Aphria Inc.

(APH-TSX.V, $1.29)

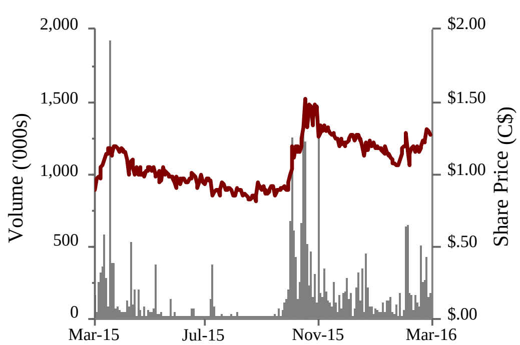
BUY (was SPECULATIVE BUY)

Price Target: **$2.25**

Above the Haze: Sophisticated Agronomy and Rigorous Execution Driving Industry-Leading Profitability

Estimates (FYE May)	FY15	FY16e	FY17e	FY18e
Registered Clients	1,050	4,400	7,750	13,500
Revenue ($MM)	$0.6	$8.9	$20.8	$44.3
Adj. EBITDA ($MM)	($9.2)	$0.7	$5.6	$14.3
Adj. EBITDA Margin	nmf	8%	27%	32%
Diluted EPS	($0.14)	($0.01)	$0.02	$0.10

Market Data	
Share Price	C$1.29
52-Week High - Low	C$1.59 - C$0.79
Avg. Daily Vol. (3-month)	168,902
Shares Basic / Diluted (pro forma, MM)	65.0 / 93.3
Mgmt & Dir. Ownership (pro forma)	40.4%
Market Cap (pro forma, C$MM)	$83.8
Net Cash (pro forma, C$MM)	$13.9
Enterprise Value (pro forma, C$MM)	$69.9
Fiscal Year End	May 31



Source: FactSet

Company Profile

Aphria is a Licensed Producer (LP) of medical marijuana (MMJ) that sells direct to registered patients across Canada. It was the first LP in Canada to cultivate MMJ exclusively in greenhouses, and is believed to be the lowest-cost producer in the Canadian industry. Aphria is currently licensed to produce 2,600 kg/year of MMJ and plans to expand production rapidly.

We are transitioning coverage of Aphria Inc. to Noel Atkinson. We rate Aphria a **BUY,** up from Speculative Buy due to the Company's strong Adjusted EBITDA margin and positive cash flow from operations. Our 12-month target price remains **$2.25 per share**.

- **Lowest production cost and already highly profitable.** Use of greenhouses and advanced agronomy have made Aphria the industry's lowest-cost producer by far ($1.67/gram in Feb/16 quarter). While most competitors have yet to reach breakeven Adjusted EBITDA, Aphria enjoyed an Adjusted EBITDA margin of nearly 20% in the Feb/16 quarter.

- **Rapidly growing client base and increased focus on higher-dose users.** Aphria has been capturing ~10% of all new MMPR clients industry-wide in recent quarters. The recent CannWay acquisition and new strains should help drive signups of lucrative high-dose clients (veterans, first responders) this year.

- **New expansion now operating and big growth plans ahead.** Aphria's licensed capacity recently increased by 30% to 2,600 kg/year as a second greenhouse is now operating. Aphria is exploring production capacity growth to as much as 27,000 kg/year over the next few years as demand and licensure dictate.

- **Demand could grow 10x under current regulations, 100x if marijuana legalized.** The MMPR MMJ program continues to grow quickly. Health Canada has to modify the MMPR program by August to improve access (should be positive for Aphria) but the federal government may decide to legalize recreational use at the same time. Any sales by Aphria into the recreational marijuana market would provide upside to our forecast.

- **Valuation.** Our target price of **$2.25 per share** is equal to 12x EV/Adj. EBITDA for the 12 months ended Feb/18. This is modestly below the average consensus CY16e EV/Adj. EBITDA multiples for a tracking universe of alcohol beverage producers.

Noel Atkinson, CFA (416) 343-3352

Investment Thesis

The 25 companies in Canada (Licensed Producers or "LPs") with licenses to cultivate or sell medical marijuana (MMJ) are poised to benefit from a long-term and very large demand growth trend. The number of registered clients in Health Canada's MMJ program grew from zero to 36,600 people in the 20 months ended November 2015, and Health Canada has projected growth to over 300,000 active users during the next decade. In the background is the federal government's commitment to decriminalize but highly regulate recreational marijuana sales in Canada, and for which the MMJ LPs are anticipated to become the primary producers.

As of November 2015 the Canadian MMJ LP industry had reached a sales run-rate of about 10,000 kg per year, but we expect demand to continue to quickly grow to more than 100,000 kg/year within the existing regulatory environment - and could swell to over 1 million kg annually if recreational marijuana is decriminalized in Canada and the LPs become the main producers for the Canadian recreational market.

As with the bottled spirits industry, we expect a two-tier producer system to evolve:

1. Five or six large-scale LPs that dominate the MMJ market and also leverage their scalability to become the primarily wholesale producers for legalized recreational marijuana in the future; and
2. A sizable number of lower-volume "craft" LPs serving local populations or offering niche products.

In that regard, we expect Aphria to remain one of the largest and most profitable producers of MMJ (and in the future, legalized recreational marijuana products) in Canada. We believe Aphria is already by far the lowest-cost producer in the country, benefiting from the use of greenhouses and extensive commercial agronomy experience, and we foresee further production cost reductions as total harvest expands. Aphria also has been cost-effectively capturing ~10% of all new patient registrations nationwide and a redoubled campaign to capture higher-dose users such as military veterans and first responders should boost revenue growth beyond the rate of client growth. Consequently, Aphria was the first of the publicly-traded LPs to report positive Adjusted EBITDA and achieved an Adjusted EBITDA margin of nearly 20% in the February-2016 quarter.

If marijuana is decriminalized in the next couple of years, we believe Aphria could quickly scale production to at least 60,000 kg/year at its existing site. Under such a scenario, it is possible that over the next few years Aphria could be selling 20,000 kg/year direct to its MMJ client base (at perhaps $7.50/gram) and 40,000 kg/year wholesale to a regulated recreational market (at perhaps $4.50/gram), with corresponding annual revenues exceeding $300 million – 30x larger than Aphria's annual revenue run-rate today. Crucially, Aphria is the only LP with management experienced in producing and distributing health products at that scale.

Overview

Aphria is one of the largest sellers of MMJ in Canada and is also the lowest-cost producer in the industry. The Company is one of 25 companies holding licenses by Health Canada to be a Licensed Producer (LP) and/or seller of dried MMJ products.

Formerly known as Pure Natures Wellness Inc., Aphria completed an RTO in December 2014. In mid-2014, the Company added significant management expertise by appointing Vic Neufeld as CEO. Mr. Neufeld previously served as President and CEO of Jamieson Laboratories, Canada's largest vitamin and supplement producer, from 1993 to 2014 and during that time Jamieson grew sales from $20 million to $250 million and was ultimately sold to a private equity firm for $300 million.

Aphria received a production license from Health Canada in March 2014 and a license to sell dried MMJ in November 2014. However, it held a partial production license between 2012 and 2014 that allowed the Company to evaluate a variety of strains and optimize cultivation and processing procedures – which we believe gave Aphria a leg up on most of its competitors. Aphria received approvals for capacity expansions in December 2015 and again in February 2016, and currently has licensed capacity of 2,600 kg/year. It also holds a separate production license for fresh MMJ and cannabis oil products, and expects to receive its sales license for these valuable product extensions by mid-2016.

Leveraging Extensive Greenhouse Agronomy To Be Lowest-Cost MMJ Producer

Aphria was the first LP in Canada to utilize naturally-lit greenhouses (plus artificial light as needed) to cultivate MMJ, as opposed to 100% artificially-lit indoor grow rooms within warehouses or industrial buildings.

