AURORA®

MANAGEMENT DISCUSSION & ANALYSIS

Aurora Cannabis Inc.
Fourth Quarter 2016 | Fiscal 2016

FISCAL 2016 INVESTOR HIGHLIGHTS

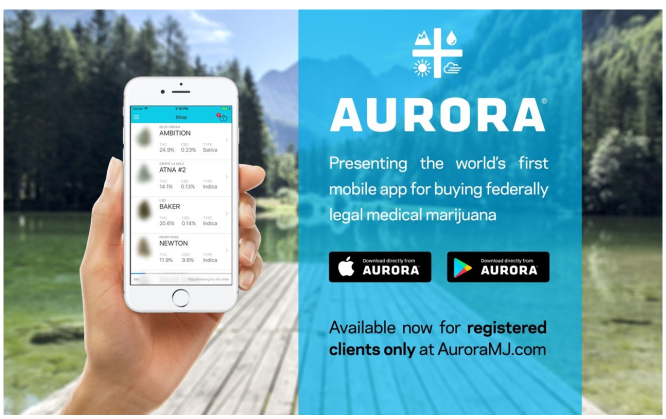
	Q4 2016	Q3 2016	Fiscal 2016
Active registered patients	4,500	1,000	4,500
Revenue	1,220,041	219,230	1,439,271
Grams sold	200,310	56,770	257,080

November 30, 2015 Received Health Canada license to sell dried cannabis

February 17, 2016 Received Health Canada license to produce cannabis oils

Strengthened operational and tactical capabilities with key senior management hires and board appointments

SUBSEQUENT AND RECENT DEVELOPMENTS



Significantly strengthened balance sheet with up to approx. $68 million in new capital

Commenced trading on the TSX-V effective October 5, 2016

9,000 active registered patients as at October 27, 2016

Currently generating > $1 million in gross monthly revenues

Stockpiling cannabis oil in preparation for receipt of sales license

Announced 650,000 square foot state-of-the-art facility expansion with capacity to produce up to an additional 70,000 kg annually

Announced same-day delivery in Edmonton and Calgary

First LP to launch mobile app for ordering medical cannabis

Completed acquisition of CanvasRx, Canada's largest medical cannabis counseling network with over 10,000 registered patients

DEAR SHAREHOLDERS,

Fiscal 2016 and the four subsequent months reflect tremendous progress for Aurora. We significantly strengthened our balance sheet, raising up to approx. $68 million in new capital and established the Company as one of the best capitalized in the medical cannabis space. The Aurora Standard, combining excellence in products, operations and customer service, resulted in a remarkable rate of patient acquisition. Fiscal 2016 and the four subsequent months reflect tremendous progress for Aurora. We significantly strengthened our balance sheet, raising up to approx. $68 million in new capital and established the Company as one of the best capitalized in the medical cannabis space. The Aurora Standard, combining excellence in products, operations and customer service, resulted in a remarkable rate of patient acquisition – the fastest pace of patient registration after start of commercial operations in the history of the sector. Looking ahead, we will continue to build on this elite position through continued innovation, both in how we produce cannabis and how we interact with patients and other stakeholders. While the rapid growth of Canada's medical cannabis system (in excess of 10% per month) has created a significant business opportunity, the pending legalization of consumer use of cannabis will create additional and even larger strategic opportunities. With our financial strength and intended capacity expansion, low cost of production, exceptional product quality and stakeholder interaction, Aurora is in the driver's seat for continued expansion,sustainable growth and anticipated profitability. Looking ahead, we will continue to build on this elite position through continued innovation, both in how we produce cannabis and how we interact with patients and other stakeholders.

While the rapid growth of Canada's medical cannabis system (in excess of 10% per month) has created a significant business opportunity, the pending legalization of consumer use of cannabis will create additional and even larger strategic opportunities

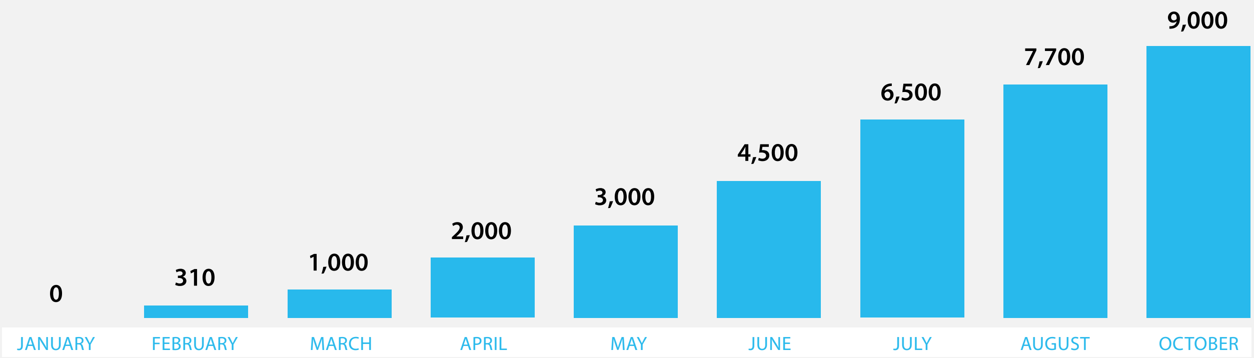
With our financial strength and intended capacity expansion, low cost of production, exceptional product quality and stakeholder interaction, Aurora is in the driver's seat for continued expansion, sustainable growth and anticipated profitability.

Terry Booth
Chief Executive Officer

Edmonton, October 2016

THE INDUSTRY'S FASTEST RATE OF PATIENT REGISTRATION

After commencement of commercial operations



CANVASRX ACQUISITION–A TRANSFORMATIVE TRANSACTION

Largest Network of Medical Cannabis Counseling Centres in Canada

19

Locations in Ontario and Alberta, with plans for at least 6 more across Canada

1,000+

New patients referred to Licensed Producers per month

1 in 4

Of new legal patients in Canada controlled by CanvasRx

10,000+

Total patients referred to Licensed Producers

2,000+

Patients referred to Aurora since February 2016

$25

Fee per patient per month

CANVASRX LOCATIONS

AURORA CANNABIS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the years ended June 30, 2016 and 2015

Dated as of October 27, 2016

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

Below are the addresses of the Company:

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

This Management's Discussion and Analysis ("MD&A") reports on the consolidated financial condition and operating results of the Company for the year ended June 30, 2016 and is prepared as of October 27, 2016. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended June 30, 2016 and 2015 ("Financial Statements"). The Financial Statements were prepared in accordance with International Financial Reporting Standards (the "IFRS").

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

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

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

FORWARD-LOOKING STATEMENTS

This MD&A may contain "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this MD&A and Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation. Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "intends" and "estimates". By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

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

- the Company's expansion plans as outlined under "Business Overview";
- its expectations regarding production capacity and production yields; and
- the expected demand for products and corresponding forecasted increase in revenues.

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

BUSINESS OVERVIEW

On December 9, 2014, the Company completed the reverse takeover of Prescient pursuant to a Share Exchange Agreement dated September 9, 2014 ("RTO"). See note 3 to the Company's Financial Statements.

ACE is licensed to produce and sell medical marijuana under the provisions of the *Access to Cannabis for Medical Purposes Regulations* ("ACMPR"). ACE received its license to produce and sell medical cannabis on February 17, 2015 and November 27, 2015, respectively. On February 16, 2016, the Company received its license to produce cannabis oil products.

The Company's operations are located in a state-of-the-art, 55,200 square feet of expandable licensed production space (the "Facility"). The Facility is of pharmaceutical production grade quality with hydroponic greenhouse high pressure sodium lighting and nutrient delivery equipment which is capable of producing over 7,000 kilograms of medical cannabis per year. It is located off Highway 22 and situated on approximately 154 acres of land in Mountain View County near Cremona, Alberta. It is nestled in the foothills of the Rocky Mountains which allows for a never-ending supply of clean, pure, mountain-fed water, an ideal location for security, low power costs, tax benefits, shipping, farm credit eligibility and product growth.

The Facility cost approximately $10.2 million as of June 30, 2016. MNP LLP conducted a valuation of the Company's Facility in accordance with Canadian Uniform Standards of Professional Appraisal Practice propagated by the Appraisal Institute of Canada and determined that as of March 1, 2015, the fair market value ("FMV") of the Facility, which includes the land that has yet to be acquired (FMV of $750,000), building, site improvements, fixture and equipment, to be between $11.6 million and $12.6 million.

The Company's strategic priorities are to leverage its strong financial position, build on and accelerate its rapid market penetration and revenue growth trajectory since beginning commercial operations in January, 2016. Furthermore, the Company intends to transition its Facility operations to full capacity production, further enhance its increasing revenues by attaining its license to sell cannabis oils in the near term, begin construction of its new state-of-the-art 650,000 square foot greenhouse expansion in Alberta, identify opportunities for accretive acquisitions, seek exclusive partnerships in international jurisdictions, and transition to profitable operations and positive earnings per share.

Investor Highlights

	Q4 2016	Q3 2016
Active registered patients [(1)]	4,500	1,000
Revenue	1,220,041	219,230
Grams sold	200,310	56,770
Adjusted gross margin	(184,819)	(617,062)
Working capital	(2,751,400)	2,365,255
Investment in capital assets	278,414	1,606,419

[(1)] As of the date hereof, the Company has 9,000 active registered patients.

Recent and Significant Developments

Developments occurring subsequent to June 30, 2016:

- Significantly strengthened its balance sheet with up to $68 million in new financings as follows;
    - $23 million in completed brokered subscription receipt equity financing;
    - $15 million in completed private placement of 10% unsecured convertible debentures; 0
    - up to $25 million in additional 8% unsecured convertible debentures announced on October 11, 2016 and expected to close on or about November 1, 2016; and
    - Generated approximately $4.7 million in additional gross cash proceeds from exercise of warrants, stock and compensation options.
- The Company has approximately $25 million in additional gross cash proceeds available to it from unexercised warrants, stock and compensation options, all of which continue to remain in-the-money to security holders;
- Paid approximately $9.2 million in high interest short-term and long-term loans outstanding as at June 30, 2016 in full;
- Converted approximately $2.2 million in convertible notes as at June 30, 2016 into common shares;
- On October 4, 2016, announced that the Company accelerated the expiry of 5,658,479 private placement common share purchase warrants and 112,300 finder warrants issued in connection with a private placement which closed on December 31, 2015 and January 19, 2016. Assuming all warrants are exercised, the Company will receive gross cash proceeds of approximately $3.8 million;
- On October 20, 2016, announced that the Company elected to exercise its right under the indenture to convert all its $15 million, 10% convertible notes into common shares effective November 23, 2016;
- Commenced trading on the TSX-V effective October 5, 2016;

- Achieved 9,000 active registered patients and currently generating > $1 million in gross monthly revenues;
- Acquired CanvasRx, representing Canada's largest medical cannabis counseling network with over 10,000 registered patients;
- Announced 650,000 square foot state-of-the-art facility expansion with capacity to produce up to an additional 70,000 kg. annually; and
- Announced that all resolutions presented to the Company's shareholders at its Annual General Meeting, which was held August 26, 2016, were passed.

Developments occurring during the year ended June 30, 2016:

- On November 30, 2015, announced that its wholly-owned subsidiary, Aurora Cannabis Enterprises Inc., was granted a license from Health Canada to sell medicinal cannabis pursuant to the ACMPR;
- On February 17, 2016, announced that its wholly-owned subsidiary, Aurora Cannabis Enterprises Inc., received approval from Health Canada to produce derivative cannabis products through a Section 56 exemption to the Controlled Drugs and Substances Act ("CDSA");
- On June 6, 2016, announced that the Company entered into a non-binding agreement for a draw-down equity facility with Alumina Partners LLC, a New York-based private equity firm of up to $5,000,000. Although the Company has not drawn down on this facility, it provides additional financial leverage available for potential strategic opportunities if, and when required;
- Further strengthened operating and tactical capabilities with key senior management hires and several new board of director additions with deep industry experience.

Operations Update

The Company currently has achieved 9,000 active registered patients in less than 10 months of product sales, which management believes to be the fastest rate of patient registration for a Licensed Producer after the launch of commercial operations. Note that Aurora uses the metric of active registered patients (i.e. not counting patients who have not placed an order for the previous four months), as opposed to total registered patients.

On August 10, 2016, Aurora signed a definitive agreement to acquire all the issued and outstanding shares of CanavasRx Holdings Inc. With 19 locations in Ontario and Alberta, having registered more than 10,000 patients, CanvasRx is the largest medical cannabis counseling and outreach service in Canada. The acquisition of CanvasRx significantly expands Aurora's footprint in the cannabis sector, and provides Aurora with access to valuable aggregate data on patient use of medical cannabis, as well the ability to jointly develop custom strains tailored to the needs of patients. To date more than 2,000 CanvasRx patients have registered with Aurora.

Aurora announced on August 23, 2016 that it had completed the design, engineering and tender process for a major expansion, and will begin construction shortly on the first phase of a new 650,000 square foot capacity expansion. The new facility is required to satisfy the rapidly increasing demand for medical cannabis under the ACMPR - which reached 91,178 registered patients to the end of August, 2016 and is growing at a pace of more than 10 per cent per month – as well as the projected future adult non-medical market once the Canadian government legalizes the consumer use of marijuana, with respect to which the government has stated it will introduce legislation in the spring of 2017. Aurora's new facility will be the largest yet constructed or envisioned in the Canadian cannabis sector, and management believes it will represent the most advanced, automated cannabis production facility in the world. Upon completion of the entire expansion, the Company will have the capacity to produce more than 70,000 kilograms of cannabis per year. The first of the two phases of the expansion plan, amounting to an initial 250,000 square feet and 20,000 kilograms of additional production capacity, is fully capitalized.

Aurora has established itself a leader in pioneering service and technological innovation within the cannabis sector. The Company has recently expanded its same-day medical cannabis delivery service for registered patients to include Edmonton and surrounding communities, in addition to the Calgary metropolitan area, a total area representing a population of 2.36 million. Aurora was the first Licensed Producer to offer customers same-day delivery, and remains the only company to offer same-day delivery in two major metropolitan centres. Same-day delivery has been extremely popular with clients in these cities, with 83% of customers in Calgary, and 70% of patients in Edmonton opting for the same-day service.

In addition, in September, 2016, the Company announced another industry first: the launch of the world's first and only mobile application (or "app") allowing for the purchase of legal medical cannabis. The feature-rich app runs on both Apple and Android platforms, and uses data encryption between Aurora's server and consumer devices, to ensure security and patient privacy. The app has been an immediate success, has been downloaded by approximately 13,000 individuals, and during business hours now averages 60 secure system logins per hour from registered Aurora patients.

Director and Officer Appointments

Amy Stephenson

On August 8, 2016, the Company appointed Amy Stephenson as interim CFO. Mrs. Stephenson is a seasoned financial executive with more than 20 years' experience in the capital markets, supporting developing companies through rapid growth phases and the transition to profitability, and advising on M&A strategy.

A CFA Charter holder and Chartered Professional Accountant (CPA, CMA), Mrs. Stephenson possesses a wealth of experience in the Canadian cannabis sector, having served as CFO for Licensed Producer Bedrocan Canada Inc., and as Controller at Canopy Growth Corporation.

Michael Singer

On May 24, 2016, the Company appointed Michael Singer to the Board of Directors. Mr. Singer, who was recently nominated as Chairman of the Board, sits as an independent Director and has extensive financial management, capital markets and corporate governance experience in the pharmaceutical and medical cannabis industries. He is a Certified Professional Accountant (CPA) and Certified General Accountant (CGA).

