabis plants, or cannabis paraphernalia being transported; and (d) the anticipated route of transportation, (ii) during transport the Dispensary Agent shall: (a) carry a copy of the trip plan at all times, (b) use a vehicle with no medical cannabis identification, (c) carry a cell phone, and (d) ensure that no cannabis is visible, and (iii) Dispensaries must maintain trip plan records.

***AZDHS Inspections and Enforcement***

AZDHS may inspect a facility at any time upon five days' notice to the Dispensary. However, if someone has alleged that the Dispensary is not in compliance with the AMMA or the Rules, AZDHS may conduct an unannounced inspection. AZDHS will provide written notice to the Dispensary of any violations found during any inspection and the Dispensary then has 20 working days to take corrective action and notify AZDHS.

AZDHS must revoke a Certificate if a Dispensary: (i) operates before obtaining approval to operate a dispensary from the Department, (ii) dispenses, delivers, or otherwise transfers cannabis to an entity other than another dispensary with a valid dispensary registration certificate issued by the Department, a qualifying patient with a valid registry identification card, or a designated caregiver with a valid registry identification card, (iii) acquires usable cannabis or mature cannabis plants from any entity other than another dispensary with a valid dispensary registration certificate issued by the Department, a qualifying patient with a valid registry identification card, or a designated caregiver with a valid registry identification card, or (iv) if a principal officer or board member has been convicted of an excluded felony offense.

Furthermore, AZDHS may revoke a Certificate if a Dispensary does not: (i) comply with the requirements of the AMMA or the Rules, (ii) implement the policies and procedures or comply with the statements provided to the Department with the dispensary's application.

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*Compliance of U.S. Investments*

Liberty is in compliance with applicable licensing requirements and the regulatory framework enacted by the State of Florida, including but not limited to the Financial Crimes Enforcement Network memorandum issued by the Treasury Department in February of 2014 ("FinCEN Memo"). The FinCEN Memo provides instructions to banks seeking to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. Liberty maintains a banking relationship in Florida, with a certain bank that is in full compliance with the Treasury Department's federal rules and regulations as they pertain to a state approved cannabis business. More specifically, and as further detailed above, Liberty is licensed to operate as a "medical cannabis treatment center" under applicable Florida law pursuant to the terms of the Liberty License issued by the Florida Department of Health, Office of Compassionate Use under the provisions of the Compassionate Medical Cannabis Act of 2014. The Liberty License grants Liberty the authority to possess, cultivate, process, dispense and sell medical cannabis in the State of Florida. Liberty has not experienced any material non-compliance nor has been subject to any notices of violation by the Florida Department of Health, Office of Medical Marijuana Use.

Copperstate is in compliance with applicable licensing requirements and the regulatory framework enacted by the State of Arizona. As further detailed above, Copperstate is a licensed producer and seller of medical cannabis under the Act and is compliant with the rules, requirements and reporting standards of the MMJ Program with respect to the ongoing operation and governance of its dispensary/cultivation facility. In addition, Copperstate maintains a banking relationship in Arizona with a certain bank that is in full compliance with the Treasury Department's federal rules and regulations as they pertain to a state approved cannabis business. Copperstate has not experienced any material non-compliance nor has been subject to any notices of violation by the ADHS.

The Company understands that each of Liberty and Copperstate has implemented measures designed to ensure compliance with applicable U.S. state laws on an ongoing basis, including:

- weekly correspondence and updates with advisors;
- development of standard operating procedures;
- appropriate employee training for all standard operating procedures; and
- subscription to monitoring programs with large banks to monitor and ensure compliance with the FinCEN Memo.

The Company confirms that the U.S. cannabis-related activities of each of Liberty and Copperstate and to the best of the Company's knowledge, each Non-Material Investee are conducted in a manner consistent with the U.S. federal enforcement priorities articulated in the currently rescinded Cole Memorandum and to the best of the Company's knowledge each of the Non-Material Investees are in compliance with licensing requirements and applicable state regulatory frameworks.

## INDUSTRY TRENDS AND RISKS

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The Company's overall performance and results of operations are subject to a number of risks and uncertainties. The economic, industry and risk factors discussed in our Annual Report, each in respect of the year ended May 31, 2017 and in our Short Form Prospectus, dated December 22, 2017, November 1, 2017, May 3, 2017 and February 17, 2017, remain substantially unchanged in respect of the three months and nine months ended February 28, 2018. The more significant of which are reported below.