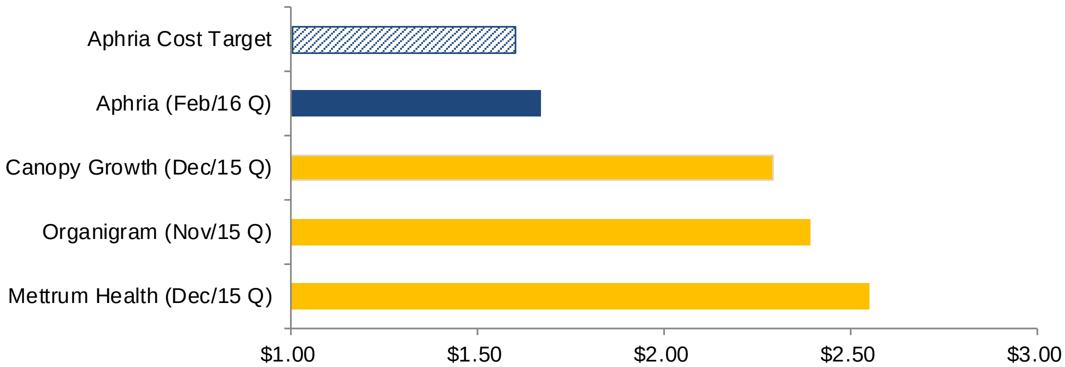
The Company's facilities are located in Leamington, Ontario, in the midst of the highest density of commercial greenhouses in Canada and co-located in co-founder Cole Cacciavillani's CF Greenhouses conventional greenhouse site. Aphria currently operates two greenhouses with about 43,000 square feet of space for cultivation. It has licenses to cultivate and sell a maximum of 2,600 kg of dried MMJ per year.

Aphria leverages several advantages to be the lowest-cost producer (on a "cash cost" basis) of MMJ in Canada:

1. *Use of natural light when possible and Leamington's relatively temperate location greatly reduces energy cost versus artificial light facilities in colder climates;*
2. *Application of management's experience in growing large volumes of commercial flowers to optimization of production of marijuana (also a flowering plant);*
3. *Controlled use of mites, wasps and other bug-eating predators as natural and low-cost pesticides;*
4. *In-house formulation of customized fertilizer, applied via drip feed, flood benches and flood floors (recycling the water to further reduce cost); and*
5. *Colocation on CF Greenhouses' site and sharing of certain facilities (and the potential to acquire the entire CF site that could support 60,000+ kg/year of MMJ production).*

Aphria's average "cash production cost" was $1.67/gram in Q3-FY2016 (February), down -11% from $1.87 per gram in Q2 and -22% from $2.13/gram in Q1. The Company's Q3 per-gram cash production cost is by far the best ever reported by any Canadian LP, and we note that Aphria also loads its QA/QC costs into its "cash production cost" calculation. Management expects to further reduce Aphria's cash production cost to $1.60/gram or less once the recent capacity expansion comes fully online over the next 6 months.

Exhibit 1. "Cash Production Cost" per Gram of Selected Canadian MMJ Producers, Most Recent Quarter



Source: Clarus using data from corporate reports and company interviews.

Aphria launched commercial sales in November 2014. It sold 322.4 kg (322,400 grams) of MMJ in Q3/FY2016 (February), up +26% sequentially from 256.3 kg in Q2 and nearly triple the 119.6 kg sold in Q1. Average sales price per gram was $8.30 in Q3, up +5% from Q2 even with a sizable amount of wholesale MMJ sales to other Canadian LPs in the quarter. We note that Aphria's fiscal Q3 was the second-highest quarter of unit sales volume ever recorded by a Canadian MMJ LP, behind only Canopy Growth's (TSX.V: CGC, NR) December-2015 quarter. The Company now has at least 4,000 registered patients.

Exhibit 2. Selected Canadian Publicly-Listed MMJ Producers

		Most Recent Quarter			Most Recently Reported	
Company	Ticker	MMJ Kg Sold	Cash Production Cost per Gram	Quarter Reported	Registered Patients	Annual Sales License (Kg)
Aphria Inc.	TSX.V: APH	322.4	$1.67	Feb-16	4,000	2,600
Aurora Cannabis Inc.	CSE: ACB	0	N/A	Dec-15	500	5,400
Canopy Growth Corp.	TSX.V: CGC	461.6	$2.29	Dec-15	8,300	6,075
Mettrum Health Corp.	TSX.V: MT	231.0	$2.55	Dec-15	6,100	3,500
Organigram Holdings Inc.	TSX.V: OGI	142.8	$2.39	Nov-15	2,000	2,100

Source: Clarus using data from corporate reports, press releases and company interviews.

APHRIA'S PRODUCT PORTFOLIO

Marijuana is the collective term for drug products derived from the *cannabis* plant family. It is best known for its psychoactive cannabinoid THC (*delta-9-tetrahydrocannabinol*) that is believed to calm mental anxiety and post-traumatic stress disorder (PTSD), but certain strains also produce the pain-relieving (and not psychoactive) cannabinoid CBD (*cannabidiol*). Most LPs offer a variety of strains with differing levels of THC and CBD, although we understand that high-THC strains account for the great majority of total MMJ industry sales.

Commercial production starts with the initial sourcing and development of "mother" plants, which have desired genetic traits. The next stage is *plant cloning*, in which branch tips of mother plants are clipped and rooted into soil compound to transform into a new cannabis plant. Clones can be harvested from mother plants every few days. After about two weeks, the clones have full roots and enter the *vegetative stage*. The cannabis plant grows rapidly during the vegetative stage and prefers light for up to 20 hours per day. After several weeks of vegetative growth, the plant can be graduated to the *flowering stage* by limiting light to 12 hours per day or less. During the flowering stage the plant may double or triple in height and grows large buds that contain the highest concentration of THC and/or CBD. After several weeks in the flowering stage the cannabis plant is harvested. The buds are removed, trimmed and stored to dry for several days, and then the product is ready for processing and packaging. Excess plant material (leaves, stems) have lower concentrations of THC and/or CBD and are not typically used in dried MMJ but can be used in an extraction process to create cannabis oil products.

Exhibit 3. MMJ Cultivation and Processing Flowchart

Source: Clarus using images from Aphria, Tilray, Windsor Star.

Aphria currently offers 20 different strains of MMJ with varying levels of THC and CBD, with prices ranging from $7.20/gram to $12.50/gram. Eight of those strains are exclusively offered to registered clients who are military veterans through its recently-acquired CannWay sales channel. The Company also discounts a few strains each month to $5.99/gram.

Exhibit 4. Selected Aphria MMJ Strains

Name	Type	THC %	CBD %
Athabasca	Hybrid	6-8%	4-5.7%
Churchill	Indica	3-5%	4-6%
Great Bear	Hybrid	17-18%	<0.05%
Henik	Indica	19-22%	<0.05%
Iroquois	Indica	6-8%	4-5%
Kusawa	Sativa	19-21%	<0.05%
Muskoka	Hybrid	12-13%	<0.05%

Name	Type	THC %	CBD %
Okanagan	Hybrid	15.50%	<0.05%
Panache	Sativa	10-14%	<0.05%
Tamaracouta	Hybrid	12-16%	<0.05%
Teslin	Indica	17-21%	<0.05%
Treasure Island	Sativa	<0.05%	14-16%
Wilbur	Sativa	1.4-2%	5-9%

Note: Treasure Island strain to be launched in late March 2016.
Source: Aphria website and Twitter account.

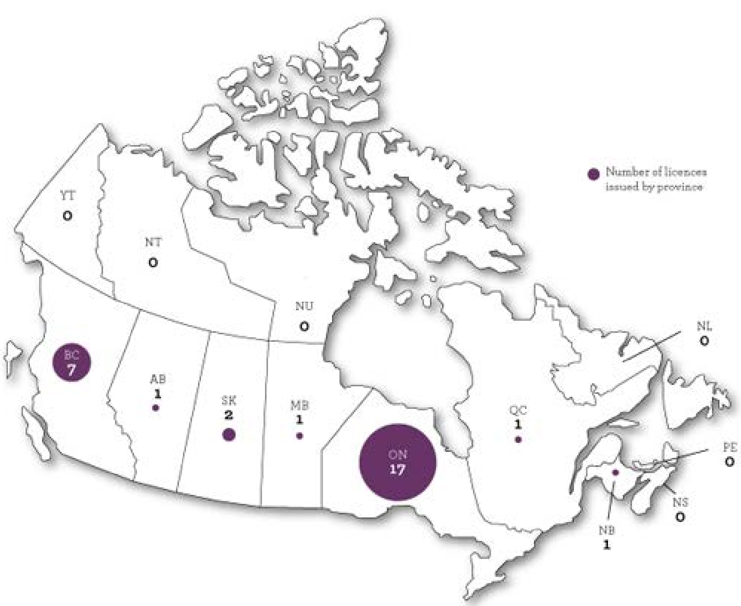
Importantly, Aphria has been developing several new strains and expects to launch them in the first half of CY2016. These strains include some with very high THC potency, which are sought by heavier users such as military veterans and have the potential to boost both registered patient growth and revenue per registered patient. They also include some strains with very high CBD potency, the first of which is called Treasure Island and slated to launch in late March.