Mr. Singer is currently the CFO of privately-held Clementia Pharmaceuticals Inc., a Montreal based clinical stage biopharmaceutical company. Until June 2015, he was CFO of Bedrocan Cannabis Corp., and with the completion of a $12 million private placement, positioned Bedrocan for its successful capital markets launch and TSX-V listing in August 2014. Mr. Singer has held numerous independent director roles in Canadian public health care companies, and also previously served as CFO and Corporate Secretary for TSX-V listed Thallion Pharmaceuticals Inc., until the company's successful cash sale to BELLUS Health Inc. in July 2013.

Joseph del Moral

On October 6, 2016, the Company appointed Joseph del Moral to the Board of Directors. Mr. del Moral is co-Founder and CEO of Canadian Cannabis Clinics (CCC). He is also a co-founder of CanvasRx Inc., Canada's leading cannabis outreach and counselling service provider, where he served as CEO until its acquisition by Aurora. Prior to his pioneering work in the cannabis industry, Mr. del Moral held several senior positions in the energy industry, including as founder of Newten Home Comfort, before its acquisition by Just Energy in 2010. He holds a B.Comm in Finance from McGill University.

Barry Fishman

On October 12, 2016, the Company appointed Barry Fishman to the Board of Directors. Mr. Fishman, who will sit as an independent Director, is the CEO of international specialty pharmaceutical company Merus Labs, is a Certified Public Accountant (CPA), and has more than 30 years of experience in executive management, marketing and finance.

Prior to his current role with Merus, he served as CEO of both Teva Canada and Taro Canada, and is a past Chair of the Canadian Generic Manufacturers Association. He began his pharmaceutical career at Eli Lilly, where he advanced through several cross-functional leadership roles, including Vice President of Marketing. Mr. Fishman also has critical insights into the development of the cannabis sector, having previously served on the Board of Directors of Canopy Growth Corporation and Bedrocan Cannabis Corp.

Financing

Subsequent to June 30, 2016, the Company entered into the following $5 million draw-down equity facility, raised aggregate gross proceeds of approximately $42.65 million, and announced up to an additional $25 million private placement of unsecured convertible debentures:

Drawdown Equity Facility of up to $5 Million

On July 13, 2016, the Company entered into an agreement for a drawdown equity facility of up to $5,000,000 (the "Equity Facility"). Under the Equity Facility, the Company shall sell, on a private placement basis, units of the Company of between $100,000 to $500,000 per tranche, at a discount of 25% to the market price or such lesser discounts as allowed by the Exchange, over a period of eighteen months from the date of the agreement. Each unit will consist of one common share and one-half of one common share purchase warrant. Each whole warrant will be exercisable into one common share at a 25% premium to the market price for a period of 5 years from the date of issuance. As of the date hereof, no drawdown has been taken on the Equity Facility.

$23 Million Brokered Private Placement

On August 17, 2016, the Company closed a brokered private placement of 57,500,000 subscription receipts for aggregate gross proceeds of $23,000,000. Each subscription receipt was converted into units of the

Company upon the satisfaction of the conditions precedent to the acquisition of CanvasRx Inc. Each unit consisted of one common share and one-half of one common share purchase warrant of the Company. Each whole warrant entitles the holder to purchase an additional common share at an exercise price of $0.55 per share expiring August 9, 2018. A portion of the net proceeds from the Offering was used to satisfy the cash component of the acquisition.

$15 Million Unsecured Convertible Debentures

On September 28, 2016, the Company completed a brokered private placement of unsecured convertible debentures in the aggregate principal amount of $15,000,000. The convertible debentures bear interest at 10% per annum, payable semi-annually, and mature on March 28, 2018. The convertible debentures are convertible into common shares of the Company at a price of $1.15 per share, at any time during the term, at the option of the holder. Forced conversion of the principal amount of the convertible debentures into common shares will occur if the volume weighted average price of the Company's common shares equals or exceeds $2.00 per share for 10 consecutive trading days.

On October 11, 2016, the Company announced that $10,000,000 of the principal amount of the Convertible Debentures were converted and the Company issued 8,695,652 common shares and paid interest of $54,794.

On October 20, 2016, the Company gave notice to convert into common shares the remaining $5,000,000 principal amount of Convertible Debentures as the volume weighted average price of the Company's common shares for ten consecutive trading days equaled $2.15.

$25 Million Unsecured Convertible Debentures

On October 11, 2016, the Company announced a brokered private placement of unsecured convertible debentures in the aggregate principal amount of up to $25,000,000. The Convertible Debentures will bear interest from the date of closing at 8% per annum, payable semi-annually, and have a maturity of 24 months from the closing date. The convertible debentures are convertible into common shares of the Company at a price of $2.00 per share, at any time during the term, at the option of the holder. Forced conversion of the principal amount of the Convertible Debentures into common shares will occur if the volume weighted average price of the Company's common shares equals or exceeds $3.00 per share for 10 consecutive trading days.

Furthermore, and pursuant to the offering, the Company converted $10 million of pre-existing convertible debentures, bearing interest at 10% per annum, into approximately 8,695,652 additional common shares as noted above.

Closing is expected to occur on or about November 1, 2016.

$4.65 Million on Exercise of Securities

Subsequent to June 30, 2016, the Company raised approximately $4,650,000 on the exercise of warrants, options and compensation options.

Fiscal 2016

During fiscal 2016, the Company closed the following financings and raised gross proceeds of approximately $6.85 million:

$4,818,585 Non-brokered Private Placement

In December 2015 and January 2016, the Company completed a non-brokered private placement consisting of 9,091,670 units at a price of $0.53 per unit for gross proceeds of $4,818,585. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the company at a price of $0.66 per common share for a period of two years. The expiry date of the warrants may be accelerated by the Company if its shares trade above $1.25 for 10 consecutive trading days.

On October 4, 2016, the Company has given notice with respect to the acceleration of the expiry of the unexercised 5,658,479 share purchase warrants exercisable at $0.66 per share and 112,300 finder warrants exercisable at $0.53 per share, as the Company's common shares traded above $1.25 for ten consecutive trading days. The expiry date was accelerated to November 11, 2016 and any warrants unexercised after the accelerated expiry date will be cancelled.

$2,050,000 Unsecured Convertible Debentures

In May 2016, the Company closed a non-brokered private placement of unsecured convertible debentures in the principal amount of $2,050,000. The convertible debentures have a term of 18 months and bear interest at 10% per annum, payable semi-annually. The debentures are convertible into common shares of the Company at a price of $0.53 per share, at any time during the term, at the holder's option. Forced conversion of the debentures into common shares will occur if the volume weighted average price of the Company's common shares is equal to or above $1.25 per share for 10 consecutive trading days.

In connection with the offering, the Company paid to the subscriber (i) a bonus of $120,000 in convertible debentures having the same terms as the debentures; and (ii) 200,000 common shares at a deemed price of $0.53 per share. In addition, the Company paid an advisory fee of $164,000 and 309,434 compensation options. Each compensation option is exercisable into one common share and one-half of one share purchase warrant of the Company at an exercise price of $0.53 per share expiring two years from the date of issuance of the compensation options. Each whole warrant will entitle the holder to purchase an additional common share of the Company at a price of $0.69 per share expiring two years from the date of closing of the offering.

Within six months of closing of the offering, if the Company completes an equity financing at a price 15% below the conversion price or issues common shares in connection with any acquisition at a price below the conversion price, the Company shall pay in cash or additional debentures an amount equal to the difference between the conversion price and the financing or acquisition price.

On July 28, 2016, the Company has reached an agreement with the debenture holders to amend certain aspects of the anti-dilution clause. As consideration for the debenture amendment, the Company reduced the conversion price from $0.53 to $0.40 per common share. In addition, the Company issued an aggregate of 2,712,500 warrants to the debenture holders at a price of $0.55 per common share expiring August 9, 2018. All other terms of the debentures remain unchanged.

In September, 2016, the Company issued an aggregate of 5,674,542 shares on the conversion of all outstanding debentures (principal amount of $2,050,000 plus interests of $99,817) and bonus debentures of $120,000.

RISK FACTORS

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

Reliance on License

The ability of the Company to successfully grow, store and sell medical marijuana in Canada is dependent on Aurora's current production and sales licenses from Health Canada (the "Licenses"). The Licenses are subject to ongoing compliance and reporting requirements. Failure to comply with the requirements and terms of the Licenses or any failure to maintain the Licenses or any failure to renew the Licenses after its expiry date, would have a material adverse impact on the business, financial condition and operating results of the Company. Although the Company believes that it will meet the requirements of the ACMPR for future extensions or renewals of the Licenses, there can be no assurance that Health Canada will extend or renew the Licenses or, if extended or renewed, that it will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the Licenses or should they renew the licenses on different terms, the business, financial condition and operating results of the Company would be materially adversely affected.

Regulatory Risks

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

Change in Laws, Regulations and Guidelines

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

On February 24, 2016, the Federal Court released its decision in the case of Allard et al v. Canada. The impact of this decision could potentially decrease the size of the market for the Company's business, and potentially materially and adversely affect the Company's business, its results of operations and financial condition. However, it is not expected that the changes in ACMPR regulations would have an effect on the Company's operations that are materially different than the effect on similar-sized companies in the industry.

Limited Operating History and No Assurance of Profitability

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

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

Unfavourable Publicity or Consumer Perception

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

Competition

The market for the Company's product does appear to be sizeable and Health Canada has only issued a limited number of licenses under the ACMPR to produce and sell medical marijuana. As of this date, there are approximately 36 licensed producers in Canada. As a result, the Company expects significant competition from other companies due to the recent nature of the ACMPR regime. A large number of companies appear to be applying for production licenses, some of which may have significantly greater financial, technical, marketing and other resources, may be able to devote greater resources to the development, promotion, sale and support of their products and services, and may have more extensive customer bases and broader customer relationships.

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

Company's business, its financial condition and operations.

Uninsured or Uninsurable Risk

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

Key Personnel

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

Conflicts of Interest

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

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

Litigation

The Company may become party to litigation, mediation and/or arbitration from time to time in the ordinary course of business which could adversely affect its business. Monitoring and defending against legal actions, whether or not meritorious, can be time-consuming, divert management's attention and resources and cause the Company to incur significant expenses. In addition, legal fees and costs incurred in connection with such activities may be significant and we could, in the future, be subject to judgments or enter into settlements of claims for significant monetary damages.

While the Company has insurance that may cover the costs and awards of certain types of litigation, the amount of insurance may not be sufficient to cover any costs or awards. Substantial litigation costs or an adverse result in any litigation may adversely impact the Company's business, operating results or financial condition.

See a description of current claims in Note 18 to the Financial Statements.

Agricultural Operations

Since the Company's business will revolve mainly around the growth of medical marijuana, an agricultural product, the risks inherent with agricultural businesses will apply. Such risks may include disease and insect pests, among others. Although the Company expects to grow its product in a climate controlled, monitored, indoor location, there is not guarantee that changes in outside weather and climate will not adversely affect production. Further, any rise in energy costs may have a material adverse effect on the Company's ability to produce medical marijuana.

Transportation Disruptions

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

Fluctuating Prices of Raw Materials

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

Environmental and Employee Health and Safety Regulations

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

Intellectual Property

The success of the Company's business depends in part on its ability to protect its ideas and technology. Aurora has no patented technology or trademarked business methods at this time nor has it applied to register any patents. AMI has applied to register the trademark "Aurora" and has received an approval notice from the Canadian Intellectual Property Office.

Even if the Company moves to protect its technology with trademarks, patents, copyrights or by other means, Aurora is not assured that competitors will not develop similar technology, business methods or that Aurora will be able to exercise its legal rights. Other countries may not protect intellectual property rights to the same standards as does Canada. Actions taken to protect or preserve intellectual property rights may require significant financial and other resources such that said actions have a meaningfully impact our ability to successfully grow our business.

Political and Economic Instability

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

Facility Expansion

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

Market Risk for Securities

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

Global Economy Risk

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

Dividend Risk

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

Share Price Volatility

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

Global stock markets, including the Exchange, have from time-to-time experienced extreme price and volume fluctuations that have often been unrelated to the operations of particular companies. Accordingly, the market price of the common shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the common shares may be materially adversely affected.

RESULTS OF OPERATIONS

In January 2016, the Company began generating revenue from the sale of medical cannabis.

During the twelve months ended June 30, 2016, the Company focused its efforts and operational spending on the following:

- Application with Health Canada for a license to sell dried medical cannabis and a license to produce cannabis derivatives (oil products);
- Setting up of its corporate offices and customer care centre in Vancouver and hiring of employees for finance, operations and the customer care centre;
- Revamping and launching of its comprehensive website;
- Registration of patients;

- Increasing production to meet anticipated increase in product demand;
- Adding key senior management new hires;
- Expanding its board of directors with experienced, independent new members; and
- Exploring new equity and debt financings.

During the twelve months ended June 30, 2015, the Company completed the RTO and commenced its listing on the CSE. During this period, the Company's operations were focused on securing its production license, completing construction of the Facility, hiring of key employees for its operations and completing the RTO.

Selected Annual Information

	Three months ended June 30,		Twelve months ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Revenue	1,220,041	-	1,439,271	-
Gross margin, including the unrealized gain on changes in fair value of biological assets	(4,208,646)	-	2,202,236	-
Operating expenses	2,541,639	1,567,123	6,792,938	4,367,176
Income (loss) from operations	(6,750,285)	(1,567,123)	(4,590,702)	(4,367,176)
Net income (loss) and comprehensive income (loss)	(7,474,107)	(1,763,485)	(5,723,506)	(9,518,369)
Weighted average number of shares outstanding – basic and diluted	135,498,359	76,936,375	128,988,266	76,936,375
Net income (loss) per share – basic and diluted	(0.05)	(0.02)	(0.04)	(0.12)

Revenue

Revenues for the three and twelve months ended June 30, 2016 were $1,220,041 and $1,439,271, respectively, as compared to $nil in 2015. Revenue consisted of the sale of dried medical cannabis. Total product sold for the period was 257,080 grams ($nil in 2015) at an average selling price of $5.60 per gram. The Company received its license from Health Canada to sell medical cannabis under the ACMPR on November 27, 2015 and generated its first product sale on January 5, 2016. As part of the Company's product launching, it offered a number of initial benefits and other promotions such as a welcome package to each of its first 420 clients totalling $89,100 and a $50 credit for first time customers. Aurora's strains are currently priced at $8 per gram with compassionate pricing set at $5 per gram. There was no revenue prior to January 2016.

From July 1, 2016 to date, the Company has sold a total of 555,990 grams of medical cannabis at an average selling price of $6.32 per gram.

Cost of Sales

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

The net recovery to cost of sales resulted primarily from the unrealized gain on changes in the fair value of biological assets during the year ended June 30, 2016 of $3,004,117.

Gross Margin

Gross margin was $2,202,236 for the twelve months ended June 30, 2016. The gross margin in excess of sales was primarily due to the unrealized gain on changes in the fair value of biological assets. This resulted from the initial build-up of plants in production as the Company focuses its efforts on increasing product inventories and strains available for its growing number of registered patients. As at June 30, 2016, Aurora had over 4,500 registered patients in less than six months after its first product sale.

For the three months ended June 30, 2016, accounting treatment of the fair value recognition of biological asset has resulted in a negative gross margin of $4.2 million.

During the prior period, the Company did not generate any revenue from operations as the Company had not commenced sales of medical cannabis.