***In light of recent announcements, the TSX may initiate delisting reviews for companies with U.S. assets more expeditiously than it would have previously, in the absence of such announcements.***

On October 16, 2017, the TSX provided clarity regarding the application of the Requirements to applicants and TSX-listed issuers in the cannabis sector. In TSX Staff Notice 2017-0009, the TSX notes that issuers with ongoing business activities that violate U.S. federal law regarding cannabis are not in compliance with the Requirements. These business activities may

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include (i) direct or indirect ownership of, or investment in, entities engaging in activities related to the cultivation, distribution or possession of cannabis in the U.S., (ii) commercial interests or arrangements with such entities, (iii) providing services or products specifically targeted to such entities, or (iv) commercial interests or arrangements with entities engaging in providing services or products to U.S. cannabis companies. The TSX reminded issuers that among other things, should the TSX find that a listed issuer is engaging in activities contrary to the Requirements, the TSX has the discretion to initiate a delisting review. In order to comply with the Requirements, the Company may be required to effect one or more reorganizations, restructurings, transactions or series of transactions, which may include a divestiture of U.S. cannabis assets.

### ***The Company's investments in the United States are subject to applicable anti-money laundering laws and regulations***

The Company is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the *Currency and Foreign Transactions Reporting Act of 1970* (commonly known as the *Bank Secrecy Act*), as amended by Title III of the *Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001* (USA PATRIOT Act), the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada)*, as amended, and the rules and regulations thereunder, the *Criminal Code* (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

In February 2014, the FinCen Memo provided instructions to banks seeking to provide services to cannabis-related businesses. The FinCEN Memo states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA. It is unclear at this time whether the current administration will follow the guidelines of the FinCEN Memo. However, the Sessions Memo rescinding the Cole Memorandums does not have an impact on the FinCen Memo and as of today's date, the FinCen Memo has not been withdrawn or rescinded and remains in effect.

In the event that any of the Company's investments, or any proceeds thereof, or any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, affect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends on its Common Shares in the foreseeable future, in the event that a determination was made that the investments in Copperstate or Liberty (or any future investments in the United States) could reasonably be shown to constitute proceeds of crime, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

As of the date hereof, following discussions with its legal counsel, the Company is not aware of any violation of the above noted statutes as a result of its investments in Copperstate and Liberty and has no reason to believe that such investments may be constituted as, whether directly or indirectly, money laundering or proceeds of crime. However, any future exposure to money laundering or proceeds of crime could subject the Company to financial losses, business disruption and damage to the Company's reputation. In addition, there is a risk that the Company may be subject to investigation and sanctions by a regulator and/or to civil and criminal liability if the Company has failed to comply with the Company's legal obligations relating to the reporting of money laundering or other offences.

### ***Volatile Market Price of the Common Shares***

The market price of the Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control. This volatility may affect the ability of holders of Common Shares to sell their securities at an advantageous price. Market price fluctuations in the Common Shares may be due to the Company's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities

analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by Aphria or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the Common Shares. Financial markets historically at times 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. 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.

### ***Risks Inherent in an Agricultural Business***

Aphria's business involves the growing of medical cannabis, an agricultural product. Such business will be subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although Aphria expects that any such growing will be completed indoors under climate controlled conditions, there can be no assurance that natural elements will not have a material adverse effect on any such future production

### ***Reliance on a Single Facility***

To date, Aphria's activities and resources have been primarily focused on the premises in Leamington, Ontario. Aphria expects to continue the focus on this facility for the foreseeable future. Adverse changes or developments affecting the existing facility could have a material and adverse effect on Aphria's ability to continue producing medical cannabis, its business, financial condition and prospects.

### ***Third Party Transportation***

In order for customers of Aphria to receive their product, Aphria must rely on third party mail and courier services. This can cause logistical problems with and delays in patients obtaining their orders and cannot be directly controlled by Aphria. Any delay by third party transportation and/or rising costs associated with these services may adversely affect Aphria's financial performance. Moreover, security of the product during transportation to and from the Company's facilities is critical due to the nature of the product. A breach of security during transport could have material adverse effects on Aphria's business, financials and prospects. Any such breach could impact Aphria's ability to continue operating under its licenses or the prospect of renewing its licenses.

### ***Product Liability***

As a distributor of products designed to be ingested by humans, Aphria faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the sale of Aphria's products involves the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of Aphria's products alone or in combination with other medications or substances could occur. Aphria may be subject to various product liability claims, including, among others, that Aphria's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against Aphria could result in increased costs, could adversely affect Aphria's reputation with its clients and consumers generally, and could have a material adverse effect on our results of operations and financial condition of Aphria. There can be no assurances that Aphria will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of Aphria's potential products.

### *Product Recalls*

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labelling disclosure. If any of Aphria's products are recalled due to an alleged product defect or for any other reason, Aphria could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. Aphria may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although Aphria has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of Aphria's significant brands were subject to recall, the image of that brand and Aphria could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for Aphria's products and could have a material adverse effect on the results of operations and financial condition of Aphria and the Resulting Issuer. Additionally, product recalls may lead to increased scrutiny of Aphria's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

### *Regulatory or Agency proceedings, Investigations and Audits*

The Company's business requires compliance with many laws and regulations. Failure to comply with these laws and regulations could subject the Company to regulatory or agency proceedings or investigations and could also lead to damage awards, fines and penalties. Aphria may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Company's reputation, require the Company to take, or refrain from taking, actions that could harm its operations or require Aphria to pay substantial amounts of money, harming its financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on the Company's business, financial condition and results of operation.