Aphria and Other LPs Gaining Scale While Health Canada Very Slowly Approves New Competitors

Health Canada issues licenses to LPs for the cultivation of (i) dried marijuana and (ii) fresh marijuana and cannabis oil products that can be sold exclusively to registrants in Health Canada's medical marijuana program (called MMPR) with a doctor's prescription. LPs are subject to extensive security requirements, frequent inspections and broad product safety guidelines. Typically a new LP applicant builds a cultivation facility and applies for a cultivation license. After background checks and a facility evaluation, Health Canada may issue the cultivation license. Once MMJ production begins Health Canada again inspects the facility and analyzes the MMJ and then issues a license to sell. Existing LPs can apply to expand their production and selling capacity.

Just 30 LP licenses (held by 25 companies) to produce and/or sell dried MMJ have been issued to date – a tiny fraction of the nearly 1,300 LP applications submitted. We note that Aphria and other LPs have been receiving frequent capacity expansion approvals and gaining scale while new LP licenses slowed to a trickle: <u>since early 2015, only one LP (Aurora Cannabis (CNQ: ACB, NR)) has received its first sale license</u> while four other firms received their first cultivation licenses but not sales licenses.

Exhibit 5. Distribution of Licensed Producers by Province, as of March 2016



Source: Health Canada.

We believe that, as existing LPs expand their total capacity and increase their awareness with prescribing doctors and potential patients, their economies of scale should make new entrants increasingly uncompetitive except for those extremely well-funded and able to launch at large scale right out of the gate or those that can carve out an ultra-premium or other differentiated niche. We see the MMJ industry rapidly evolving into a two-tier system: perhaps five or six large producers (including Aphria, Aurora, Canopy, Mettrum (TSX.V: MT, NR), Organigram (TSX.V: OGI, NR), and a few private firms such as Tilray and CanniMed) that together control a majority of licensed production and registered clients, and then a variety of niche producers.

ALLARD RULING SHOULD RESULT IN POSITIVE CHANGES TO MMPR PROGRAM – AND GOVERNMENT COULD DECRIMINALIZE RECREATIONAL USE AT THE SAME TIME

Until April 2014, Health Canada's Marihuana Medical Access Regulations (MMAR) permitted Canadians to obtain MMJ in three ways: (1) purchase dried marijuana from Health Canada, (2) obtain a personal-use license to grow their own, or (3) appoint a "designated grower" to grow cannabis for the patient's use.[1] There were over 38,000 MMAR registrants plus more than 3,000 designated growers as of 2014. The MMAR program's scale became difficult for Health Canada to manage, and there were concerns about illegal sales of MMJ (especially by designated growers) to the black market and to grey-market dispensaries. The number of dispensaries across Canada is growing rapidly, and although still illegal, police in many cities are largely letting them operate given the federal government's goal of legalizing recreational marijuana use. LPs are not permitted to selling marijuana to dispensaries.

The MMAR program was replaced in 2014 with the Marihuana for Medical Purposes Regulations (MMPR). The MMPR was to end the personal growing of MMJ and Health Canada's MMJ sales, and instead have patients purchase directly from regulated LPs such as Aphria. Clients can purchase as much MMJ as their doctor prescribes, but each purchase cannot exceed the lesser of (a) 150 grams or (b) a 30-day prescription.

While some of the MMAR clients were forced to migrate to the MMPR program, a large number of "grandfathered" MMAR clients can still grow their own or buy from a designated grower as a result of a Federal Trial Court decision (*Allard v. HMTQ*) in February 2016. The February 2016 ruling found that the MMPR infringes on the rights of MMAR clients to have reasonable access to MMJ. The key issues included (a) that the requirement for an MMPR client to sign up with only one LP at a time limited their access to their desired strains, especially during the review period in 2015 when many LPs were in the early stages of expansion, and (b) that the MMPR maximum possession limit was unreasonable for some ultra-high-dose MMAR clients. While we are not lawyers, the *Allard* ruling appears to place much greater importance on access than on ensuring affordability.

Health Canada has until late August 2016 to modify the MMPR to eliminate the identified rights infringements, or it could appeal the court ruling. Modifying the MMPR would not require an Act of Parliament. However, the federal government may use this opportunity to decriminalize recreational marijuana by August and form a two-tier system (MMJ and recreational) as is found in several U.S. states. This option was recently suggested by the CEO of Organigram, and our discussions with industry participants suggest it is possible to have

[1] Marijuana is not an approved drug or medicine in Canada and remains a controlled substance. The federal government does not endorse its use but the courts have required reasonable access to a legal source of marijuana when authorized by a physician.

decriminalization occur that quickly, subject to "workarounds" for three international treaties relating to illicit drugs to which Canada is a signatory. The provinces and territories would have to separately determine retail channels and regulation thereof, similar to alcohol or tobacco products. We would expect recreational marijuana to have restrictions on purchase amounts and have high sales taxes, while MMJ would likely continue to have higher purchase limits and lower tax rates (the MMJ industry is lobbying to have MMJ zero-rated for HST like other prescription drugs). MMJ will likely remain a valid medical expense for income tax purposes as well. Personal cultivation may or may not be permitted, as the *Allard* ruling did not state that people have the right to grow their own MMJ. At least 3 U.S. states (Alaska, Colorado and Washington) and the District of Columbia permit small-scale marijuana cultivation for personal consumption.

On average, industry participants we have spoken with expect Health Canada to permit home cultivation for personal consumption (which would also maximize choice and access for MMPR registrants), but they hope for the termination of third-party designated grower licenses so that grey-market dispensaries lose their primary supply chain. We also believe the MMPR may be amended to allow registered users to have their MMJ prescription filled by any LP rather than being tied to a single LP as the program is structured today (and one of the main rights infringements on MMPR participants). We think this would reduce the paperwork hassle for MMPR clients and actually increase enrollment and total demand.

The MMPR program would likely grow at a reduced rate if recreational marijuana is decriminalized, but the cost and possession benefits of the MMPR program should be very attractive to those with true medical need. Decriminalization may also remove the stigma of MMJ prescriptions for doctors and potential registrants, and thereby lead to program growth above our expectations. We believe some people may choose to grow their own marijuana rather than buy from a MMJ LP, but as with homemade wine or beer we expect many more people will prefer to buy from a LP or from retail stores.

Ultimately, if LPs are selected as the producers for recreational marijuana sold at retail in a new decriminalized era, then the largest challenge for Aphria and the other LPs will be their ability to scale production fast enough and large enough to handle the demand – and to achieve sufficient profitability at wholesale prices. **We believe Aphria is the best-positioned LP to thrive as a wholesale producer** – it has the lowest production cost in the industry, is the only wholesaler to other LPs and already achieves 35-45% adjusted gross profit on those wholesale shipments, and has the only management team with experience in producing, packaging, and selling large quantities ($250 million annually) of health products on a wholesale basis.

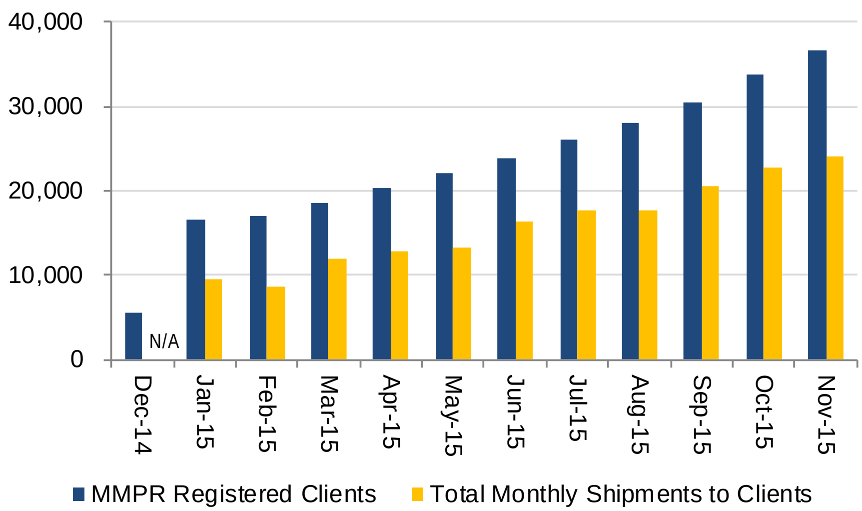
Multiple Near-Term Growth Drivers Support Growth At Or Above Our Forecast Within The Current Legal Environment

Aphria's registered client base now exceeds 4,000 people, versus just 247 a year ago, and management expects the Company to reach 5,000 clients in the next 6 months (25% growth). We estimate that Aphria's current client base represents about 10% of all people registered with the MMPR program.