General and Administration

	Three months ended June 30,		Twelve months ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Consulting fees	40,484	52,912	258,636	67,282
Insurance	6,823	(13,238)	36,507	27,026
Investor and shareholder relations	103,741	-	103,741	-
Management fees	133,257	12,700	302,757	17,700
Office and administration	28,892	67,795	179,138	178,779
Professional fees	364,025	183,350	789,040	330,802
Production costs	-	359,257	-	359,257
Regulatory and transfer agent fees	(543)	12,391	49,521	31,916
Rent and utilities	30,737	38,904	193,490	174,180
Travel and accommodation	65,643	51,448	284,965	51,448
Wages and benefits	307,260	229,726	817,704	497,212
	1,080,319	995,245	3,015,499	1,735,602

General and administration costs increased by $85,074 and $1,279,897 for the three and twelve months ended June 30, 2016, respectively. The over-all increase was primarily attributable to the increase in

Consulting fees decreased during the three and twelve months ended June 30, 2016, as in the prior fiscal year, the Company retained the services of consulting firms to initially create and develop its website and certain branding initiatives. During the current year, maintenance and basic updates of the website were transitioned in-house. Also included in consulting fees in the current year were a number of key branding initiatives.

During the twelve months ended June 30, 2016, the Company engaged the services of the following firms/agencies in connection with investor and media relations:

- A news media consulting agency which provided a news media feature article on the Company.
- A creative agency and media network firm dedicated to the legal marijuana industry in the U.S., to provide a US financial media campaign consisting of a video segment, article coverage and email distribution of news releases thereby generating exposure and presence for the Company within the public markets of the North American legal cannabis industry.

The amount reflected in the three months ended June 30, 2016 was a reclassification from sales and marketing to general and administration of investor and shareholder relations costs.

During the three and twelve months ended June 30, 2016, the Company began to incur selling, marketing and promotion and client care expenses upon receipt of its license to sell medical cannabis in January 2016. These expenditures consisted of client care operational costs, promotional items and information materials, sales fees and commissions, shipping costs, and payment processing fees. No such expenses were incurred in the prior fiscal year.

Travel and accommodation decreased during the three and twelve months ended June 30, 2016, as extensive travels were required in the prior period as the Company was developing its website and undertaking various branding and marketing strategies and other related initiatives.
Wages and benefits increased as the Company hired 4 and 16 client care, public affairs and compliance staff during the three and twelve months ended June 30, 2016, respectively.

During the three and twelve months ended June 30, 2015, the Company engaged the services of certain marketing agencies and consulting firms with respect to the Company's website and branding initiatives as follows:

1. Brand creation and design including the design of Aurora's corporate identity, website, logos, banners and other promotional and corporate presentation materials.
2. Search engine optimization (SEO), social media, marketing, reputation management and web analytics. This helped improve the Company's visibility on search engine results pages and brand awareness.

During the three and twelve months ended June 30, 2016, website and branding decreased as the Company has completed the design and creation of the website and certain aspects of branding. Costs during the current period included support and maintenance related to branding. The Company also continued to retain the services of marketing agencies with respect to the SEO and certain services on other items indicated on 2 above.

Research and Development

Research and development for the twelve ended June 30, 2016 were $565,140 compared to $432,384 for the twelve months ended June 30, 2015, respectively. The increase in research and development was a largely attributable to experimental research and subsequent development of cannabis oils for future commercialization. In the prior period, research and development expenditures primarily related to research, development and documentation of the cannabis grow process and genetics of various cannabis strains.

Depreciation

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

Share-based Payments

During the twelve months ended June 30, 2016, the Company recorded share-based payments of $912,698 for stock options and warrants granted and vested compared to $872,587 during the twelve months ended June 30, 2015.

Finance and Other Costs

Finance and other costs for the twelve months ended June 30, 2016 were $1,443,500, compared to $325,608 for the twelve months ended June 30, 2015.

Finance and other costs in the prior fiscal year related to interest expense and interest accretion on the $500,000 unsecured loan and $1,250,000 secured convertible loans ("Secured Convertibles") from arm's length parties. These loans bore interest at 8% per annum. The related party long term loans, convertible loans and advances during the prior fiscal year of $4,359,530 were non-interest bearing.
Finance and other costs increased during the year as a result of additional interest and accretion related to new loans totaling $6,700,000. Commencing October 1, 2015, no interest was calculated on $2,500,000 of the related party loans pursuant to an amendment to the promissory notes. The remainder of the finance costs relate to interest expense and interest accretion on outstanding loans.

The Company repaid approximately $3,600,000 of the loans during the year.

Listing Expense

During the year ended June 30, 2015, the Company recorded a one-time listing expense of $5,060,932 with respect to the RTO.

Income Tax Recovery

During the twelve months ended June 30, 2016 and 2015, the Company recorded deferred tax recoveries of $70,102 and $207,708, respectively. These amounts related to the issuance of aggregate convertible notes of $2,170,000 in fiscal 2016 and $2,750,000 in fiscal 2015. During the current fiscal year, the Company recovered taxes of $78,735 related to SR&ED claims.

EBITDA and Adjusted EBITDA

	Three months ended	June 30,	Years ended	June 30,
	2016	2015	2016	2015
	$	$	$	$
EBITDA	(6,386,032)	(1,651,108)	(3,724,094)	(8,887,965)
Adjusted EBITDA	(2,158,815)	(1,289,964)	(5,815,513)	(8,015,378)

The Company uses Earnings (Loss) Before Interest, Depreciation, Tax and Amortization ("EBIDTA") and adjusted EBITDA as additional GAAP financial measures within MD&A. These are not defined terms under IFRS to assess performance. It is used by management to analyze operating performance but it is not intended to represent an alternative to net earnings or other measures of financial performance in accordance with IFRS.

EBITDA is an indication of earnings available for investment prior to debt service, capital expenditures, and income taxes, and is calculated as net consolidated earnings adjusted for current and deferred income taxes, debt service costs, depreciation and amortization. Adjusted EBITDA is calculated by eliminating share-based payments, RTO listing expense and the non-cash unrealized gain on changes in fair of biological assets.

SUMMARY OF QUARTERLY RESULTS

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

Quarter ended	Revenue	Income (Loss)	Earnings (Loss) per share
	$	$	$
June 30, 2016	1,220,041	(7,474,107)	(0.05)
March 31, 2016	219,230	2,526,842	0.02
December 31, 2015	-	592,927	-
September 30, 2015	-	(1,369,168)	(0.01)
June 30, 2015	-	(546,743)	(0.01)
March 31, 2015	-	(773,178)	(0.01)
December 31, 2014	-	(7,273,291)	(0.09)
September 30, 2014	-	(925,157)	(0.01)

The Company was incorporated in 2013, began commercial operations in January 2016 and began generating revenues from the sale of medical cannabis in January 2016. The net loss for the quarter ended June 30, 2016 was attributable to a decrease in unrealized gain on changes in fair value of biological assets and increased expenditures due to increased corporate activities related to the acquisition of CanvasRx and various financings. The net income for the quarters ended March 31, 2016 and December 31, 2015 was primarily attributable to the unrealized gain on the changes in fair value of biological assets. The increase construction of the Facility, development of its medical cannabis operations, branding and product development, and RTO transaction. During the quarter ended December 31, 2014, the Company recorded listing costs of $5,060,932 with respect to the RTO.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2016, the Company has generated revenues of $1,439,271 from operations and has financed its operations and met its capital requirements primarily through debt and equity financings. The Company's objectives when managing its liquidity and capital resources are to generate sufficient cash to fund the Company's operating and working capital requirements. During the year, the Company completed various equity and debt financings to meet its current and anticipated future obligations.

As at June 30, 2016, the Company had a working capital deficiency of $2,751,400 compared to a working capital deficiency of $6,341,209 at June 30, 2015. The increase in working capital of $3,589,809 was primarily attributable to increases in inventory of $2,317,216 and biological assets of $1,845,108. The increases in inventory and biological assets were mainly due to their fair value measurements under IFRS as inventories were built up to meet increasing product demand. As at June 30, 2015, the Company had not yet obtained its license to sell medical cannabis and as a result, did not maintain any inventory for sale and recorded biological assets of $25,409 at cost.

Net cash and cash equivalents on hand decreased by $56,780 from $315,853 as at June 30, 2015 to $259,073 as at June 30, 2016. The decrease in cash was mainly attributable to cash used for operating activities of $6,771,479 and investing activities of $1,884,833 offset by cash inflows from financing activities of $8,599,532.

Subsequent to June 30, 2016, the Company significantly strengthened its balance sheet and liquidity position with up to $68 million in new financings as further described in "Recent and Significant Developments" above. Furthermore, the Company also generated approximately $4.7 million in additional gross cash proceeds from exercise of warrants, stock and compensation options. The Company anticipates that it has sufficient liquidity and capital resources to meet all its planned expenditures for the next twelve months.

Operating Activities

For the year ended June 30, 2016, cash flow used for operating activities was $6,771,479 compared to $3,324,178 for the year ended June 30, 2015. The increase in cash flow used for operations of $3,447,301 was primarily due to increases in operating expenses of $2,097,231 and finance and other costs of $629,510, a negative gross profit margin of $801,881 and an increase in non-cash working capital of $259,318.

Investing Activities

For the year ended June 30, 2016, the Company had net cash outflows related to investing activities of $1,884,833 as compared to $7,835,298 for the year ended June 30, 2015. Investing activities during the year relate to building improvements and the purchase of production equipment, computers and furniture. Investing activities during the prior year were mainly from the construction of the Facility of approximately $6,000,000, purchases of production equipment, computers and furniture, and website design and creation.

Financing Activities

Net cash flows provided by financing activities for the twelve months ended June 30, 2016 were $8,599,532 compared to $10,558,562 for the twelve months ended June 30, 2015. During the year, the Company raised aggregate cash proceeds of $12,517,187 as follows:

- private placement of units for net proceeds of $4,617,888;
- unsecured convertible debentures in the principal amount of $2,050,000;
- short and long term loans of $5,632,000; and
- exercise of warrants and options for proceeds of $217,299.

See a full description of the financings closed by the Company during fiscal 2016 under "*Operations Update – Financing* ". The cash proceeds were offset by financing fees paid on the debentures of $316,125 and repayments of loans totalling $2,351,530 consisting of related party loans of $510,000, related party advances of $841,530 and a third party secured loan of $1,000,000.

Subsequent to June 30, 2016, the Company carried out various equity and debt financings and raised approximately $42.65 million. See a full disclosure on these financings under "*Operations Update – Financing* ".

On October 11, 2016, the Company announced a brokered private placement of unsecured convertible debentures in the aggregate principal amount of up to $25,000,000. Closing is expected to occur on or about November 1, 2016.

Capital Resource Measures

The Company's major capital expenditures in fiscal 2017 will mainly consist of the construction of phase 1 of a 650,000 square foot fully automated greenhouse in Alberta, Canada. See "Operations Update". The Company anticipates that the aforementioned financing proceeds will be sufficient to fund the Company's operations to meet its planned growth and to fund development activities for fiscal 2017.

Contractual Obligations

As of June 30, 2016, the Company had the following financial commitments:

Contractual Obligation	Total	Less than 1 year	1.5 - 3 years	After 3 years
	$	$	$	$
Short-term loans (1)	6,047,408	6,047,408	-	-
Long-term loans (2)	3,158,569	-	3,518,569	-
Operating lease	202,500	60,000	120,000	22,500
Convertible notes (3)	1,280,531	-	1,280,531	-
Office lease (4)	558,734	144,084	292,308	142,342

(1) Of these loans, $4,391,751 were paid subsequent to June 30, 2016.
(2) These loans were repaid in full subsequent to June 30, 2016.
(3) The convertible notes were converted into common shares subsequent to June 30, 2016.

(4) Company has given notice to the co-tenant and landlord of one of the office premises to cancel effective June 1, 2015, its portion of the lease expiring January 31, 2020. The Company is awaiting final documentation on this.

Contingencies

The Company is subject to certain claims outlined in Note 18 to the Company's Financial Statements.

Investment in Australis Holdings LLP

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

AHL purchased two parcels of land totaling approximately 24.5 acres (the "Property") in Whatcom county, Washington for USD$2,300,000 to construct a new marijuana production and processing facility ("Bellingham Facility").

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

Related Party Transactions

The Company entered into certain transactions with related parties during the years ended June 30, 2016 and 2015 as follows:

Name and Relationship to Company	Transaction	2016	2015
		$	$
W.L. Macdonald Law Corporation, a company controlled by William Macdonald, a former Secretary of the Company	RTO listing expense and legal fees	3,102	71,120
Delcon Industries Ltd, a company controlled by Dale Lesack, a director of ACE	Consulting fees	150,000	150,000
Dale Lesack is paid $12,500 per month for his services as the Company's Production Facilitator.			
Evolve Concrete, a company controlled by Chris Mayerson, a director of ACE	Consulting fees	150,000	150,000
Chris Mayerson was paid $12,500 per month for his services as Chief Cultivator of the Company.			
Inspire Consulting Services Ltd., a company controlled by John Bean, CFO of the Company	Management fees Share-based payments	43,200 -	16,200 59,842
Lola Ventures Inc., a company controlled by Terry Booth, CEO of the Company	Management fees	125,000	-
1771472 Alberta Ltd., a company controlled by Steve Dobler, President of the Company	Management fees	75,000	-
Jason Dyck, a director of the Company	Director's fees Consulting fees (1) Share-based payments	9,500 59,338 57,495	1,500 - 11,729
(1) Consulting fees paid for scientific research and development services.			
Adam Szweras, a director of the Company	Director's fees Share-based payments	25,500 32,474	- -

Name and Relationship to Company	Transaction	2016	2015
		$	$
Chuck Rifici, a director of the Company	Director's fees Share-based payments	24,500 34,688	- -
Michael Singer, a director of the Company	Director's fees Share-based payments	11,273 56,430	- -
8115966 Canada Inc., a Company controlled by Michael Singer, a director of the Company	Financial advisory services	8,248	-
Superior Safety Codes ("Superior"), a company controlled by Terry Booth, CEO and Steve Dobler, President of the Company	Rent, accounting and administration	156,958	211,031
Rent for corporate offices in Edmonton and Calgary as well as accounting and administrative support at these offices pursuant to an Administrative Services and Office Space agreement dated January 1, 2016.			
Avarone Metals Inc. ("Avarone"), a company controlled by Marc Levy, a former director and officer of the Company	Rent, accounting and administration	15,000	158,275
The Company terminated the services of Avarone effective August 1, 2015.			

Related Party Balances

As at June 30, 2016, the following related party amounts were included in (a) accounts payable and accrued liabilities, (b) prepaid expenses and deposits, (c) convertible notes, (d) short term loans and (e) long term loans, (f) note receivable:

	2016	2015
	$	$
(a) Accounts payable and accrued liabilities		
Companies controlled by directors and officers of the Company	101,765	59,946
Directors of the Company	35,545	17,717
(b) Prepaid expenses and deposits		
Avarone	1,500	1,500
(c) Convertible notes		
1771472 Alberta Ltd. ("1771472"), a company controlled by Steve Dobler, a director and officer of the Company	-	274,008
(d) Short-term loans		
Lola Ventures Inc. ("Lola"), a company controlled by Terry Booth, CEO & director	539,863	1,274,658
1771472	549,863	1,274,658

	1,089,726	2,549,316
Superior	-	841,530
(e) Long-term loans		
Lola	1,579,285	1,500,000
1771472	1,579,284	518,000
	3,158,569	2,018,000
(f) Note receivable		
Australis Holdings LLP	1,782,186	1,680,506
See Note 9 to the Company's Financial Statements.		

CRITICAL ACCOUNTING ESTIMATES

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

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

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

NEW ACCOUNTING PRONOUNCEMENTS

There were no new standards effective July 1, 2014 that had an impact on the Company's Financial Statements. The following IFRS standards have been recently issued by the IASB. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

IFRS 7 Financial instruments: Disclosure

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

IFRS 9 Financial instruments

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

IFRS 10 Consolidated Financial Statements

The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if the assets are housed in a subsidiary. Upon adoption, the amendments may impact the Company in respect of future sale or contribution of assets with its joint venture. The amendments are effective for transactions occurring in annual periods beginning on or after January 1, 2016.