### *Information technology systems and cyber-attacks*

Aphria has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("IT") services in connection with its operations. The Company's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation and results of operations.

Aphria has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

### *Reliance on the Licence*

Aphria's ability to grow, store and sell medical cannabis in Canada is dependent on maintaining its licence with Health Canada. Failure to comply with the requirements of the licence or any failure to maintain its licence would have a material adverse impact on the business, financial condition and operating results of Aphria. Although Aphria believes it will meet the

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requirements of the ACMPR for extension of the licence, there can be no guarantee that Health Canada will extend or renew the licence or, if it is extended or renewed, that it will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the licence or should it renew the licence on different terms, the business, financial condition and results of the operation of Aphria would be materially adversely affected.

### *Reliance on Veterans Affairs Canada ("VAC") medical cannabis reimbursement policies*

As the Company has previously disclosed, VAC reimburses certain medical cannabis purchases for eligible retired Canadian Armed Forces veterans. The current reimbursement policy includes a 3 gram per day limit, subject to certain exceptions, and a \$8.50 per gram price cap. The Company maintains a number of veterans as part of its overall medical patient list, although as discussed elsewhere in this MD&A, veteran sales have decreased over the prior quarter. As the Company grows larger and, more particularly, if and when adult recreational use of cannabis is implemented by the Federal Government, the Company anticipates that veteran patients will become less and less material to its overall sales as a relative percentage. However, should VAC further amend its reimbursement policies prior to the introduction of adult recreational use of cannabis, the Company may be materially adversely affected.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

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Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be publicly disclosed by a public company is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures was conducted as of May 31, 2017, based on the criteria set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") by and under the supervision of the Company's management, including the CEO and the CFO. Based on this evaluation, the CEO and the CFO concluded that the Company's disclosure controls and procedures (as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators) were effective in providing reasonable assurance that material information relating to the Company is made known to them and information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in such legislation.

Under the supervision of the CEO and CFO, the Company designed internal controls over financial reporting (as defined in National Instrument 52-109) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's management team used COSO to design the Company's internal controls over financial reporting.

It is important to understand that there are inherent limitations of internal controls as stated within COSO. Internal controls, no matter how well designed and operated, can only provide reasonable assurance to management and the Board of Directors regarding achievement of an entity's objectives. A system of controls, no matter how well designed, has inherent limitations, including the possibility of human error and the circumvention or overriding of the controls or procedures. As a result, there is no certainty that an organization's disclosure controls and procedures or internal control over financial reporting will prevent all errors or all fraud. Even disclosure controls and procedures and internal control over financial reporting determined to be effective can only provide reasonable assurance of achieving their control objectives.

There have been no changes in the Company's internal controls over financial reporting during the three months ended February 28, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## SUBSEQUENT EVENTS

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Subsequent to quarter-end, the Company completed an arrangement agreement (the "Arrangement") under the provisions of the Business Corporations Act (Ontario), pursuant to which, among other things, the Company has acquired all of the common shares of Nuuvera. Under the terms of the Arrangement the Company shall pay \$0.62 and 0.3546 of a common share of the Company, for each Nuuvera common share held prior to the Arrangement. The Company has recorded \$2,500 in transaction costs related to the transaction as at February 28, 2018.

Subsequent to quarter-end, the Company acquired 2,000 common shares of Althea for \$2,500 AUD (\$2,496 CAD). As a result of this transaction, the Company holds 33.1% of the issued and outstanding common shares of Althea and is considered to hold significant influence.

Subsequent to quarter-end, Health Canada issued a license amendment approve Aphria One's Part III Expansion project. The amendment approved an additional 200,000 square feet of production space increasing Aphria One's production capabilities to 30,000 kgs (annually).

*This MD&A contains forward-looking statements within the meaning of applicable securities legislation with regards to expected financial performance, strategy and business conditions. We use words such as "forecast", "future", "should", "could", "enable", "potential", "contemplate", "believe", "anticipate", "estimate", "plan", "expect", "intend", "may", "project", "will", "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management. Forward-looking statements involve significant known and unknown risks and uncertainties. Many factors could cause actual results, performance or achievement to be materially different from any future forward-looking statements. Factors that may cause such differences include, but are not limited to, general economic and market conditions, investment performance, financial markets, legislative and regulatory changes, technological developments, catastrophic events and other business risks. These forward-looking statements are as of the date of this MD&A and the Company and management assume no obligation to update or revise them to reflect new events or circumstances except as required by securities laws. The Company and management caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made.*

*Some of the specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to the following:*

- the intended expansion of the Company's facilities and receipt of approval from Health Canada to complete such expansion;*
- the expected cost to produce a gram of dried cannabis;*
- the expected cost to process cannabis oil;*
- the anticipated future gross margins of the Company's operations; and,*
- The Company's investments in the United States, the characterization and consequences of those investments under Federal Law, and the framework for the enforcement of medical cannabis and cannabis-related offenses in the United States.*