Even if federal laws regarding recreational use of marijuana remain unchanged, there are several significant near-term demand drivers that should permit Aphria's revenue to match or exceed our outlook during our forecast period.

Demand Driver #1: Ongoing Client Growth of MMPR Program. Cumulative MMPR registrations jumped from 5,545 in December 2014 to 36,594 at the end of November 2015. There also has been a corresponding spike in the number of physicians prescribing MMJ. As people become more aware of the MMPR program and more physicians become comfortable prescribing, the MMPR program is expected to continue to grow rapidly. Health Canada projected in 2014 that, at its "mid-range" growth rate, the MMPR could have more than 308,000 registered clients by 2024.

Exhibit 6. Monthly MMPR Program Data (All Licensed Producers), December 2014 to November 2015



Source: Clarus using data reported by Health Canada, Lift Magazine and CMCIA.

Demand Driver #2: New Strains to Serve Higher-Use Clients and the CannWay Acquisition. We break down the MMJ user base in Canada into three groups:

1. **Low-dose** (less than 1 gram/day average usage): New users of MMJ who seek relief for intermittent physical pain or mental anguish and have limited history (if any) of using recreational marijuana;
2. **Medium-dose** (1-3 grams/day): Experienced users of MMJ (via the MMAR program) or recreational marijuana and therefore have higher tolerance and/or seek strains with higher THC concentration;
3. **High-dose** (3+ grams/day): Military veterans and others who use MMJ for relief of PTSD symptoms and seek the strains with highest THC concentration.

Aphria started with a variety of strains but had an emphasis on "balanced" strains with medium concentration of both THC and CBD. Balanced strains are primarily aimed at low-dose clients with limited experience using marijuana. However, medium-dose and high-dose users typically prefer high-THC strains and also are picky as to the subtleties of each strain (i.e. smell, flavour, nature of "high", etc.). So Aphria is in the midst of the first harvests of several new strains that have high concentrations of THC or CBD.

Aphria's January 2016 acquisition of CannWay Pharmaceuticals, a MMJ-support organization targeting military veterans, should help its high-dose client recruitment efforts. Aphria previously had a commission-based marketing agreement with CannWay. Canadian veterans who have been diagnosed as having PTSD can have most to all of their MMJ costs reimbursed by the Department of Veterans Affairs, and typically are high-dose users, so they are extremely valuable clients to LPs. According to CBC reports, there were 14,375 Canadian veterans diagnosed with PTSD, but only about 1,320 received Veteran Affairs reimbursement for MMJ in the 9 months ended December 2015 – so there is a lot of potential growth of users in this segment. *We note that the federal government is currently undertaking an internal review of the Veterans Affairs MMJ reimbursement program due to its rapid growth*, although total reimbursement in the 9 months ended December 2015 was only about $12 million.

Aphria purchased CannWay in January 2016 for 1.8 million shares (roughly $2.2 million) plus another 1.8 million shares of potential earn-out to bring the outreach unit in-house. Management expects the acquisition to boost EBITDA by $0.9 million in FY2016 and $3.6 million in FY2017, suggesting a highly-accretive acquisition even if the earn-out is achieved.

Demand Driver #3: Launch of Cannabis Oil Products. Cannabis oil is produced by pressing cannabis plant materials and suspending the extract in edible oil for ingestion or transdermal use. Health Canada has granted 19 oil production licenses including one to Aphria, but has been slow in approving sale licenses (only 7 to date).

The Company expects to start commercial sales of cannabis oils by mid-CY2016, subject to timely receipt of a sales license from Health Canada. We believe cannabis oil can become a major revenue contributor for Aphria, and management has deep experience in producing ingestible health products with good manufacturing practices and at commercial scale (Jamieson is one of the largest vitamin manufacturers in the world). Initially we expect Aphria to use mostly bud to create oil, but as oil production capacity is increased (and more automated) the Company will likely start to add excess plant material (leaves, bud trimmings) as well – and gross margin should rise as more excess plant material is used in place of bud. A gating factor for demand may be high price – for example, CanniMed's $199 bottles have the same amount of active ingredient as $80 of their dried bud – but Aphria's low production costs could allow it to be a price leader for oil-based MMJ products.

Demand Driver #4: Wholesale MMJ Shipments to Other LPs. Aphria announced in December 2014 it had signed contracts to sell up to 550 kg of MMJ (for proceeds up to $1.9 million) to other LPs on a wholesale basis through November 2016, with about 50 kg shipped each month. Average pricing is approximately $3.50/gram, and the Company has reported it achieves gross margin of 35-45% on these contracts.

Aphria is the only known LP selling product to competitors on a wholesale basis. We understand the shipments are largely for balanced strains (medium strength of THC and CBD). It seems that Aphria can help out friendly competitors in the near term while generating cash for excess inventory of balanced strains, but we expect wholesale shipments to peak at 450 kg in FY2017 and then decline to 200 kg per year in FY2018.

Decriminalizing Marijuana For Recreational Use Could Present Massive Wholesale Demand Upside (>1 Million KG/Year) for Aphria and Other LPs

LPs are the most logical suppliers to a government-controlled recreational marijuana market, in order to ensure consistent quality and the ability to produce at scale. Industry executives have relayed to us that they expect high-quality marijuana to be priced at $15-20 gram at retail before taxes with substantial discounts for multi-gram purchases, as is the case in Colorado. According to Cannabis Benchmarks, average U.S. wholesale pricing was US$4.23 per gram in mid-March 2016. We think a reasonable assumption for wholesale price of recreational marijuana in Canada is C$4.50/gram with premium strains achieving higher prices. Aphria should be highly profitable if it was selling large quantities of marijuana at $4.50/gram, and several of the other large Canadian LPs should also get to profitability at that wholesale price, but we think smaller producers would largely be priced out of the wholesale market unless they focus on processed products or unique strains. The LPs also are lobbying Ottawa to permit them to sell recreational marijuana directly to consumers.

Decriminalization should dramatically increase demand for marijuana from the LPs, whether they are wholesaling to retail outlets or selling directly. Health Canada's 2012 Canadian Alcohol and Drug Use Monitoring Survey found that 41.5% of respondents had used cannabis during their lifetime and 10.2% had done so in the past year, which was similar to results in prior surveys.

Data from the 2004 Canadian Addiction Survey estimated that about 2 million Canadians (8% of the adult population) had used marijuana in the past 30 days and 3.4 million (14% of the population) had used it in the past year. Data from Colorado (the first U.S. state to legalize recreational marijuana) suggests that about 15% of the adult population uses marijuana and about 30% are heavy users who consume the great majority of total marijuana sold in the state. This is directionally similar to alcohol use data in Canada, where 20% of the drinking population consumes about 70% of all alcohol sold nationwide.

Our baseline population is the 25.6 million Canadians between the ages of 18 and 74, as estimated by Statistics Canada. Extrapolating from usage estimates prepared by a consultancy for the Colorado Department of Revenue in 2015, we project **annual market demand of 1.2 million kg** of recreational marijuana at retail in Canada if decriminalized:

(a) 15% of adult Canadians (3.84 million people) purchase marijuana at retail stores annually;

(b) **Heavy users:** 30% of users (1.15 million people) consume an average of 2 grams per day = **840,960 kg per year**; plus

(c) **Moderate users:** 40% of users (1.54 million people) consume an average of 0.5 grams per day = **280,320 kg per year**; plus

(d) **Intermittent users:** 30% of users (1.15 million people) consume an average of 0.17 grams per day = **71,480 kg** per year.