IFRS 11 Joint Arrangements

In May 2014, the IASB issued amendments to this Standard, incorporated into the Handbook by the AcSB in July 2014, to clarify that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those

principles that conflict with the guidance in IFRS 11. The amendments apply to the acquisition of an interest in a joint operation on its formation, unless the formation of the joint operation coincides with the formation of the business, and the acquisition of additional interests in the same joint operation.

These amendments should be applied prospectively for annual periods beginning on or after January 1, 2016, with earlier application permitted.

IFRS 15 Revenue from contracts with Customers

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

IFRS 16 Leases

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

IAS 1 Presentation of Financial Statements

During December 2014, the IASB issued amendments to IAS 1, Presentation of Financial Statements, which clarify the concept of materiality as it applies to information disclosed in the financial statements. The amendments also provide guidance on the presentation of subtotals, the structure of the notes to the financial statements, and the disclosure of significant accounting policies. The amendment is effective for annual periods beginning on or after January 1, 2016. The Company does not expect this amendment to have a material impact on its financial statements.

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture

IAS 16 and IAS 41 were amended to bring bearer plants, which are used solely to grow produce, into the scope of IAS 16 so that they are accounted for as property, plant and equipment and allow entities to measure bearer plants at accumulated cost up until the point of production and subsequently apply either the cost model or revaluation model.

It introduces a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce that is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

The scope sections of both standards are amended to clarify that biological assets except for bearer plants are accounted for under IAS 41 while bearer plants are accounted for under IAS 16. The amendments also clarify that produce growing on bearer plants continues to be accounted for under IAS 41.

The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 28 (Revised) Investments in Associates and Joint Ventures (Amendment)

In September 2014, the IASB issued amendments to IFRS 10 Consolidated Financial Statements and IAS 28 (Revised). The amendments address an inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the sale or contribution of a subsidiary by an investor to an associate or joint venture. The amendments require sales or contributions of assets that constitute a business to be accounted for in accordance with the requirements of IFRS 10 (i.e. full gain or loss recognition). All other sales or contributions of assets would be accounted for in accordance with the requirements of IAS 28 (i.e. gain or loss recognition limited to the extent of the unrelated investors' interests in the associate or joint venture).

These amendments should be applied prospectively for annual periods beginning on or after January 1, 2016, with early application permitted.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

(a) Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, note receivable, accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values as at June 30, 2016.

IFRS requires disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of hierarchy are:
Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
Level 3 – Inputs for the asset or liability that are not based on observable market data.

	Fair value at June 30, 2016	Basis of measurement	Financial instruments
	$		
Financial Assets			
Cash and cash equivalents	259,073	Carrying value	Loans and receivables
Financial Liabilities			
Accounts payable	1,686,794	Carrying value	Other financial liabilities
Deferred revenue	27,629	Carrying value	Other financial liabilities
Short term loans[(1)]	6,047,408	Fair value / Carrying value	Other financial liabilities
Derivative liabilities	233,444	Fair value	Fair Value through Profi and Loss
Long term loans[(1)]	3,158,569	Fair value / Carrying value	Other financial liabilities
Convertible debentures[(1)]	1,280,531	Fair value / Carrying value	Other financial liabilities

(1) The fair values of the short-term loans, long term loans and convertible notes include both the debt and equity components.

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

The Company determines the fair value of its derivative liabilities (See Notes 10(f), 11(a) of the Company's Financial Statements) using a Monte Carlo simulation approach. Monte Carlo simulation approaches are a class of computational algorithms that rely on repeated random sampling to compute their results. The Company's share price paths were developed using a mathematical formula based on a stochastic process with mean reversion to a long-term trend line incorporating current Company stock prices and stock volatility, both observable data points. Assumptions regarding requirements for future financings are unobservable and accordingly the derivatives are classified in Level 3 of the fair value hierarchy.

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

	2016	2015
	$	$
Opening balance	-	-
Initial recognition	322,526	-
Gain / loss on remeasurement to fair value at period end	(89,082)	-

Ending balance	233,444	-

(b) Financial Instruments Risk

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

(i) Credit Risk

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

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

As at June 30, 2016, the Company's aging of receivables was approximately as follows:

	2016	2015
	$	$
0 – 60 days	-	-
61 – 120 days	83,613	-
	83,613	-

(ii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. Subsequent to June 30, 2016, the Company has reduced its current exposure to liquidity risk through the completion of certain private placement financings for aggregate gross proceeds of $38,000,000.

In addition to the commitments outlined in Note 18, the Company has the following contractual obligations:

	Total	<1 year	1 - 3 years	3 -5 years
	$	$	$	$
Accounts payable and accrued liabilities	1,686,794	1,686,794	-	-
Deferred revenue	27,629	27,629	-	-
Loans [1]	9,205,977	6,047,408	3,158,569	-
Convertible notes [2]	1,280,531	-	1,280,531	-
	12,200,931	7,761,831	4,439,100	-

[1] Of this amount, an aggregate of $7,552,915 plus interest and penalties were repaid subsequent to June 30, 2016. (Notes 10(a), 10(c), 10(f) & 10(g)).
[2] Subsequent to June 30, 2016 common shares were issued on the conversion of the convertible notes. (Note 11(a).

(iii) Interest Rate Risk

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

CAPITAL MANAGEMENT

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funds to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

The capital structure of the Company consists of items included in shareholders' equity and debt, net of cash and cash equivalents. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or seek additional debt financing to ensure that it has sufficient working capital to meet its short-term business requirements. There were no changes in the Company's approach to capital management during the year ended June 30, 2016.

SUMMARY OF OUTSTANDING SHARE DATA

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

Securities [1]	October 27, 2016
	#
Shares	254,423,422
Options	6,464,919
Warrants	54,205,551
Compensation options	2,558,625
Convertible debentures	4,347,826

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

BOARD OF DIRECTORS

Terry Booth

Dr. Jason Dyck

Steve Dobler

Barry Fishman

Joseph del Moral

Chuck Rifici

Michael Singer

Adam Szweras

Capital Summary	October 27, 2016
TSX-V listed, ticker symbol	ACB
Securities	
Issued & Outstanding Shares	254,423,422
Warrants	54,205,551
Options	6,464,919
Compensation options	2,558,625
Convertible debentures shares reserved for issuance	$4,347,826
Fully Diluted	322,000,343

CONTACT

Cam Battley
Senior Vice President

+1 (905) 878-5525
cam@auroramj.com

Terry Booth
Chief Executive Officer

+1 (780) 722-8889
terry@auroramj.com


TSX-V:
ACB
OTCQB:
ACBFF

AURORA CANNABIS INC.

Consolidated Financial Statements

For the years ended June 30, 2016 and 2015
(In Canadian Dollars)

Management's Responsibility

To the Shareholders of Aurora Cannabis Inc.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

October 27, 2016

"***Terry Booth***"
Chief Executive Officer

"***Amy Stephenson***"
Chief Financial Officer

Independent Auditors' Report

MNP LLP

To the Shareholders of Aurora Cannabis Inc.:
We have audited the accompanying consolidated financial statements of Aurora Cannabis Inc., which comprise the consolidated statement of financial position as at June 30, 2016 and June 30, 2015, and the consolidated statements of loss and other comprehensive loss, changes in equity and cash flows for the periods then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aurora Cannabis Inc. as at June 30, 2016, June 30, 2015 and its financial performance and its cash flows for the periods then ended in accordance with International Financial Reporting Standards.

MNP LLP
Chartered Professional Accountants

Vancouver, British Columbia
October 27, 2016

AURORA CANNABIS INC.
Consolidated Statements of Financial Position
June 30, 2016 and 2015
(In Canadian Dollars)

	Notes	2016	2015
		$	$
Assets			
Current			
Cash and cash equivalents		169,579	315,853
Restricted cash	10(a)	89,494	-
Accounts receivable	4	86,170	628,247
Inventory	5	2,317,216	-
Biological assets	6	1,845,108	25,409
Other current assets	7, 17(c), 20(b)	736,308	91,086
		5,243,875	1,060,595
Property, plant and equipment	8	11,370,484	10,785,521
Note receivable	9, 17(c)	1,782,186	1,680,506
Investment in a joint venture	9	-	-
		18,396,545	13,526,622
Liabilities			
Current			
Accounts payable and accrued liabilities	17(c)	1,686,794	1,323,224
Deferred revenue		27,629	-
Short term loans	10, 17(c)	6,047,408	4,787,388
Convertible notes	11(c)	-	1,291,192
Derivative liabilities	10(f), 11(a)	233,444	-
		7,995,275	7,401,804
Convertible notes	11(a)(b), 17(c)	1,280,531	274,008
Long term loans	10, 17(c)	3,158,569	2,018,000
		12,434,375	9,693,812
Shareholders' equity			
Share capital	12	17,147,878	11,432,977
Reserves		5,730,300	3,741,737
Deficit		(16,916,008)	(11,341,904)
		5,962,170	3,832,810
		18,396,545	13,526,622

Nature of Operations (Note 1)
Subsequent Events (Notes 10(a), 10(f), 11(a), 12(e), 22)
Commitments and Contingencies (Note 18)

The accompanying notes are an integral part of these Consolidated Financial Statements.

AURORA CANNABIS INC.

Consolidated Statements of Comprehensive Loss

Years ended June 30, 2016 and 2015
(In Canadian Dollars)

	Notes	2016	2015
		$	$
Revenue		1,439,271	-
Unrealized gain on changes in fair value of biological assets		(3,004,117)	-
Inventory expense to cost of sales		295,285	-
Production costs		1,945,867	-
Cost of sales (recovery)		(762,965)	-
Gross margin		2,202,236	-
Expenses			
General and administration	13 & 17(a)	3,015,499	1,735,602
Sales and marketing	14	1,706,385	1,021,807
Research and development		565,140	432,384
Depreciation	8	593,216	304,796
Share-based payments	12(d)(e)	912,698	872,587
		6,792,938	4,367,176
Loss from operations		(4,590,702)	(4,367,176)
Other income (expenses)			
Interest and other income		72,777	27,639
Finance and other costs	15	(1,443,500)	(325,608)
Gain on derivatives		89,082	-
RTO listing and compensation expense	3	-	(5,060,932)
		(1,281,641)	(5,358,901)
Loss before income taxes		(5,872,343)	(9,726,077)
Income tax recovery			
Current		78,735	-
Deferred		70,102	207,708
		148,837	207,708
Net loss and comprehensive loss		(5,723,506)	(9,518,369)
Net loss per share			
Basic and diluted		(0.04)	(0.12)
Weighted average number of shares outstanding			
Basic and diluted		128,988,266	76,936,375

The accompanying notes are an integral part of these Consolidated Financial Statements.

AURORA CANNABIS INC.

Consolidated Statements of Changes in Equity

Years ended June 30, 2016 and 2015

(In Canadian Dollars)

		Share Capital		Reserves							
	Notes	Common Shares	Amount	Obligation to issue shares	Share-based Payments	Warrants	Contributed Surplus	Convertible Notes	Total	Deficit	Total
		#	$	$	$	$	$	$	$	$	$
Balance, June 30, 2014		80,000,000	3,368,640	-	-	224,110	-	-	224,110	(1,823,535)	1,769,215
Comprehensive loss for the year		-	-	-	-	-	-	-	-	(9,518,369)	(9,518,369)
Equity component of convertible loans	11	-	-	-	-	-	-	798,878	798,878	-	798,878
Deferred tax on convertible notes		-	-	-	-	-	-	(207,708)	(207,708)	-	(207,708)
Shares of Prescient on RTO	3	42,000,471	-	-	-	-	-	-	-	-	-
Eliminate shares of AMI	3	(80,000,000)	-	-	-	-	-	-	-	-	-
Shares issued to shareholders of AMI	3	60,000,000	6,192,077	2,322,000	-	-	-	-	2,322,000	-	8,514,077
RTO finders' fees	3	3,000,000	348,300	-	-	-	-	-	-	-	348,300
Revaluation of warrants on RTO	3, 12(e)	-	-	-	-	509,759	-	-	509,759	-	509,759
Conversion of notes	11(b)	8,072,000	934,426	-	-	-	-	(375,438)	(375,438)	-	558,988
Shares issued for fees	12(b)(vii)	30,000	12,600	-	-	-	-	-	-	-	12,600
Exercise of stock options	12(b)(v)	2,725,667	243,499	-	(185,616)	-	-	-	(185,616)	-	57,883
Exercise of warrants	12(b)(vi)	2,966,000	333,435	-	-	(216,835)	-	-	(216,835)	-	116,600
Share-based payments		-	-	-	566,969	305,618	-	-	872,587	-	872,587
Balance, June 30, 2015		118,794,138	11,432,977	2,322,000	381,353	822,652	-	215,732	3,741,737	(11,341,904)	3,832,810
Comprehensive loss for the period		-	-	-	-	-	-	-	-	(5,723,506)	(5,723,506)
Conversion of notes	11(b)	3,928,000	452,253	-	-	-	-	(171,089)	(171,089)	-	281,164
Equity component of convertible loans		-	-	-	-	-	-	269,619	269,619	-	269,619
Deferred tax on convertible notes		-	-	-	-	-	-	(70,102)	(70,102)	-	(70,102)
Compensation options on convertible notes		-	-	-	90,144	-	-	-	90,144	-	90,144
Private placement	12(b)(i)	9,091,670	4,818,585	-	-	-	-	-	-	-	4,818,585
Share issue costs		-	(246,252)	-	-	45,555	-	-	45,555	-	(200,697)
Exercise of stock options	12(b)(v)	2,975,829	515,415	-	(354,516)	-	-	-	(354,516)	-	160,899
Exercise of warrants	12(b)(vi)	564,000	56,400	-	-	-	-	-	-	-	56,400
Forfeited options		-	-	-	(104,759)	-	-	-	(104,759)	104,759	-
Shares issued for compensation	12(b)(iii)	22,728	12,500	12,500	-	-	-	-	12,500	-	25,000
Shares issued for convertible notes	11(a)	200,000	106,000	-	-	-	-	-	-	-	106,000
Convertible notes settled in cash		-	-	-	-	-	-	(44,643)	(44,643)	44,643	-
Fair value adjustment on loans		-	-	-	-	-	1,403,156	-	1,403,156	-	1,403,156
Share-based payments		-	-	-	686,449	226,249	-	-	912,698	-	912,698
Balance, June 30, 2016		135,576,365	17,147,878	2,334,500	698,671	1,094,456	1,403,156	199,517	5,730,300	(16,916,008)	5,962,170

The accompanying notes are an integral part of these Consolidated Financial Statements.

AURORA CANNABIS INC.
Consolidated Statements of Cash Flows
Years ended June 30, 2016 and 2015
(In Canadian Dollars)

	2016	2015
	$	$
Cash provided by (used in)		
Operating activities		
Net loss for the year	(5,723,506)	(9,518,369)
Adjustments for non-cash items		
Unrealized gain on changes in fair value of biological assets	(3,004,117)	-
Depreciation	593,216	304,796
Non-cash fees and compensation	12,500	12,600
Deferred tax recovery	(70,102)	(207,708)
Accrued interest	68,486	175,043
Accretion expense	622,434	113,724
Financing fees	191,556	-
Share-based payments	912,698	872,587
Gain on derivatives	(89,082)	-
Loss on investment	-	2,347
RTO listing and compensation expense	-	4,947,046
Changes in non-cash working capital		
GST recoverable	622,649	(368,659)
Biological assets	-	(25,409)
Accounts receivable	(80,572)	-
Inventory	(1,132,778)	-
Prepaid expenses and deposits	(645,222)	(37,540)
Deferred revenue	27,629	-
Accounts payable and accrued liabilities	922,732	405,364
	(6,771,479)	(3,324,178)
Investing activities		
Bank indebtedness assumed on RTO of Prescient	-	(1,686)
Purchase of property, plant and equipment	(1,884,833)	(7,833,612)
	(1,884,833)	(7,835,298)
Financing activities		
Shares issued for cash	5,035,884	266,733
Share issue costs	(200,697)	-
Pre-RTO loans from Prescient	-	5,010,000
Proceeds of convertible notes	2,050,000	2,750,000
Repayment of convertible notes	(1,250,000)	-
Proceeds from short term loans	4,650,000	2,248,335
Repayment of short term loans	(2,351,530)	-
Financing fees	(316,125)	(54,000)
Receivable from shareholders	-	(1,680,506)
Proceeds from long term loans	982,000	2,018,000
	8,599,532	10,558,562
Decrease in cash and cash equivalents	(56,780)	(600,914)
Cash and cash equivalents, beginning of year	315,853	916,767
Cash and cash equivalents, end of year	259,073	315,853
Cash and cash equivalents consist of:		
Cash and cash equivalents	169,579	315,853
Restricted cash	89,494	-
	259,073	315,853
Supplementary information:		
Property, plant and equipment in accounts payable	263,983	834,530

The accompanying notes are an integral part of these Consolidated Financial Statements.

1. Nature of Operations and Going Concern

Aurora Cannabis Inc. (the "Company" or "Aurora"), formerly Prescient Mining Corp. ("Prescient") was incorporated under the *Business Corporations Act* (British Columbia) on December 21, 2006. The Company's shares traded on the Canadian Securities Exchange (the "Exchange") under the symbol "ACB" however, on October 5, 2016 and subsequent to its year-end, the Company voluntarily delisted its common shares from the Exchange and commenced trading on the TSX Venture Exchange.

The head office and principal address of the Company is located at Suite 1500 - 1199 West Hastings Street, Vancouver, BC, Canada, V6E 3T5. The Company's registered and records office address is located at Suite 1500 - 1055 West Georgia Street, Vancouver, BC V6E 4N7.

The Company is in the business of producing and distributing medical marijuana pursuant to the *Access to Cannabis for Medical Purposes Regulations* ("ACMPR"). Aurora Cannabis Enterprises Inc. ("ACE"), a wholly owned subsidiary of the Company, received its license to produce and sell medical cannabis on February 17, 2015 and November 27, 2015, respectively.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards on a going concern basis which assumes that the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company has financed its working capital requirements primarily through equity and debt financings. The Company's ability to continue as a going concern is dependent upon its ability to commence profitable operations, generate funds therefrom and raise additional financing in order to meet current and future obligations. While the Company has been successful in raising financing in the past and subsequent to June 30, 2016, there is no assurance that it will be able to obtain additional financing or that such financing will be available on reasonable terms.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

Subsequent to June 30, 2016, the Company closed private placements for total gross proceeds of $38,000,000. Furthermore, on October 7, 2016, the Company entered into an agreement with Canaccord Genuity Corp., pursuant to which the Company will issue on a private placement basis up to an additional $25,000,000 of unsecured convertible debentures. See Notes 22(c), 22(d) and 22(i).

2. Significant Accounting Policies

(a) Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee ("IFRIC") in effect for the year ended June 30, 2016.

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on October 26, 2016.

2. Significant Accounting Policies (Continued)

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Aurora Marijuana Inc. ("AMI"), Aurora Cannabis Enterprises Inc. ("ACE"), 1769474 Alberta Ltd. ("1769474") and Australis Capital Inc. ("ACI"). All significant intercompany balances and transactions were eliminated on consolidation.

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which were measured at fair value.

(c) Functional and presentation of foreign currency

The consolidated financial statements are presented in Canadian dollars unless otherwise noted. The presentation currency and functional currency of the Company and its subsidiaries is the Canadian dollar.

(d) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated statement of financial position date are translated to Canadian dollars at the foreign exchange rate applicable at that date. Realized and unrealized exchange gains and losses are recognized in the consolidated statements of comprehensive loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(e) Cash and cash equivalents

Cash and cash equivalents include cash deposits in financial institutions and other deposits that are readily convertible into cash.

(f) Biological assets

The Company measures biological assets consisting of medical cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest.

Gains or losses arising from the changes in fair value less cost to sell during the year are included in the results of operations for the related year.

(g) Inventory

Inventories of harvested finished goods and packing materials are initially valued at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less costs to sell at harvest which becomes the deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that the cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. Products for resale and supplies and consumables are valued at cost.

2. Significant Accounting Policies (Continued)

(g) Inventory (continued)

The Company reviews inventory for obsolete, redundant and slow moving goods and any such inventory are written-down to net realizable value.

(h) Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets, except in the year of acquisition, when half of the rate is used as follows:

Computer software and equipment	3 years
Production equipment	2 - 4 years
Furniture and fixtures	5 years
Building and building improvements	10 - 50 years

An asset's residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted if appropriate.

Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognized in profit or loss.

(i) Investment in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in a joint venture are accounted for using the equity method and are initially recognized at cost. The entire carrying amount of the investment is tested for impairment annually.

(j) Impairment of non-financial assets

The carrying amount of the Company's non-financial assets is reviewed at each financial reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized when the carrying amount of an asset or its cash generating unit ("CGU") exceeds its recoverable amount. Impairment losses are recognized in profit and loss for the period.

The recoverable amount of an asset or CGU is the greater of it's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment.

2. Significant Accounting Policies (Continued)

(k) Share capital

Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded in reserves over the vesting periods are recorded as share capital. Share capital issued for non-monetary consideration is recorded at an amount based on fair market value of the shares on the date of issue.

(l) Share-based payments

The Company has an employee stock option plan. Equity-settled share-based payments to employees are measured at the fair value of the stock options at the grant date and recognized in expense over the vesting periods.

Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve.

The fair value of options is determined using the Black–Scholes option pricing model which incorporates all market vesting conditions. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are transferred to deficit in the year of forfeiture or expiry.

Upon the exercise of stock options, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

(m) Loss per share

The Company calculates basic loss per share using the weighted average number of common shares outstanding during the year. Diluted loss per share is the same as basic loss per share, as the issuance of shares on the exercise of stock options and share purchase warrants is anti-dilutive.

(n) Revenue recognition

Revenue is recognized at the fair value consideration received or receivable. Revenue from the sale of goods is recognized when the Company has transferred the significant risks and rewards of ownership to the buyer and it is probable that the Company will receive the previously agreed upon payment. Significant risks and rewards are generally considered to be transferred when the Company has shipped the product to customers.

(o) Research and development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete the development to use or sell the asset. To date, no development costs have been capitalized.

2. Significant Accounting Policies (Continued)

(p) Taxes

Tax expense recognized in profit or loss comprises the sum of current and deferred taxes not recognized in other comprehensive income or directly in equity.

(i) Current tax

Current tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred tax

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

(q) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized on the statements of financial position at the time the Company becomes a party to the contractual provisions of the financial instrument.

Financial instruments are initially measured at fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument. The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity, available-for-sale, and other financial liabilities.

(i) Financial assets

a) Financial assets at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are either ‘held-for-trading’ or designated at fair value through profit or loss. They are initially and subsequently recorded at fair value and changes in fair value are recognized in profit or loss for the period.

2. Significant Accounting Policies (Continued)

(r) Financial instruments (continued)

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value and subsequently on an amortized cost basis using the effective interest method, less any impairment losses. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

The Company has designated its cash and cash equivalents, accounts receivable and note receivable as loans and receivables.

c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are initially recorded at fair value and subsequently measured at amortized cost.

The Company does not have any held-to-maturity financial assets.

d) Available-for-sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any other financial asset categories. They are initially and subsequently measured at fair value and the changes in fair value, other than impairment losses are recognized in other comprehensive income (loss) and presented in the fair value reserve in shareholders' equity. When the financial assets are sold or an impairment write-down is required, losses accumulated in the fair value reserve recognized in shareholders' equity are included in profit or loss.

The Company does not have any available-for-sale financial assets.

(ii) Financial liabilities

All financial liabilities are recognized initially at fair value plus any directly attributable transaction costs on the date at which the Company becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition, the Company's financial liabilities classified as other financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in profit and loss. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired.

The Company's non-derivative financial liabilities include its accounts payable and accrued liabilities and loans payable, which are designated as other liabilities.

The Company's derivative financial liabilities are stated at fair value with changes recognized through profit and loss.

2. Significant Accounting Policies (Continued)

(r) Financial instruments (continued)

(iii) Compound financial instruments

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest and losses and gains relating to the financial liability are recognized in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognized on conversion.

(iv) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is reviewed at each reporting date to determine whether there is any indication of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss with a corresponding reduction in the financial asset, or, in the case of amounts receivable, are reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(r) Significant accounting judgments, estimates and assumptions

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

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

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements are described below.

2. Significant Accounting Policies (Continued)

Significant judgments

(i) Going concern

Determining if the Company has the ability to continue as a going concern is dependent on its ability to achieve profitable operations. Certain judgments are made when determining if the Company will achieve profitable operation. Further disclosure is included in Note 1.

(ii) Fair value of financial instruments

The individual fair values attributed to the different components of a financing transaction, notably convertible debt and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market. The assumptions regarding the derivative liabilities are disclosed in notes 10(f) and 11(a).

(iii) Estimated useful lives and depreciation of property, plant and equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Significant estimates

(iv) Convertible instruments

Convertible notes are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible notes in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

The identification of convertible notes components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

2. Significant Accounting Policies (Continued)

(s) Significant accounting judgments, estimates and assumptions (continued)

Significant estimates (continued)

(v) Share-based payments

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and warrants. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of options, volatility of the Company's future share price, risk free rate, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

(vi) Biological assets

Biological assets, consisting of cannabis plants and agricultural produce consisting of cannabis, are measured at fair value less costs to sell up to the point of harvest.

Determination of the fair values of the biological assets and the agricultural product requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the cannabis up to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle.

The valuation of biological assets at the point of harvest is the cost basis for all cannabis based inventory and thus any critical estimates and judgments related to the valuation of biological assets are also applicable for inventory. The valuation of work-in-process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

(vii) Deferred tax assets

Deferred tax assets, including those arising from tax loss carry-forwards, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

(t) Recent accounting pronouncements

There were no new standards effective July 1, 2014 that had an impact on the Company's consolidated financial statements. The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

2. Significant Accounting Policies (Continued)

(t) Recent accounting pronouncements (continued)

(i) IFRS 7 Financial instruments: Disclosure

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

(ii) IFRS 9, Financial Instruments

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

(iii) IFRS 10 Consolidated Financial Statements

The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if the assets are housed in a subsidiary. Upon adoption, the amendments may impact the Company in respect of future sale or contribution of assets with its joint venture. The amendments are effective for transactions occurring in annual periods beginning on or after January 1, 2016.

(iv) IFRS 11 Joint Arrangements

In May 2014, the IASB issued amendments to this Standard, incorporated into the Handbook by the AcSB in July 2014, to clarify that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. The amendments apply to the acquisition of an interest in a joint operation on its formation, unless the formation of the joint operation coincides with the formation of the business, and the acquisition of additional interests in the same joint operation.

These amendments should be applied prospectively for annual periods beginning on or after January 1, 2016, with earlier application permitted.

(v) IFRS 15 Revenue from Contracts with Customers

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

2. Significant Accounting Policies (Continued)

(t) Recent accounting pronouncements (continued)

(vi) IFRS 16 Leases

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

(vii) IAS 1 Presentation of Financial Statements

During December 2014, the IASB issued amendments to IAS 1, Presentation of Financial Statements, which clarify the concept of materiality as it applies to information disclosed in the financial statements. The amendments also provide guidance on the presentation of subtotals, the structure of the notes to the financial statements, and the disclosure of significant accounting policies. The amendment is effective for annual periods beginning on or after January 1, 2016. The Company does not expect this amendment to have a material impact on its financial statements.

(viii) IAS 16 Property, Plant and Equipment and IAS 41 Agriculture

IAS 16 and IAS 41 were amended to bring bearer plants, which are used solely to grow produce, into the scope of IAS 16 so that they are accounted for as property, plant and equipment and allow entities to measure bearer plants at accumulated cost up until the point of production and subsequently apply either the cost model or revaluation model.

It introduces a definition of ‘bearer plants’ as a living plant that is used in the production or supply of agricultural produce that is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

The scope sections of both standards are amended to clarify that biological assets except for bearer plants are accounted for under IAS 41 while bearer plants are accounted for under IAS 16. The amendments also clarify that produce growing on bearer plants continues to be accounted for under IAS 41.

The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

2. Significant Accounting Policies (Continued)

(t) Recent accounting pronouncements (continued)

(ix) IAS 28 (Revised) Investments in Associates and Joint Ventures (Amendment)

In September 2014, the IASB issued amendments to IFRS 10 Consolidated Financial Statements and IAS 28 (Revised). The amendments address an inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the sale or contribution of a subsidiary by an investor to an associate or joint venture. The amendments require sales or contributions of assets that constitute a business to be accounted for in accordance with the requirements of IFRS 10 (i.e. full gain or loss recognition). All other sales or contributions of assets would be accounted for in accordance with the requirements of IAS 28 (i.e. gain or loss recognition limited to the extent of the unrelated investors' interests in the associate or joint venture).

These amendments should be applied prospectively for annual periods beginning on or after January 1, 2016, with early application permitted.

3. Reverse Take-Over ("RTO")

On December 9, 2014, the Company completed the reverse take-over of Prescient by way of a Share Exchange Agreement dated September 9, 2014, as amended by agreements on September 10, 2014 and October 30, 2014 (the "Agreement"), in exchange for the following securities of the Company:

(a) Issuance of the following securities of the Company to AMI shareholders and warrant and option holders:

(i) 60,000,000 common shares[(1) (2)] of the Company (Note 12(c));

(ii) An aggregate of 21,450,000 warrants ("RTO replacement warrants") as follows: (Note 12(e))

- 11,250,000 warrants[(1) (2)] at $0.02 per share expiring December 9, 2019; and
- 10,200,000 warrants[(2)] at $0.50 per share expiring December 9, 2017.

(iii) 4,000,000 options[(1)] ("RTO replacement options) at a price of $0.001 per share expiring December 1, 2019. These options vest as to 1,600,000 on December 21, 2014, 1,600,000 on June 21, 2015 and 800,000 on December 21, 2015. (Note 12(d))

(b) Issuance of the following performance shares and warrants:

(i) 20,000,000 common shares[(1) (2)] shall be issued on completion of performance milestones (Note 12(f)); and

(ii) 3,750,000 warrants[(1) (2)] at $0.02 per share for a term of 5 years shall be issued on completion of funding milestones. On April 21, 2015, these warrants were cancelled as the funding milestones were not met (Note 12(e)). In January 2016, a claim was commenced against the Company regarding the cancellation of 3,000,000 of these warrants. Note 18(b)

(1) Subject to escrow. (Note 12(c))

(2) Subject to Right of First Refusal (ROFR) for a period of three years expiring December 9, 2017, whereby if the holder of the securities receives an offer from a third party to purchase all or any of the securities, the Company or its nominees or assignees shall have the right to acquire such securities of the Company.

The Company issued 3,000,000 common shares as finders' fees with respect to the acquisition. (Note 12(b)(viii))

(In Canadian Dollars)

3. Reverse Take-Over ("RTO") (Continued)

On closing of the RTO, the shareholders of AMI held approximately 57% of the issued and outstanding shares of the Company. As a result, the shareholders of AMI controlled the Company and the acquisition constituted a reverse take-over of Prescient by AMI. AMI's assets, liabilities and operations since incorporation were included in these Consolidated Financial Statements at their historical carrying values. The results of operations of Prescient from the date of acquisition of December 9, 2014 were included in these Consolidated Financial Statements.