APHRIA AND OTHER LPS WILL HAVE TO EXPAND SHARPLY TO SERVE MMPR PROGRAM GROWTH – NOT TO MENTION RECREATIONAL MARIJUANA DEMAND

The three largest publicly-traded LPs by sales (Canopy, Aphria and Mettrum) collectively have about 12,575 kg of licensed sales capacity today. But they have big plans – Canopy projects it could produce 60,000 kg/year in its two facilities, Mettrum may be able to expand to 100,000 kg/year or more across its various sites, and Aphria believes it could cultivate up to 60,000 kg/year at the Leamington site. Yet even that combined capacity of 220,000 kg/year is only a small portion of our demand projections of more than 1 million kg/year if marijuana is decriminalized and the LPs become the primary producers.

About 797 kg of MMJ was sold in November 2015 by all Canadian LPs, up +4.7% from October, and equaled an annual run-rate of 9,564 kg. The industry experienced distinct 3-month cycles in month-over-month unit sales growth in 2015 (first month very strong, second month close to the 3-month average, and third month relatively soft). As of November 2015, the 3-month average for month-over-month growth in MMJ unit sales was +10.1%, which translates to sales tripling on an annualized basis. If it takes 6-9 months to add a new facility and receive Health Canada approval, and it takes a few more months to ramp up production, then LPs need to be starting construction on new capacity at least a year ahead of market demand.

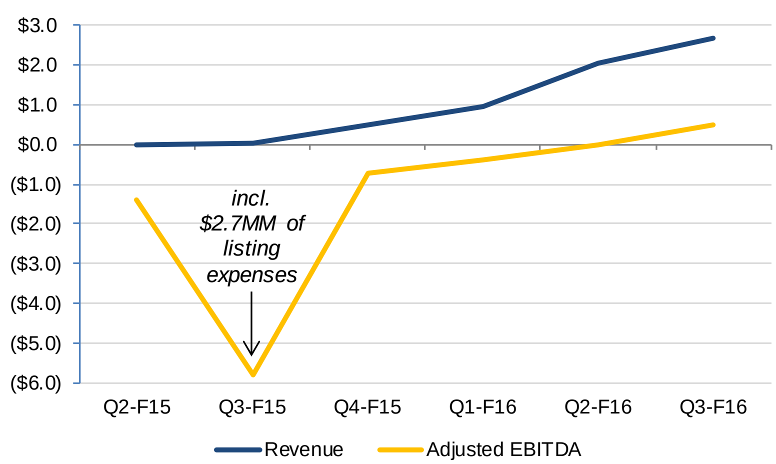
Aphria today has approved production and sales capacity of 2,600 kg/year within its two greenhouses, and we expect the next license renewal (in September 2016) to increase approved production in its existing facilities to 3,000 kg/year. The Company has explored the phased construction of up to 3 new greenhouses, each with capacity of 8,000 kg/year, along with a new vault and warehouse for an estimated total cost of $25-30 million. That investment would theoretically result in annual production capacity of about 27,000 kg/year, which could support nearly $230 million in annual revenue at an average price of $8.50/gram. Depending on demand trends and Health Canada receptivity to the large-scale expansion plan, Aphria may first choose to retrofit another existing greenhouse, which we expect would add about 1,500 kg/year of capacity.

APHRIA THE FIRST LICENSED PRODUCER TO REPORT "REAL" POSITIVE ADJUSTED EBITDA

Aphria has enjoyed very rapid revenue growth since product sales slightly over one year ago. The Company preliminary reported Q3-FY2016 (February) revenues of nearly $2.7 million, up +32% sequentially from Q2 and almost triple Q1's result. Gross margin in Q3-FY2016 after backing out non-cash COGS adjustments was 77%, up from 69% in Q2 and 58% in Q1. Aphria did not give preliminary details on operating expenses for Q3, but we infer that they increased modestly from Q2.

In Q2-FY2016 Aphria was the first LP to reach positive Adjusted EBITDA, and in Q3 Adjusted EBITDA margin improved substantially to 18-20% due to a combination of higher average price and earnings leverage in the business. We note that Aphria conservatively backs out the non-cash COGS items (fair value of biological assets produced and costs to sell markup on dried MMJ inventory) in its Adjusted EBITDA calculations.

Exhibit 7. Quarterly Revenue and Adjusted EBITDA, Past 6 Quarters (C$ Millions)



Source: Company reports.

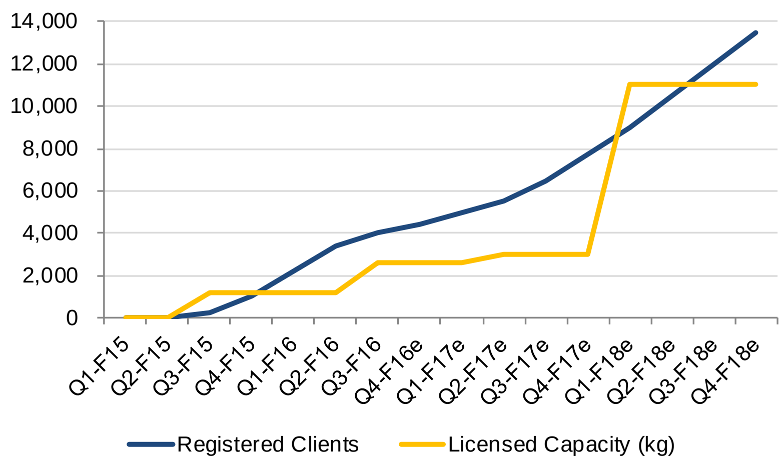
PROJECTING 13,500 CLIENTS AND $50MM ANNUALIZED REVENUE RUN-RATE BY MID-CY18

Based on the multiple demand drivers listed above and Aphria's success to date in cultivating both clients and MMJ, we forecast rapid growth in the Company's revenue and Adjusted EBITDA even without any change to the current regulatory environment. Key levers in our model include:

Licensed Production Capacity: We assume Aphria receives approval to increase its existing capacity to 3,000 kg/year when its license is renewed in the November 2016 quarter, and then adds 8,000 kg/year of approved capacity (for 11,000 kg/year total) during the August 2017 quarter;

Registered Clients: We project Aphria's client base to grow from ~4,000 currently to 4,400 at the end of FY2016 (May), then 7,750 a year later, and 13,500 at May 2018. We expect average dried MMJ sales to gradually rise from ~0.8 grams/day/client to 1.0 grams as Aphria targets medium and heavy dose users.

Exhibit 8. Historical and Projected Registered Clients and Licensed Capacity (kg), End of Period



Source: Company reports and Clarus estimates.

Dried MMJ Pricing and Production Cost: Aphria achieved $8.30 per gram in revenue in Q3-F16, up +5% from Q2. We believe average retail price exceeded $10/gram (suggesting healthy sales of premium strains) in Q3, offset by wholesale shipments to other LPs at an average price of $3.50/gram. We expect Aphria to have $1-2 million of wholesale revenues in FY2016 and FY2017 and then decline to less than $1 million in FY2018 as other LPs become more adept at cultivation. We also allow for a modest decline in average retail price during our forecast period to $8.50/gram as more LPs are authorized and try to gain market share through lower pricing. However, we don't expect the retail price to fall dramatically because most producers will need pricing to remain at current levels to break even at scale and high-quality strains should continue to enjoy premium prices. We assume cash production costs of $1.60/gram to $1.80/gram over the next few years, rising as new capacity is added (using extra staff and resources) and then improving as utilization of new capacity rises.

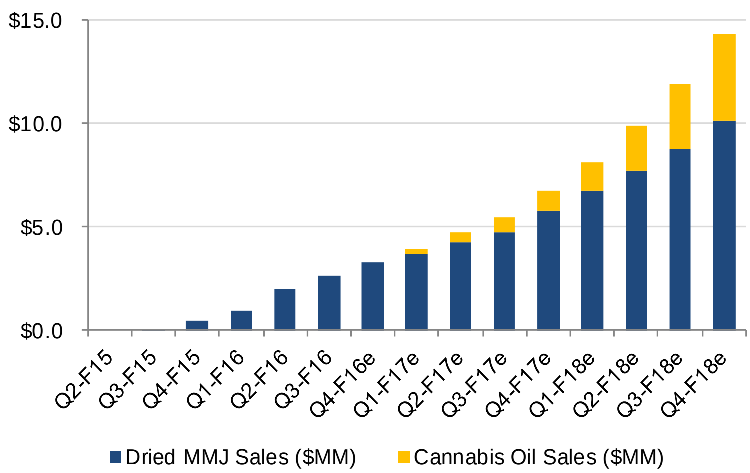
Cannabis Oils: We expect Aphria to begin selling cannabis oil products in late summer CY2016. Our forecast assumes cannabis oil products are priced at $2.00/ml ($80 for a 40-ml bottle), modestly below what Mettrum charges on a per-ml basis.