Since Prescient did not meet the definition of a business under IFRS 3, *Business Combinations* ("IFRS 3"), the acquisition was accounted for as the purchase of Prescient's assets by AMI. The consideration paid was determined as equity settled share-based payment under IFRS 2, *Share-based Payments* ("IFRS 2"), at the fair value of the equity of AMI retained by the shareholders of Prescient based on the fair value of the AMI's common shares on the date of closing of the RTO.

For RTO accounting purposes, the percentage ownership of the shareholders of Prescient in the combined entity on completion of the RTO was 40% (being 42,000,471 of the total 105,000,471 issued and outstanding shares of the Company on closing of the RTO). As a result, the notional number of shares AMI would have to issue to transfer 40% of the Company to Prescient shareholders would be 53,334,000. Based on the share price of the private placement closed by AMI prior to the RTO of $0.116 per share, the consideration received by the shareholders of Prescient amounted to $6,192,077.

The 20,000,000 performance shares issuable to the shareholders of AMI have been recognized as part of RTO listing expense and obligation to issue shares reserves at the fair value of AMI shares.

The 11,250,000 RTO replacement warrants exercisable at $0.02 were issued to consultants and therefore were revalued at the time of the RTO. The estimated fair value in excess of the fair value estimated at the grant date was then allocated between the RTO listing expense and post RTO share-based payments expense based on the relative proportions of the vesting period.

RTO replacement options were similarly revalued at the time of the RTO, however the estimated fair value varied insignificantly from the grant date estimated fair value and therefore had no impact on the RTO listing expense.

The terms of the 10,200,000 RTO replacement warrants, exercisable at $0.50 were subscribed for by shareholders in conjunction with a private placement in the prior period, were not modified as a result of the RTO, therefore no revaluation was required.

The Company recorded a listing expense of $5,060,932 in the consolidated statement of comprehensive loss, the details of which are as follows:

	$
Fair value of consideration:	
53,334,000 notional common shares of AMI @ $0.116 per share	6,192,077
Estimated fair value of net assets of Prescient acquired by AMI	(4,425,090)
	1,766,987
Other transaction costs:	
20,000,000 performance shares @ $0.116 per share	2,322,000
Revaluation of warrants exchanged	509,759
3,000,000 common shares for finder's fees	348,300
Transaction costs (legal, audit and filing fees)	113,886
RTO listing expense	5,060,932

(In Canadian Dollars)

4. Accounts receivable

	2016	2015
	$	$
Trade receivables	83,613	-
GST recoverable	2,557	628,247
	86,170	628,247

5. Inventory

	2016	2015
	$	$
Harvested cannabis	2,230,496	-
Supplies and consumables	86,720	-
	2,317,216	-

During the year ended June 30, 2016, inventory recognized as an expense in cost of sales amounted to $295,285 (2015 - $Nil). As at June 30, 2016, included in inventory was a provision of $784,535 to reduce inventory to net realizable value. The adjustment to net realizable value took into account the compassionate pricing for qualifying low income patients.

6. Biological Assets

The Company's biological assets consist of seeds and cannabis plants. The changes in the carrying value of biological assets are as follows:

	$
Balance, June 30, 2015	25,409
Changes in fair value less cost to sell due to biological transformation	6,196,939
Transferred to inventory upon harvest	(4,377,240)
Balance, June 30, 2016	1,845,108

The significant assumptions used in determining the fair value of biological assets include:

(a) Expected yield by plant;
(b) Wastage of plants;
(c) Duration of the production cycle;
(d) Percentage of costs incurred as of this date compared to the total costs expected to be incurred;
(e) Percentage of costs incurred for each stage of plant growth; and
(f) Market values.

As of June 30, 2016, it is expected that the Company's biological assets will yield approximately 439,650 grams of medical cannabis when harvested. The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

As at June 30, 2015, the Company had not received its license to sell under the ACMPR. As a result, the Company's biological assets of $25,409 as at June 30, 2015 were recorded at cost and no change in the fair value of biological assets was recognized.

(In Canadian Dollars)

7. Other current assets

	2016	2015
	$	$
Advances to CanvasRx (Note 22(b))	450,000	-
Prepaid expenses	215,646	89,586
Deposits and advances	70,662	1,500
	736,308	91,086

8. Property, Plant and Equipment

	Building & Improvements	Production & Other Equipment	Computer Software & Equipment	Furniture and Fixtures	Total
	$	$	$	$	$
Cost:					
Balance, June 30, 2014	4,201,324	-	36,723	-	4,238,047
Additions	6,067,741	439,407	306,303	38,819	6,852,270
Balance, June 30, 2015	10,269,065	439,407	343,026	38,819	11,090,317
Additions	562,015	581,080	101,018	70,173	1,314,286
Balance, June 30, 2016	10,831,080	1,020,487	444,044	108,992	12,404,603
Accumulated depreciation:					
Balance, June 30, 2014	-	-	-	-	-
Depreciation	201,366	54,926	44,622	3,882	304,796
Balance, June 30, 2015	201,366	54,926	44,622	3,882	304,796
Depreciation	414,927	182,486	117,129	14,781	729,323
Balance, June 30, 2016	616,293	237,412	161,751	18,663	1,034,119
Net Book Value:					
June 30, 2015	10,067,699	384,481	298,404	34,937	10,785,521
June 30, 2016	10,214,787	783,075	282,293	90,329	11,370,484

During the year ended June 30, 2016, included in production costs was depreciation of $136,107 (2015 - $nil).

9. Investment in a Joint Venture

On April 7, 2015, ACI entered into a Limited Liability Partnership Agreement with AJR Builders Group LLC and formed Australis Holdings LLP (“AHL”), a Washington Limited Liability Partnership. Each of ACI and AJR holds a 50% interest in AHL.

AHL purchased two parcels of land totaling approximately 24.5 acres (the “Property”) in Whatcom county, Washington for USD$2,300,000 to construct a new marijuana production and processing facility.

(In Canadian Dollars)

9. Investment in a Joint Venture (Continued)

Pursuant to a promissory note dated April 10, 2015, the Company through ACI loaned CAD$1,644,831 to AHL to fund the purchase of the Property. The note bears interest at a rate of 5% per annum and matures on October 31, 2017. In the event of a default, interest will be charged at 12% per annum. During the year ended June 30, 2016, the Company accrued interest of $41,695 (2015 - $9,125) related to this loan. The note is secured by a first mortgage on one parcel of the Property and a second mortgage on the other title as well as a general security agreement granting ACI security over all present and after acquired property of AHL.

The following table summarizes the financial information of AHL:

(a) Statement of Financial Position:

	2016	2015
	US$	US$
Cash and cash equivalents	7,203	10,692
Other current assets	500	500
Total current assets	7,703	11,192
Property, plant and equipment	2,300,000	2,300,000
Total assets (100%)	2,307,703	2,311,192
Total current liabilities	82,766	24,956
Long term loans	2,378,336	2,317,375
Total equity	(153,399)	(31,139)
Total liabilities and equity (100%)	2,307,703	2,311,192

(b) Statement of Loss and Comprehensive Loss:

	2016	2015
Net loss and comprehensive loss (100%)	122,260	32,139

10. Short and Long Term Loans

Type of Loan		Interest per Annum	Maturity	2016	2015
				$	$
Short term					
Unsecured term loan	(a)	8%	Aug. 27, 2015	456,817	421,715
Secured demand loan	(b)	19.8%	Jan. 4, 2016	-	974,827
Unsecured loans from related parties	(c)& (g)	See below	See below	1,089,726	2,549,316
Unsecured advances from a related party	(d)	-	-	-	841,530
Secured mortgage loan	(e)	12%	October 1, 2016	1,655,657	-
Secured demand loan	(f)	19.5%	See below	2,845,208	-
				6,047,408	4,787,388
Long term					
Unsecured loans from related parties	(c)& (g)	See below	See below	3,158,569	2,018,000

10. Short and Long Term Loans (Continued)

(a) Prior to the RTO, the Company entered into a loan agreement dated June 27, 2014, as amended, in the principal amount of $500,000 maturing December 27, 2014. In consideration for the loan, the Company issued 714,000 common shares (the "Shares") to the lender. On September 30, 2014, the Company made a partial principal payment of $100,000 (prior to the RTO) towards the loan. The lender granted an extension to the term of the loan to August 27, 2015. During the year ended June 30, 2016, the Company accrued interest of $35,102 (2015 - $34,544) related to this loan.

On November 25, 2015, a claim was commenced by the lender in the Supreme Court of British Columbia seeking repayment of the loan plus interest, legal costs and other relief. The Shares were in dispute as the Company believed that it constituted interest and that the fair market value of the Shares was approximately equivalent to the outstanding balance of the loan. On December 2, 2015, the Company paid into court $89,494 pursuant to a November 27, 2015 garnishment order ("Garnished Funds").

Subsequent to June 30, 2016, the parties agreed to settle pursuant to a settlement agreement and mutual release dated July 14, 2016, and the Company paid the outstanding loan plus accrued interest of $458,919 and legal fees of $4,400. Included in this amount were the Garnished Funds released to the lender.

(b) Pursuant to a loan agreement dated April 4, 2015, the Company obtained a $1,000,000 secured demand loan, payable on the earlier of demand or nine months from the date of the loan agreement. Interest was compounded and payable monthly and the principal amount was due at the end of the term. The Company paid a facility fee of $40,000, being 4% of the principal amount of the loan, legal fees of $6,500 and due diligence fees of $7,500. In addition, the Company paid a monitoring fee of $2,500 per month.

The proceeds from this loan were advanced to AHL through ACI by way of a promissory note dated April 10, 2015 (Note 9).

During year ended June 30, 2016, the Company paid interest of $54,200 and monitoring fees of $7,500 on this loan. On September 30, 2015, the loan was repaid in full.

(c) The Company entered into unsecured promissory notes with companies controlled by the CEO and the President of the Company dated April 1, 2015, as amended, in the principal amount of $2,500,000. Previously, the loans bore interest at 8% per annum, compounded annually, and principal and accrued interests were due on demand on or before April 1, 2016. During the year ended June 30, 2016, the Company accrued $50,410 (2015 - $49,315) in interest related to these loans.

On October 1, 2015, the terms of these loans were amended such that they mature on the later of: (i) the Company reporting two consecutive cash flow positive quarters; and (ii) August 1, 2016. No interest shall be paid on the loans until the Company reports a positive cash flow quarter and, at such time, the loans will bear interest at 4% per annum, compounded annually.

On February 1, 2016, the term of $1,000,000 of these loans was extended to expire on the later of: (i) the Company reporting two consecutive cash flow positive quarters; and (ii) August 1, 2017 ("Extended Loan"). As a result, during the year ended June 30, 2016, $1,000,000 was reclassified to long term.

As at June 30, 2016, included in reserves was a fair value adjustment of $278,925 with respect to the Extended Loan and the recognition of related party contribution with respect to the interest amendment using a market interest rate of 22%.

During the year ended June 30, 2016, the Company repaid an aggregate of $510,000 towards these loans. Subsequent to June 30, 2016, the loans were repaid in full.

10. Short and Long Term Loans (Continued)

(d) Advances from a related party were owing to a company controlled by the CEO and the President of the Company. The advances were unsecured, non-interest bearing and had no fixed terms of repayment.

(e) On September 13, 2015, 1769474 entered into a mortgage financing (the "Mortgage") of $1,650,000 on its building and related improvements on approximately 154 acres of land located in Cremona, Alberta ("Mortgaged Property").

The Mortgage had an initial term of nine months maturing April 1, 2016, renewable every six months at a renewal fee of 1.5% of the principal amount of the loan. The Mortgage bears interest at a rate of 12% per annum, compounded and payable monthly, and is secured by a first mortgage on the Mortgaged Property, a general security agreement and corporate guarantees by the Company, CEO of the Company and a company owned by the CEO and the President of the Company. On closing, 1769474 paid a brokerage fee of $41,250 (representing 2.5% of the principal amount of the loan) which is being amortized over the term of the loan, and legal and other fees of $6,514.

The Mortgage was renewed to October 1, 2016, and the Company paid a renewal fee of $24,750 which is being amortized over the term of the loan. During the year ended June 30, 2016, the Company paid or accrued interest of $150,574 related to this loan.

(f) The Company entered into a secured demand loan agreement dated January 22, 2016 in the amount of $3,000,000. The loan bears interest at 19.5% per annum, compounded and payable monthly, and matures on January 25, 2018 or on demand (the "Maturity Date"). The loan is secured by general security agreements over all present and after acquired properties of the Company, subject only to permitted encumbrances.

As consideration for the loan, the Company paid a structuring fee of $90,000 (representing 3% of the principal amount of the loan), which is being amortized over the term of the loan, and legal and due diligence fees of $30,000.

In addition, the Company issued 300,000 share purchase warrants to the lender. The warrants are exercisable into common shares of the Company at a price of $0.55 per share for a period of four years expiring January 25, 2020. The expiry date of the warrants may be accelerated by the Company if its shares reach an average closing price of $1.10 over a period of 30 days. If there are any unexercised warrants on the maturity date and the fair value of the shares is less than the exercise price, the Company shall pay the lender a top-up fee in cash. The Company shall also pay a top up fee for any unexercised unexpired warrants upon completion of a successor entity or going private event if the fair value of the share consideration is less than the exercise price.

In accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, the share purchase warrants were evaluated as a derivative in nature. The warrants were valued upon initial recognition at fair value using a Monte Carlo simulation. Subsequent to initial recognition, the derivative is re-measured at fair value at each reporting date. The warrants were initially valued at $105,526 and recorded as a derivative liability and debt issuance cost, amortized over the term of the loan. The warrant derivative was subsequently adjusted to fair value at June 30, 2016 of $98,444.

During the year ended June 30, 2016, the Company paid or accrued interest of $242,951 related to this loan.

10. Short and Long Term Loans (Continued)

In July 2016, the Company obtained an additional loan of $1,000,000 pursuant to an amended secured demand loan agreement (the "Amended Loan Agreement"). Under the Amended Loan Agreement, half of the principal will be paid in quarterly installments with the balance due on the Maturity Date. Prepayments will be subject to a minimum interest and fees of $640,529. In the event of a default, the Company must repay the entire loan plus a minimum of 50% of all accrued interest and fees that would be due at the Maturity Date.

As consideration for the additional loan, the Company paid a structuring fee of $60,000 and an equity fee of 50,000 common shares at a fair value of $23,500, which will be amortized over the term of the loan. On closing, the Company paid legal and due diligence fees of $60,000.

Subsequent to June 30, 2016, the loan was repaid in full.

(g) On June 26, 2015 and October 1, 2015, the Company entered into unsecured promissory notes, as amended, in the amounts of $2,018,000 and $982,000, respectively, with companies controlled by the CEO and the President of the Company. The loans mature on the later of: (i) the Company reporting two consecutive cash flow positive quarters; and (ii) August 1, 2016. No interest shall be paid on the loans until the Company reports a positive cash flow quarter and at such time, the loans will bear interest at 4% per annum, compounded annually. As at June 30, 2016, the Company recognized a related party contribution with respect to the interest free loan and recorded $210,269 in reserves using a market interest rate of 22%.

On December 1, 2015, the term of the loans was amended such that they mature on the later of: (i) the Company reporting two consecutive cash flow positive quarters; and (ii) August 1, 2017. Included in reserves as at June 30, 2016, was a fair value of adjustment of $913,963 related to the loan modification calculated at a market interest rate of 22% for the rest of the extended term.

Subsequent to June 30, 2016, the loans were repaid in full.

11. Convertible Notes

(a) In May 2016, the Company completed a non-brokered private placement (the "Offering") of unsecured convertible debentures in the principal amount of $2,050,000 (the "Debentures").

The Debentures have a term of 18 months and bear interest at 10% per annum, payable semi-annually. The Debentures are convertible into common shares of the Company at a price of $0.53 per share (the "Conversion Price"), at any time during the term, at the holder's option. Forced conversion of the Debentures into common shares will occur if the volume weighted average price of the Company's common shares is equal to or above $1.25 per share for 10 consecutive trading days. ACE has granted the lender an unlimited guarantee of the Company's obligations under the Debentures.

In connection with the Offering, the Company paid to the subscriber (i) a bonus of $120,000 in convertible debentures ("Bonus Debentures") having the same terms as the Debentures; and (ii) 200,000 common shares at a deemed price of $0.53 per share as an incentive fee. In addition, the Company paid an advisory fee of $164,000 and 309,434 compensation options ("Compensation Options") at a fair value of $90,144. Each Compensation Option is exercisable into one common share and one-half of one share purchase warrant of the Company at an exercise price of $0.53 per share expiring two years from the date of issuance of the Compensation Options. Each whole warrant is exercisable into one additional common share of the Company at a price of $0.69 per share expiring two years from the date of closing of the Offering.

11. Convertible Notes (Continued)

The fair value of the Compensation Options at the date of grant was estimated as $0.19 per warrant based on the following weighted average assumptions: Stock price volatility - 87%; Risk-free interest rate - 0.55%; Dividend yield - 0.00%; and Expected life - 2 years.

Within six months of closing of the Offering, if the Company issues common shares in connection with a financing or a business acquisition at a price that is 15% or below the Conversion Price, the Company shall pay in cash or additional Debentures an amount equal to the difference between the Conversion Price and the financing or acquisition price (“Anti-Dilution Clause”).

In accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, the Debentures are considered to contain an embedded derivative relating to the Anti-Dilution Clause. The Anti-Dilution Clause was measured at fair value upon initial recognition using a Monte Carlo simulation and was separated from the debt component of the debentures. The debt component of the debentures was measured upon initial recognition, based on the present value of the cash flows associated with the debentures. Subsequent to initial recognition, the embedded derivative component is re-measured at fair value at each reporting date while the debt component is accreted to the face value of the debentures using the effective interest rate through periodic charges to finance expense over the term of the debentures.

Subsequent to June 30, 2016, the Company reached an agreement with the Debenture holders to amend certain aspects of the Anti-Dilution Clause. As consideration for the Debenture amendment, the Company reduced the Conversion Price from $0.53 to $0.40 per common share. In addition, the Company issued an aggregate of 2,712,500 warrants to the Debenture holders at a price of $0.55 per common share expiring August 9, 2018. All other terms of the Debentures remain unchanged.

Subsequent to June 30, 2016, the Company issued an aggregate of 5,674,542 shares on the conversion of the Debentures (principal amount of $2,050,000 plus interests of $99,817) and Bonus Debentures of $120,000.

(b) On August 29, 2014, the Company issued unsecured, non-interest bearing convertible notes for aggregate gross proceeds of $1,500,000 (the “Notes1”) to companies controlled by the CEO and the President of the Company. The Notes1 have a term of five years maturing August 29, 2019. The lenders may, at their option, convert all or any portion of the outstanding amount of the Notes1 into common shares of the Company at a price of $0.125 per share.

During the year ended June 30, 2015, the lenders assigned an aggregate of $1,009,000 of the Notes1 (the “Assigned Notes”) to arm’s length parties and the Company issued an aggregate of 8,072,000 common shares on the conversion of the Assigned Notes. $375,438 was reclassified from reserves to share capital on the conversion of these notes.

During the year ended June 30, 2016, the lenders assigned the remaining $491,000 of the Notes1 and 3,928,000 common shares were issued on conversion of the Assigned Notes. $171,089 was reclassified from reserves to share capital on the conversion of the notes.

(c) On November 24, 2014 and December 1, 2014, the Company issued secured convertible notes for $1,000,000 and $250,000, respectively (the “Notes2”). The Notes2 have a term of one year and bear interest at a rate of 8% per annum, payable on conversion or maturity. The lenders may, at their option, convert all or any part of the outstanding amount of the Notes2 into common shares of the Company at a price of $1.01 per share.

(In Canadian Dollars)

11. Convertible Notes (Continued)

During the year ended June 30, 2016, the Notes2 plus interest and expenses of $171,089 were repaid in full.

The liability component of the Notes1 and Notes2 was valued using Company specific interest rates assuming no conversion features existed. The debt component is accreted to its fair value over the term to maturity as a non-cash interest charge and the equity component is presented in convertible notes reserve as a separate component of shareholders' equity.

	Long Term (a)	Long Term (b)	Short Term (c)
	$	$	$
Balance, June 30, 2014		-	-
Issued	-	1,500,000	1,250,000
Equity portion	-	(754,235)	(44,643)
Conversion	-	(558,989)	-
Accretion	-	87,232	26,492
Accrued interest	-	-	59,343
Balance, June 30, 2015	-	274,008	1,291,192
Issued	2,170,000	-	-
Equity portion	(269,619)		
Derivative liability	(217,000)		
Conversion	-	(281,880)	-
Repayment	-	-	(1,359,349)
Financing fees	(437,613)	-	-
Accretion	34,719	7,872	18,151
Accrued interest	44	-	50,006
Balance, June 30, 2016	1,280,531	-	-

12. Share Capital and Reserves

(a) Authorized

Unlimited number of common voting shares without par value;
Unlimited number of Class "A" Shares with a par value of $1.00 each; and
Unlimited number of Class "B" Shares with a par value of $5.00 each.

(b) Issued and outstanding

At June 30, 2016, there were 135,576,365 (2015 - 118,794,138) issued and fully paid common shares.

(i) During the year ended June 30, 2016, the Company closed a non-brokered private placement consisting of 9,091,670 units at a price of $0.53 per unit for gross proceeds of $4,818,585. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the company at a price of $0.66 per common share for a period of two years. The expiry date of the warrants may be accelerated by the Company if its shares trade above $1.25 for 10 consecutive trading days.

12. Share Capital and Reserves (Continued)

(b) Issued and outstanding (continued)

The Company paid finders' fees of $189,717 and issued finders' warrants of 158,920 at a fair value of $45,555. The warrants are exercisable into common shares of the Company at a price of $0.53 per share for a period of two years, subject to the same acceleration provision above. The fair value of these warrants at the date of grant was estimated as $0.29 per warrant based on the following weighted average assumptions: Stock price volatility - 87%; Risk-free interest rate - 0.41%; Dividend yield - 0.00%; and Expected life - 2 years.

On October 4, 2016, the Company has given notice with respect to the acceleration of the expiry of the unexercised 5,658,479 share purchase warrants exercisable at $0.66 per share and 112,300 finder warrants exercisable at $0.53 per share, as the Company's common shares traded above $1.25 for ten consecutive trading days. The expiry date was accelerated to November 11, 2016 and any warrants unexercised after the accelerated expiry date will be cancelled.

(ii) During the year ended June 30, 2016, an aggregate of 3,928,000 (2015 - 8,072,000) common shares were issued on the conversion of $491,000 (2015 - $1,009,000) convertible notes. (Note 11(b))

(iii) On May 24, 2016, the Company issued 22,728 common shares (2015 - nil) to an employee of the Company at a fair value of $12,500 pursuant to the officer's employment agreement.

(iv) During the year ended June 30, 2016, the Company issued an aggregate of 200,000 common shares at a fair value of $106,000 as incentive fees. Note 11(a)

(v) During the year ended June 30, 2016, 2,975,829 stock options (2015 - 2,725,667) were exercised for gross proceeds of $160,899 (2015 - $57,883). Non-cash compensation charges of $354,516 (2015 - $185,616) were reclassified from reserves to share capital on the exercise of these options.

(vi) During the year ended June 30, 2016, 564,000 warrants (2015 - 2,966,000) were exercised for gross proceeds of $56,400 (2015 - $116,600). Non-cash compensation charges of $nil (2015 - $216,835) were reclassified from reserves to share capital on the exercise of these warrants.

(vii) On January 22, 2015, the Company issued 30,000 common shares at a fair value of $12,600 for consulting services.

(viii) On December 9, 2014, the Company acquired all of the issued and outstanding shares of AMI for 60,000,000 common shares of the Company. The Company issued 3,000,000 common shares at a value of $348,300 for finder's fees with respect to this transaction. (Note 3)

(c) Escrow securities

Pursuant to an escrow agreement dated September 18, 2014, 60,000,000 common shares of the Company were deposited into escrow with respect to the RTO (Note 3). In addition, warrants at $0.02 per share expiring December 9, 2019 and stock options at $0.001 per share expiring December 1, 2019 were also subject to the escrow agreement.

(In Canadian Dollars)

12. Share Capital and Reserves (Continued)

(c) Escrow securities (continued)

Under the escrow agreement, 10% of the escrowed common shares were released from escrow on December 9, 2014, the date of closing of the RTO, and 15% are to be released every six months thereafter over a period of thirty-six months. The common shares to be issued and deposited in escrow on the exercise of warrants and options will be subject to the same schedule of release.

A summary of the status of the escrowed securities outstanding follows:

	Shares	Stock Options	Warrants
	#	#	#
Balance, June 30, 2014	-	-	-
Issued	60,000,000	4,000,000	15,000,000
Cancelled	-	-	(3,750,000)
Issued (Exercised)	3,850,000	(1,600,000)	(2,250,000)
Released	(15,962,500)	-	-
Balance, June 30, 2015	47,887,500	2,400,000	9,000,000
Issued (Exercised)	2,400,000	(2,400,000)	-
Released	(20,475,000)	-	-
Balance, June 30, 2016	29,812,500	-	9,000,000

(d) Stock options

The Company has an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. A summary of the status of the options outstanding follows:

	Stock Options	Weighted Average Exercise Price
	#	$
Balance, June 30, 2014	-	-
Prescient options outstanding at RTO	1,528,000	0.05
Granted	2,800,000	0.63
RTO replacement options (Note 3(a)(iii)	4,000,000	0.001
Exercised	(2,725,667)	0.02
Forfeited	(1,098,333)	0.92
Balance, June 30, 2015	4,504,000	0.17
Granted	4,877,500	0.39
Exercised	(2,975,829)	0.05
Forfeited	(1,095,837)	0.49
Balance, June 30, 2016	5,309,834	0.37

(In Canadian Dollars)

12. Share Capital and Reserves (Continued)

(d) Stock options (continued)

The following table summarizes the stock options that remain outstanding as at June 30, 2016:

Exercise Price	Options Outstanding		Expiry Date	Options Exercisable
$	#			#
0.15	144,000	(i)	October 29, 2017	144,000
0.295	450,000		June 2, 2020	450,000
0.295	250,000		August 26, 2020	62,500
0.30	350,000		August 10, 2020	87,498
0.30	810,834		August 14, 2020	197,500
0.30	350,000		September 1, 2020	87,498
0.30	200,000		September 8, 2018	44,442
0.30	150,000		September 8, 2018	112,500
0.34	150,000		May 23, 2020	50,000
0.34	125,000		October 9, 2016	125,000
0.40	350,000		March 10, 2019	218,750
0.46	1,250,000		May 20, 2021	50,000
0.55	80,000		February 8, 2021	13,333
0.58	300,000		March 14, 2021	81,250
0.68	100,000		December 7, 2020	33,332
0.69	250,000		November 26, 2017	124,999
	5,309,834			1,882,602

(i) These stock options were granted to two charitable organizations.

During the year ended June 30, 2016, the Company recorded aggregate share-based payments of $686,449 (2015 - $566,969) for all stock options granted and vested during the period, of which, $23,612 relates to the RTO replacement options.

The fair value of stock options granted during the period was determined using the following weighted average assumptions at the time of grant using the Black-Scholes option pricing model:

	2016	2015
Risk-Free Annual Interest Rate	0.57%	1.01%
Expected Annual Dividend Yield	0%	0%
Expected Stock Price Volatility	87.0%	80%
Expected Life of Options	3.75 years	1 year
Forfeiture rate	5%	-

Volatility was estimated by using the historical volatility of other companies that the Company considers comparable that have trading history and volatility history. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

The weighted average fair value of stock options granted during the year ended June 30, 2016 was $0.24 (2015 - $0.65) per option. As at June 30, 2016, stock options outstanding have a weighted average remaining contractual life of 3.94 years.

(In Canadian Dollars)

12. Share Capital and Reserves (Continued)

(e) Share purchase warrants

Each whole warrant entitles the holder to purchase one common share of the Company. A summary of the status of the warrants outstanding follows:

	Warrants	Weighted average exercise price
	#	$
Balance, June 30, 2014	25,200,000	0.21
Prescient warrants outstanding at RTO	1,530,000	0.25
AMI warrants cancelled (Note 3) (1) (2)	(25,200,000)	0.21
RTO replacement warrants (Note 3(a)(ii)) (1) (2)	25,200,000	0.21
RTO replacement warrants cancelled (Note 3(b)(ii)) (1)	(3,750,000)	0.02
Exercised	(2,966,000)	0.04
Balance, June 30, 2015	20,014,000	0.28
Issued	9,550,590	0.65
Exercised	(564,000)	0.10
Expired	(250,000)	1.01
Balance, June 30, 2016	28,750,590	0.40

(1) The 15,000,000 warrants were initially issued by AMI for consulting services; exercisable for a period of five years from issuance to purchase one Class A share of AMI at a price of $0.02 per share. The Class A warrants vest at the time at which AMI achieves certain performance milestones, estimated to be one year from the date of issuance.

Effective December 9, 2014, these warrants were cancelled and the Company issued 15,000,000 RTO replacement warrants exercisable at $0.02 per share (Note 3(a)(ii)). During the year ended June 30, 2015, 3,750,000 of these warrants were cancelled (Note 3(b)(ii)). The balance of the warrants was revalued at $0.10 per warrant based on the following assumptions: Volatility rate - 80%; Risk-free interest rate - 1.01%; Dividend yield rate - 0.00%; Weighted average remaining life - 1 year. Of the aggregate incremental estimated fair value of $1,019,519, $509,759 was allocated to the RTO listing expense and $509,760 is to be recognized over the remaining vesting period.

During the year ended June 30, 2016, share-based payments of $226,249 (2015 - $201,332) were recognized related to these warrants.

See footnote (3) below.

(2) The 10,200,000 warrants were exercisable for a period of three years from issuance to purchase one Class C share of AMI at a price of $0.50 per share. Effective December 9, 2014, these warrants were cancelled and the Company issued RTO replacement warrants of 10,200,000 at $0.50 per share (Note 3(a)(ii)). As the terms of these warrants were not modified, they were not revalued at the time of the RTO.

The following table summarizes the warrants that remain outstanding as at June 30, 2016:

(In Canadian Dollars)

12. Share Capital and Reserves (Continued)

(e) Share purchase warrants (continued)

Exercise Price	Warrants	Expiry Date
$	#	
0.02	9,000,000 [3]	December 9, 2019
0.50	10,200,000	December 9, 2017
0.53	98,400	December 31, 2017
0.53	60,020	January 19, 2018
0.55	300,000	January 25, 2020
0.66	3,250,755	December 31, 2017
0.66	5,841,415	January 19, 2018
	28,750,590	

[3] These warrants remain subject to a dispute as the Company believes that the vesting conditions of the warrants were not met. See note 18(b).