In sum, we forecast total revenue of $8.9 million for FY2016 (May) and Adjusted EBITDA of $0.7 million, as compared to $0.6 million of revenue and Adjusted EBITDA of -$9.2 million for the prior-year period. Our model calls for +133% revenue growth to $20.8 million in FY2017 along with Adjusted EBITDA of $5.6 million. In FY2018, we expect +113% revenue growth to $44.3 million and +157% Adjusted EBITDA growth to $14.3 million. The Company should reach a $50-million annual revenue run-rate in the May 2018 quarter.

Our forecast predicts Adjusted EBITDA margin to rise from 8% in FY2016 to 27% in FY2017 and 32% in FY2018, even with our call for moderate retail price erosion for dried bud during our forecast period.

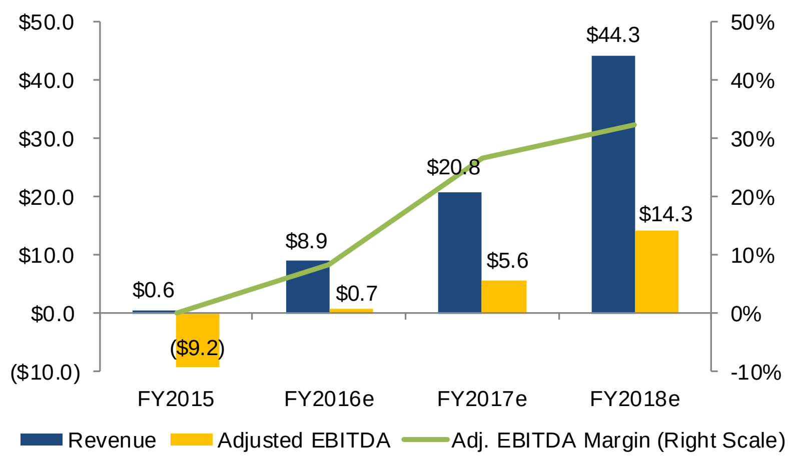
We reiterate that *our forecast assumes no change to the existing regulatory environment in Canada*, and that any producer-friendly changes to the MMPR and/or the decriminalization of recreational marijuana could dramatically increase our forecast.

Exhibit 9. Historical and Projected Revenue by Product Line, Quarterly (C$ Millions)



Source: Corporate reports and Clarus estimates.

Exhibit 10. Annual Revenue and Adjusted EBITDA, FY2015-FY2018e (C$ Millions)



Source: Corporate reports and Clarus estimates.

BALANCE SHEET SHOULD SUPPORT PRODUCTION EXPANSION TO AT LEAST 19,000 KG/YEAR

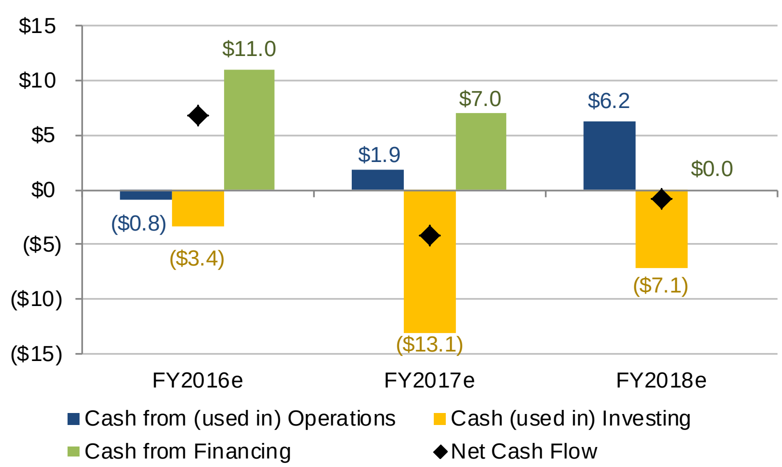
Aphria expects to invest heavily in expanding its production capacity over the next several years. Currently, the Company has greenhouse space built out for 2,600 kg of dried MMJ production per year, and Aphria intends to request an increase to 3,000 kg/year upon its license renewal in September.

We assume Aphria launches a significant expansion program later this calendar year, with phased construction of 3 new greenhouses (each capable of producing 8,000 kg/year) well in advance of demand. The first 8,000-kg/year greenhouse construction is also expected to include new vault and warehouse facilities and is projected to cost $10-12 million, while subsequent greenhouses are likely to cost about $8 million each.

We expect Aphria to start Phase 1 of its expansion late in the May 2016 quarter and last about four quarters at a total cost of $12 million, followed shortly thereafter by a 4-quarter, $8 million investment for the second expansion phase. We forecast Aphria to invest $18 million in new building capex over our forecast period.

Aphria strengthened its balance sheet in December 2015 with an $11.5 million equity raise. In addition, there are about $7.0 million of warrants expiring in FY2017 that we would expect to be in the money at that time. Aphria reached positive operating cash flow in the February-2016 quarter, and we expect operating cash flow of $1.9 million in FY2017 (restrained by growth of accounts receivable, inventory and biological assets in line with revenue growth) and $6.2 million in FY2018. So long as Aphria can meet our forecast, the Company should be well funded from existing cash, expected cash from operations and scheduled warrant exercises to underwrite production capacity to at least 19,000 kg/year of dried MMJ during our forecast period.

Exhibit 11. Annual Cash Flow Forecast FY2016e-FY2018e (C$ Millions)



Source: Clarus estimates.

TARGET PRICE REMAINS $2.25; UPGRADING RATING TO BUY FROM SPECULATIVE BUY AS APHRIA HAS ACHIEVED POSITIVE ADJUSTED EBITDA

There are four LPs with meaningful operations listed on the TSX Venture Exchange: Aphria, Canopy Growth, Mettrum and Organigram. As each listed MMJ LP has a different fiscal year end, we are using calendar year estimates rather than fiscal year. For Aphria, we use the four quarters ending February in the following year (i.e. 4 quarters ending February 2017 for CY2016, and 4 quarters ending February 2018 for CY2017).

According to FactSet data, Aphria's three TSX Venture-listed competitors currently trade at a consensus average of 4.1x CY2016e price/sales and 2.1x CY2017e price/sales, along with 14.5 CY2016e EV/Adjusted EBITDA and 5.6x CY2017e EV/Adjusted EBITDA.

Given the emerging nature of the publicly-traded Canadian MMJ LPs, we also use global alcohol producer stocks as a guidepost for an appropriate valuation, although we admit these firms tend to be far larger than Aphria. The seven applicable stocks trade at a consensus average of 4.0x CY2016e price/sales and 3.3x CY2017e price/sales, as well as 14.5x CY2016e EV/EBITDA and 12.9x CY2017e EV/EBITDA, according to FactSet data.

Given the relatively small size of Aphria relative to the global alcohol beverage producers, offset by much higher expected growth, multiple potential demand drivers to boost growth beyond forecast, and strong anticipated Adjusted EBITDA margins, we believe an appropriate target multiple is 12x CY2017x (12 months ending February 2018) EV/Adjusted EBITDA. Using our forecasts of $15.7 million of net cash and 65.0 million shares outstanding as of December 2016, we arrive at a 12-month target price of **$2.25 per share**, which is unchanged from our prior target price.

We institute a **Buy** rating for Aphria, as compared to a Speculative Buy previously, with the positive change reflecting an expectation of reduced operational risk now that Aphria has achieved positive Adjusted EBITDA on a quarterly basis and is expected to do so throughout our forecast period.

Exhibit 12. Table of Comparables (Calendar Year Basis)

						Price/Sales			EV/Adjusted EBITDA			2015e-16e		2016e-17e		Adj. EBITDA Margin		
Company Name	Ticker	Clarus Rating	Stock Price	Market Cap ($MM)	EV ($MM)	2015e	2016e	2017e	2015e	2016e	2017e	Sales	Adj. EBITDA	Sales	Adj. EBITDA	2015e	2016e	2017e
Canadian MMJ LP Stocks																		
Canopy Growth Corp.	CGC-CA	NR	$2.69	$205	$202	19.1x	6.7x	3.2x	NEG	18.1x	8.4x	185%	NMF	109%	116%	(28%)	37%	38%
Mettrum Health Corp.	MT-CA	NR	$1.59	$54	$46	7.9x	2.1x	1.2x	NEG	12.1x	3.1x	267%	NMF	83%	297%	(84%)	15%	33%
Organigram Holdings Inc.	OGI-CA	NR	$0.77	$41	$42	12.1x	3.3x	2.0x	NEG	13.3x	5.5x	261%	NMF	71%	143%	(15%)	26%	37%
Comparables Average						**13.0x**	**4.1x**	**2.1x**	**NEG**	**14.5x**	**5.6x**	**238%**	**NMF**	**88%**	**185%**	**(42%)**	**26%**	**36%**
Alcohol Beverage Producers																		
Anheuser-Busch InBev ADR	BUD-US	NR	$122.19	$203,446	$245,934	4.7x	4.7x	4.4x	12.0x	14.7x	13.9x	(0%)	(1%)	5%	5%	39%	39%	39%
Boston Beer Company, Inc.	SAM-US	NR	$187.77	$2,493	$2,399	2.6x	2.5x	2.4x	12.5x	11.6x	10.9x	4%	4%	5%	6%	21%	21%	21%
Brown-Forman Corp.	BF.B-US	NR	$97.52	$19,737	$21,158	5.0x	4.9x	4.8x	18.2x	19.0x	18.1x	0%	2%	4%	5%	27%	28%	28%
Constellation Brands, Inc.	STZ-US	NR	$149.42	$33,986	$40,898	5.2x	4.8x	4.5x	16.1x	17.0x	15.4x	9%	14%	7%	10%	32%	34%	35%
Diageo PLC	DGE-LON	NR	£18.88	£47,527	£56,630	4.4x	4.4x	4.2x	13.7x	16.0x	15.2x	1%	2%	4%	6%	32%	33%	33%
Molson Coors Brewing Co.	TAP-US	NR	$94.83	$17,610	$20,116	4.9x	5.2x	1.5x	14.0x	13.5x	7.8x	(4%)	19%	238%	72%	35%	44%	22%
Vina Concha Y Toro ADR	VCO-US	NR	$33.90	$1,266	$1,586	1.4x	1.2x	1.2x	9.3x	9.9x	9.1x	12%	17%	7%	8%	15%	16%	16%
Comparables Average						**4.0x**	**4.0x**	**3.3x**	**13.7x**	**14.5x**	**12.9x**	**3%**	**8%**	**39%**	**16%**	**29%**	**30%**	**28%**
Aphria Inc.	APH-CA	Buy	$1.29	$84	$70	13.6x	4.8x	2.3x	NEG	16.4x	6.3x	182%	NMF	111%	162%	(10%)	24%	30%

Source: FactSet, company reports, and Clarus estimates for Aphria.

Target Price Calculator: Our target price is based on 12x CY2017 (12 months to February 2018) EV/Adjusted EBITDA.

Key Risks to Target Price: Please refer to the risks disclosed in the report dated December 19, 2014.

MANAGEMENT & DIRECTOR BIOGRAPHIES

Vic Neufeld, President, CEO and Director. Mr. Neufeld is the former CEO of Jamieson Laboratories ("Jamieson"), Canada's largest manufacturer and distributor of natural vitamins, minerals, concentrated food supplements, herbs and botanical medicines. Mr. Neufeld brings 15 years of experience as a chartered accountant and partner with Ernst & Young and 21 years as CEO of Jamieson. During his tenure with Jamieson, the company grew from $20 million in annual sales to over $250 million and expanded the company's distribution network to over 40 countries. Mr. Neufeld earned a Bachelor's degree and an MBA from the University of Windsor and is a Chartered Accountant.

Cole Cacciavillani, Chief Operating Officer and Director. Mr. Cacciavillani is a co-founder of Aphria and is an industrial engineer with 35 years of experience in the agricultural and greenhouse industry. He also serves as Secretary-Treasurer of The CF Group, which is one of the leading wholesale producers of seasonal potted plants in Canada. Mr. Cacciavillani is a director of the Ontario Greenhouse Alliance and of the Agricultural Institute of Ontario. He earned an Industrial Engineering degree from St. Clair College.

John Cervini, Chief Agronomist Officer and Director. Mr. Cervini is a co-founder of Aphria and comes from fourth-generation growers in southwestern Ontario with hydroponic agricultural experience. Together with his father and brother, Mr. Cervini helped established Lakeside Produce, a multinational producer of fresh vegetables that serves retailers throughout North America. He is the founding chair of the Ontario Greenhouse Marketing Association and remains involved in the industry as part of the Ontario Greenhouse Vegetable Growers Association.

Dennis Staudt, Director. Mr. Staudt has over 35 years of accounting and advisory experience, having spent most of his career with PricewaterhouseCoopers LLP including 22 years as a partner in the Audit and Assurance Group. Following his retirement from PwC in 2012, he continues to provide business advisory services to a number of private companies, primarily in the manufacturing and greenhouse sectors. He is also Vice-President of Staudt Farms Limited, a family-owned farming operation in Leamington, Ontario. Mr. Staudt graduated from the University of Windsor in 1977 with a B. Comm. He obtained his Chartered Account (Ontario) designation in 1979 and his Certified Public Accountant (Illinois) designation in 1998.

Dr. Philip Waddington, Director. Dr. Waddington is a trained naturopathic physician and leader in the field of regulating natural health products. From January 2000 to August 2008 served as the inaugural Director General of the Natural Health Products Directorate (NHPD) of Health Canada.

Robert Kozlov, Director. Mr. Kozlov is a partner at Norton Rose Fulbright Canada LLP, where he practices corporate-commercial law. He specializes in private M&A, strategic alliances, major commercial contracts, and the protection and licensing of intellectual property rights.

Gary Leong, Chief Scientific Officer. Mr. Leong has a background in quality assurance, quality control, quality system audits, international and domestic regulatory affairs and product research and development. He currently is the president of Neautrical Solutions Inc., and previously served as Chief Scientific Officer at Jamieson. He began at Jamieson in 2000 as the Vice President of Scientific and Technical Affairs. He also held the position of Quality Control Manager at Boehringer Ingelheim Consumer Products: Quest Vitamins, and of

Development Officer at Atomic Energy of Canada: Radiochemical Company. Mr. Leong holds a B.Sc. in Chemistry and an MBA in Quality Management from City University of Seattle.

Carl Merton, Chief Financial Officer. Mr. Merton was appointed CFO of Aphria in December 2015. He previously served as a Director of Aphria from October 2014 until his resignation from the Board in December 2015 to assume the CFO role. Mr. Merton had served as CFO of Reko International (REK-TSX.V), a contract manufacturer primarily serving automotive companies from October 2007 to November 2015. Previously, he was VP, Special Projects at Atlas Tube and spent 12 years at Ernst & Young and KPMG.

Exhibit 13. Management & Insider Ownership

Name	Common Shares		Options
John Cervini (Director and Chief Agronomist)	11,500,001	17.7%	520,000
Cole Cacciavillani (Director and COO)	11,500,001	17.7%	520,000
Vic Neufeld (Director, President and CEO)	3,100,000	4.8%	1,260,000
Carl Merton (CFO)	10,000	0.0%	250,000
Other Directors & Executives	130,000	0.2%	350,000
Total Directors & Executives	**26,240,002**	**40.4%**	**2,380,000**
Shares Issued and Outstanding	64,984,290	100%	

Source: Company reports, SEDI.