(f) Performance shares and warrants

Pursuant to the RTO, as of June 30, 2016, the Company has an obligation to issue the following conditional performance shares and warrants: (Note 3(b))

(i) 20,000,000 common shares ("Performance Shares") shall be issued to the former AMI shareholders upon achievement of performance milestones, being the Company's receipt of production and sales licenses and registration of at least 2,000 patients under the licenses. The fair value of these shares was included in RTO listing expense. (Note 3)

The Performance Shares were issued pursuant to the terms of the RTO on August 17, 2016.

(ii) 3,750,000 five-year term warrants exercisable at $0.02 per share were issued subject to completion of funding milestones. On April 21, 2015, these performance warrants were cancelled as the funding milestones were not met. In January 2016, a claim was commenced against the Company regarding the cancellation of 3,000,000 of these warrants. Note 18(b)

13. General and Administration

	2016	2015
	$	$
Consulting fees	258,636	67,282
Insurance	36,507	27,026
Investor and shareholder relations	103,741	-
Management fees	302,757	17,700
Office and administration	179,138	178,779
Professional fees	789,040	330,802
Production costs	-	359,257
Regulatory and transfer agent fees	49,521	31,916
Rent and utilities	193,490	174,180
Travel and accommodation	284,965	51,448
Wages and benefits	817,704	497,212
	3,015,499	1,735,602

(In Canadian Dollars)

14. Sales and Marketing

	2016	2015
	$	$
Consulting fees	104,524	196,723
Public and media relations	177,384	-
Selling and client care expenses	493,166	-
Tradeshows and conferences	77,638	-
Travel and accommodation	176,454	323,452
Wages and benefits	458,697	132,819
Website and branding	218,522	368,813
	1,706,385	1,021,807

15. Finance and Other Costs

	2016	2015
	$	$
Accretion expense	622,434	113,723
Bank charges	10,391	2,599
Financing fees	191,556	29,527
Interest expense	619,119	177,412
Loss on investment	-	2,347
	1,443,500	325,608

16. Income Taxes

The net tax provision differs from that expected by applying the combined federal and provincial tax rates of 26% (2015 - 26%) to loss before income tax for the following reasons:

	2016	2015
	$	$
Loss before tax	(5,872,343)	(9,726,077)
Combined federal and provincial rate	26%	26%
Expected tax recovery	(1,526,809)	(2,528,780)
Change in estimates from prior year	120,589	-
Non-deductible expenses	138,358	1,344,589
Effect of change in tax rates	-	8,852
Changes in deferred tax benefits not recognized	1,119,025	967,631
Income tax recovery	(148,837)	(207,708)

(In Canadian Dollars)

16. Income Taxes (Continued)

Deferred tax assets and liabilities are attributable to the following:

Deferred tax assets (liabilities)	2016	2015
	$	$
Property and equipment	(157,594)	(136,221)
Inventory	(312,932)	-
Biological assets	(498,179)	-
Non-capital losses	3,239,565	1,324,749
Eligible capital expenditures	365	365
Finance costs	231,649	61,166
Financial instruments	(194,927)	(61,137)
Net deferred tax assets	2,307,947	1,188,922
Deferred tax benefits not recognized	(2,307,947)	(1,188,922)
	-	-

The Company has non-capital losses of approximately $12,208,549 (2015 - $5,063,775) which are available for deduction against future taxable income until 2035 to 2036.

17. Related Party Transactions

(a) Related party transactions

The Company incurred the following transactions with related parties during the year ended June 30, 2016:

	2016	2015
	$	$
Consulting fees paid or accrued to directors of ACE	300,000	300,000
Office, rent and administration paid or accrued to companies owned by directors and officers and a former director of the Company	171,958	210,118
Fees paid or accrued to directors and companies controlled by a director and a former director of the Company	138,358	1,500
Professional fees paid or accrued to a former officer of the Company	3,102	71,659
Share-based payments (1)	181,086	11,729
	794,504	595,006

(1) Share-based payments are the fair value of options granted and vested to non-management directors of the Company under the Company's stock option plan. Note 12(d)

(In Canadian Dollars)

17. Related Party Transactions (Continued)

(b) Compensation of key management personnel

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team and management directors.

	2016	2015
	$	$
Management fees and wages	368,200	16,200
Share-based payments (1)	16,808	79,789
	385,008	95,989

(1) Share-based payments are the fair value of options granted and vested to key management personnel under the Company's stock option plan. Note 12(d)

(c) Related party balances

The following related party amounts were included in (i) accounts payable and accrued liabilities, (ii) prepaid expenses and deposits, (iii) convertible notes, (iv) short term loans, (v) long term loans and (vi) note receivable:

		2016	2015
		$	$
(i)	Companies controlled by directors and officers of the Company (1)	101,765	59,946
(i)	Directors and a former director of the Company (i)	35,545	17,717
(ii)	A company having a former director in common	1,500	1,500
(iii)	A company controlled by a director and officer of the Company (Note 11(b))	-	274,008
(iv)	Companies controlled by directors and officers of the Company (Note 10(c))	1,089,726	2,549,316
(iv)	A Company controlled by directors and officers of the Company (Note 10(d))	-	841,530
(v)	Companies controlled by directors and officers of the Company (Notes 10(c) & 10(g))	3,158,569	2,018,000
(vi)	A 50% owned joint venture company (Note 9)	1,782,186	1,680,506

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

18. Commitments and Contingencies

(a) The Company entered into the following office and operating leases:

(i) 1769474 has an operating lease on lands located in Cremona, Alberta (the "Lands") for monthly rent payments of $5,000. The lease expires on November 14, 2019, with an option to extend for an additional five-year term. The Company has the option to purchase the Lands during the additional term.

(ii) The Company is committed under lease agreements with respect to two office premises located in Vancouver, British Columbia, expiring January 31, 2020 and June 30, 2020, respectively, as follows:

(In Canadian Dollars)

18. Commitments and Contingencies (Continued)

	$
2017	144,084
2018	145,464
2019	146,844
2020	122,342
	558,734

The Company has provided notice to the co-tenant and landlord of one of the office premises to cancel its portion of the lease expiring January 31, 2020. The Company is awaiting the final documentation.

(b) In December 2015, a claim was commenced against the Company regarding the 9,000,000 warrants at $0.02 per share issued to a consultant prior to the RTO (Note 12(e)[(1)(3)]). These warrants were issued conditional upon the warrant holder completing an equity financing for the Company. As of this date, the warrant holder has failed to meet this condition and, as a result, the Company is in the process of formally cancelling these unvested warrants. The warrant holder is attempting to enforce exercise rights which the Company believes do not exist. The Company intends to defend this claim vigorously.

In January 2016, this claim was amended to include the 3,000,000 performance warrants which were cancelled on April 21, 2015. See notes 3(b)(ii) and 12(f)(ii).

(c) A certain claim in small claims court has been brought against the Company with respect to certain fees and expenses. Management has contested the validity of the claim and believes that it is without merit.

(d) The Company commenced a claim against a former director and officer of the Company and his associates relating to breach of contract, abuse of process and unreimbursed expenses. The former director and associates have filed various counterclaims against the Company. The outcome of the various claims is indeterminable at this time.

These consolidated financial statements do not reflect the adjustments, if any, which may result from these claims as the outcome of either claim is indeterminable at this time. The impact to any outcome will be recorded at the time of settlement or in the period they become known.

19. Segment Information

The Company operates in one segment, the production and sale of medical cannabis.

All of the Company’s assets are located in Canada. All revenues are generated in Canada.

20. Financial Instruments and Risk Management

(a) Fair value of financial instruments

The Company’s financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, note receivable, accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values as at June 30, 2016.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

(In Canadian Dollars)

20. Financial Instruments and Risk Management (Continued)

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

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

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

(a) Fair value of financial instruments (continued)

	Fair Value as at June 30, 2016	Basis of Measurement	Financial Instruments
Financial Assets			
Cash and cash equivalents	259,073	Carrying value	Loans and receivables
Financial Liabilities			
Accounts payable	1,686,794	Carrying value	Other financial liabilities
Deferred revenue	27,629	Carrying value	Other financial liabilities
Short term loans (1)	6,047,408	Fair value / Carrying value	Other financial liabilities
Derivative liabilities	233,444	Fair Value	Fair Value through Profit and Loss
Long term loans (1)	3,158,569	Fair value / Carrying value	Other financial liabilities
Convertible notes (1)	1,280,531	Fair value / Carrying value	Other financial liabilities

(1) The fair values of the short-term loans, long term loans and convertible notes include both the debt and equity components.

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

The Company determines the fair value of its derivative liabilities (Notes 10(f), 11(a)) using a Monte Carlo simulation approach. Monte Carlo simulation approaches are a class of computational algorithms that rely on repeated random sampling to compute their results. The Company's share price paths were developed using a mathematical formula based on a stochastic process with mean reversion to a long-term trend line incorporating current Company stock prices and stock volatility, both observable data points. Assumptions regarding requirements for future financings are unobservable and accordingly the derivatives are classified in Level 3 of the fair value hierarchy.

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

	2016	2015
	$	$
Opening balance	-	-
Initial recognition	322,526	-
Gain / loss on remeasurement to fair value at period end	(89,802)	-
Ending balance	233,444	-

(b) Financial instruments risk

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

(In Canadian Dollars)

20. Financial Instruments and Risk Management (Continued)

(b) Financial instruments risk (continued)

(i) Credit risk

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

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

As at June 30, 2016, the Company's aging of receivables was approximately as follows:

	2016	2015
	$	$
0 – 60 days	-	-
61 – 120 days	83,613	-
	83,613	-

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. Subsequent to June 30, 2016, the Company has reduced its current exposure to liquidity risk through the completion of certain private placement financings for aggregate gross proceeds of $38,000,000.

In addition to the commitments outlined in Note 18, the Company has the following contractual obligations:

	Total	<1 year	1 - 3 years	3 -5 years
	$	$	$	$
Accounts payable and accrued liabilities	1,686,794	1,686,794	-	-
Deferred revenue	27,629	27,629	-	-
Loans [1]	9,205,977	6,047,408	3,158,569	-
Convertible notes [2]	1,280,531	-	1,280,531	-
	12,200,931	7,761,831	4,439,100	-

20. Financial Instruments and Risk Management (Continued)

(b) Financial instruments risk (continued)

(ii) Liquidity risk (continued)

(1) Of this amount, an aggregate of $7,552,915 plus interest and penalties were repaid subsequent to June 30, 2016. (Notes 10(a), 10(c), 10(f) & 10(g)).

(2) Subsequent to June 30, 2016 common shares were issued on the conversion of the convertible notes. (Note 11(a).

(iii) Interest rate risk

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

21. Capital Management

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

The capital structure of the Company consists of items included in shareholders' equity and debt, net of cash and cash equivalents. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or seek additional debt financing to ensure that it has sufficient working capital to meet its short-term business requirements. There were no changes in the Company's approach to capital management during the year ended June 30, 2016.

22. Subsequent Events

The following events occurred subsequent to June 30, 2016:

(a) On July 13, 2016, the Company entered into an agreement for a drawdown equity facility of up to $5,000,000 (the "Equity Facility"). Under the Equity Facility, the Company may sell, on a private placement basis, units of the Company of between $100,000 to $500,000 per tranche, at a discount of 25% to the market price or such lesser discounts as allowed by the Exchange, over a period of eighteen months. Each unit will consist of one common share and one-half of one common share purchase warrant. Each whole warrant will be exercisable into one common share at a 25% premium to the market price for a period of 5 years from the date of issuance. To date, the Company has not drawn down on this equity facility.

(b) On August 17, 2016, the Company completed the acquisition of all of the issued and outstanding shares of CanvasRx Inc. ("CanvasRx") pursuant to a Share Purchase Agreement (the "Agreement") dated August 9, 2016 (the "Acquisition"). CanvasRx provides medical cannabis patient outreach services across Canada.

In consideration of the Acquisition, the Company paid $1,575,000 on closing (the "Cash Payment"). In addition, the Company paid $1,575,000 and issued 17,875,000 common shares of the Company at a deemed price of $0.40 per share related to the achievement of two patient performance milestones. Pursuant to the Agreement, the Company paid $250,000 of CanvasRx's legal expenses.

(In Canadian Dollars)

22. Subsequent Events (Continued)

Aggregate consideration is up to $37,500,000 which may be satisfied, at the election of the Company, in cash or common shares. The total consideration is conditional upon the satisfaction of future performance related milestones tied to patients, counselling locations and certain revenue milestones over a three-year period.

Included in other current assets as at June 30, 2016, was an advance to CanvasRx of $450,000. This formed part of the purchase price on closing of the Acquisition.

(c) In conjunction with the Acquisition (Note 22(b)), the Company completed a brokered private placement of 57,500,000 subscription receipts for aggregate gross proceeds of $23,000,000 (the "Offering"). Each subscription receipt was converted into units of the Company upon the satisfaction of the conditions precedent to the Acquisition. Each unit consisted of one common share and one-half of one common share purchase warrant of the Company. Each whole warrant entitles the holder to purchase an additional common share at an exercise price of $0.55 per share expiring August 9, 2018. A portion of the net proceeds from the Offering was used to satisfy the cash component of the Acquisition.

On closing of the Offering, the Company paid the agent a commission of $1,472,550, advisory fees of $37,450, legal fees and disbursements of $156,931 and agent's expenses of $25,000. In addition, the Company issued aggregate compensation warrants of 3,868,625 to the agents. Each compensation warrant is exercisable into one common share and one-half of one share purchase warrant of the Company at an exercise price of $0.40 per share expiring August 9, 2018. Each whole warrant is exercisable into one additional common share of the Company at a price of $0.55 per share expiring August 9, 2018.

(d) On September 28, 2016, the Company closed a brokered private placement (the "Private Placement") of unsecured convertible debentures ("Convertible Debentures") in the aggregate principal amount of $15,000,000.

The Convertible Debentures bear interest at 10% per annum, payable semi-annually, and mature on March 28, 2018. The Convertible Debentures are convertible into common shares of the Company at a price of $1.15 per share, at any time during the term, at the option of the holder. Forced conversion of the principal amount of the Convertible Debentures into common shares will occur if the volume weighted average price of the Company's common shares equals or exceeds $2.00 per share for 10 consecutive trading days.

On closing, the Company paid $600,000, representing 4% of the gross proceeds of the Private Placement, and legal fees and expenses of $37,700 to the Agent.

On October 18, 2016, $10,000,000 of the principal amount of the Convertible Debentures were converted and the Company issued 8,695,652 common shares and paid interest of $54,794 (Note 22(i)).

On October 20, 2016, the Company gave notice to convert into common shares the remaining $5,000,000 principal amount of Convertible Debentures as the volume weighted average price of the Company's common shares for ten consecutive trading days exceeded $2.00.

(e) The Company granted the following stock options to a director, employees and consultants of the Company:

Exercise Price	Options	Expiry Date
$	#	
0.66	350,000	August 8, 2021
1.30	1,315,000	September 23, 2021
2.18	350,000	October 12, 2021

22. Subsequent Events (Continued)

(f) 501,332 common shares were issued on the exercise of 501,332 options for gross proceeds of $221,149.

(g) 6,574,510 common shares were issued on the exercise of 6,574,510 warrants for gross proceeds of $4,153,350.

(h) 464,151 common shares were issued on the exercise of 309,434 compensation options and 154,717 compensation warrants for gross proceeds of $270,755.

(i) On October 7, 2016, the Company entered into an agreement with Canaccord Genuity Corp., pursuant to which the Company will issue on a private placement basis up to $25 million of unsecured convertible debentures. The debentures will bear interest at 8% per annum, payable semi-annually and mature 24 months from the date of closing. The principal amount of the debentures will be convertible into common shares of the Company at a price of $2.00 per share, at the option of the holder, at any time prior to the maturity date.

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

Pursuant to the terms of the private placement, the Company will convert $10 million of the 10% convertible debentures at $1.15 per share (Note 22(d)).