APPENDIX A: FINANCIAL STATEMENTS

INCOME STATEMENT

INCOME STATEMENT (in C$000's except per-share data)	FY2015	Aug-15 Q1-FY16	Nov-15 Q2-FY16	Forecast Feb-16 Q3-FY16	Forecast May-16 Q4-FY16	Forecast FY2016	Forecast Aug-16 Q1-FY17	Forecast Nov-16 Q2-FY17	Forecast Feb-17 Q3-FY17	Forecast May-17 Q4-FY17	Forecast FY2017	Forecast FY2018
Revenue	$551	$951	$2,027	$2,680	$3,282	$8,939	$3,958	$4,705	$5,434	$6,740	$20,837	$44,292
Cost of goods sold	433	497	1,036	854	1,267	3,653	1,397	1,548	1,796	2,281	7,021	14,048
Amortization	-	109	114	135	142	499	148	192	255	336	932	1,747
Pre-distribution growing costs	321	-	-	-	-	-	-	-	-	-	-	-
Change in biological assets	(998)	(333)	(431)	(150)	(450)	(1,365)	(1,250)	(150)	-	(100)	(1,500)	(3,750)
Total cost of sales	(243)	272	718	839	959	2,788	295	1,590	2,051	2,517	6,453	12,046
Gross profit	795	679	1,309	1,841	2,322	6,152	3,663	3,115	3,383	4,222	14,384	32,247
Gross margin (%)	144.1%	71.4%	64.6%	68.7%	70.8%	68.8%	92.5%	66.2%	62.3%	62.6%	69.0%	72.8%
Sales and marketing	720	616	966	1,072	1,214	3,867	1,385	1,600	1,793	2,157	6,935	13,568
General and administrative	2,082	424	507	576	656	2,163	752	870	924	1,078	3,625	6,482
Research and development	70	86	55	94	115	350	139	165	190	236	729	1,550
Amortization	57	30	45	66	70	211	73	95	126	166	459	861
Share-based compensation	1,262	47	212	100	100	459	150	150	150	150	600	600
Total operating expenses	4,190	1,203	1,784	1,908	2,155	7,051	2,499	2,880	3,183	3,786	12,348	23,061
Operating income	(3,396)	(525)	(475)	(67)	167	(899)	1,164	235	201	436	2,035	9,186
Operating margin (%)	-616%	-55%	-23%	-2%	5%	-10%	29%	5%	4%	6%	10%	21%
Listing expense	(3,278)	-	-	-	-	-	-	-	-	-	-	-
Net finance income (expense)	130	48	37	-	-	85	-	-	-	-	-	-
Gain on sale of capital assets	-	-	6	-	-	6	-	-	-	-	-	-
Pre-tax income	(6,543)	(477)	(431)	(67)	167	(808)	1,164	235	201	436	2,035	9,186
Income tax	-	-	-	-	-	-	-	-	-	-	-	-
Tax rate (%)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net income	(6,543)	(476.825)	(431.098)	(67)	167	(808)	1,164	235	201	436	2,035	9,186
Diluted EPS	**($0.14)**	**($0.01)**	**($0.01)**	**($0.00)**	**$0.00**	**($0.01)**	**$0.01**	**$0.00**	**$0.00**	**$0.00**	**$0.02**	**$0.10**
Weighted diluted shares o/s	45,386	52,480	52,482	58,761	93,347	64,267	90,789	93,347	92,946	93,347	92,607	93,347
Expenses as % of Revenue:												
Sales and marketing	*130.6%*	*64.8%*	*47.6%*	*40.0%*	*37.0%*	*43.3%*	*35.0%*	*34.0%*	*33.0%*	*32.0%*	*33.3%*	*30.6%*
General and administrative	*377.6%*	*44.6%*	*25.0%*	*21.5%*	*20.0%*	*24.2%*	*19.0%*	*18.5%*	*17.0%*	*16.0%*	*17.4%*	*14.6%*
Research and development	*12.6%*	*9.1%*	*2.7%*	*3.5%*	*3.5%*	*3.9%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*
EBITDA & Adjusted EBITDA:												
Net income	(6,652)	(477)	(431)	(67)	167	(808)	1,164	235	201	436	2,035	9,186
Depreciation and amortization	381	139	158	201	212	710	222	287	381	502	1,391	2,608
Net finance expense (income)	(130)	(48)	(37)	-	-	(85)	-	-	-	-	-	-
Income tax provision	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA	**(6,402)**	**(386)**	**(310)**	**134**	**379**	**(183)**	**1,386**	**522**	**581**	**938**	**3,427**	**11,794**
EBITDA margin (%)	-1161%	-41%	-15%	5%	12%	-2%	35%	11%	11%	14%	16%	27%
Adjustment to COGS	214	208	514	384	570	1,676	615	666	754	935	2,970	5,619
Adjustment to Biological asset change	(998)	(333)	(431)	(150)	(450)	(1,365)	(1,250)	(150)	0	(100)	(1,500)	(3,750)
Listing expense	(3,278)	-	-	-	-	-	-	-	-	-	-	-
Amortization of non-capital assets	-	91	20	20	20	151	20	20	20	20	80	80
Non-cash compensation	1,262	47	212	100	100	459	150	150	150	150	600	600
Adjusted EBITDA	**(9,202)**	**(373)**	**4**	**489**	**619**	**739**	**920**	**1,208**	**1,505**	**1,943**	**5,576**	**14,343**
Adjusted EBITDA margin (%)	-1669%	-39%	0%	18%	19%	8%	23%	26%	28%	29%	27%	32%
Adjusted Gross Profit:												
Reported Gross Profit	686	679	1,309	1,841	2,322	6,152	3,663	3,115	3,383	4,222	14,384	32,247
Adjustment to COGS	214	208	514	384	570	1,676	615	666	754	935	2,970	5,619
Adjustment to Biological asset change	(998)	(333)	(431)	(150)	(450)	(1,365)	(1,250)	(150)	0	(100)	(1,500)	(3,750)
Adjusted Gross Profit	**(98)**	**554**	**1,392**	**2,076**	**2,443**	**6,463**	**3,028**	**3,631**	**4,137**	**5,057**	**15,853**	**34,116**
Adjusted Gross Margin (%)	(18%)	58%	69%	77%	74%	72%	76%	77%	76%	75%	76%	77%

Source: Corporate filings and Clarus estimates.

BALANCE SHEET

				Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
BALANCE SHEET		Aug-15	Nov-15	Feb-16	May-16		Aug-16	Nov-16	Feb-17	May-17		
(in C$000's except as noted)	FY2015	Q1-FY16	Q2-FY16	Q3-FY16	Q4-FY16	FY2016	Q1-FY17	Q2-FY17	Q3-FY17	Q4-FY17	FY2017	FY2018
Cash and equivalents	$7,052	$5,139	$3,286	$13,948	$13,816	$13,816	$18,510	$15,757	$13,053	$9,638	$9,638	$8,779
Accounts receivable	-	376	1,465	1,307	1,490	1,490	1,810	2,166	2,535	3,043	3,043	5,832
Other receivables	760	949	209	209	209	209	209	209	209	209	209	209
Inventory	1,724	2,057	2,022	2,099	2,121	2,121	2,220	1,963	1,672	2,491	2,491	4,665
Biological assets	289	274	304	364	544	544	1,044	1,104	1,104	1,144	1,144	2,644
Prepaid expenses	167	157	220	220	220	220	220	220	220	220	220	220
Promissory notes, current portion	346	448	550	550	550	550	550	550	550	550	550	550
Total current assets	10,338	9,399	8,055	18,697	18,951	18,951	24,563	21,968	19,343	17,296	17,296	22,898
Property & equipment, net	3,626	4,857	6,143	6,205	6,260	6,260	8,309	11,294	15,190	17,967	17,967	22,507
Intangible assets, net	75	61	48	59	67	67	73	75	74	70	70	22
Promissory notes, net of current	254	191	128	128	128	128	128	128	128	128	128	128
Total assets	14,293	14,508	14,374	25,089	25,406	25,406	33,072	33,465	34,734	35,460	35,460	45,554
Accounts payable and accrued liabilities	947	1,472	1,607	1,364	1,414	1,414	1,628	1,636	1,672	1,812	1,812	2,120
Due to related parties	-	120	-	-	-	-	-	-	-	-	-	-
Total current liabilities	947	1,593	1,607	1,364	1,414	1,414	1,628	1,636	1,672	1,812	1,812	2,120
Long-term debt	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	947	1,593	1,607	1,364	1,414	1,414	1,628	1,636	1,672	1,812	1,812	2,120
Share capital	20,246	20,246	20,316	31,241	31,241	31,241	37,379	37,379	38,262	38,262	38,262	38,262
Equity value of warrants	557	557	557	557	557	557	557	557	557	557	557	557
Share-based payment reserve	1,262	1,309	1,521	1,621	1,721	1,721	1,871	2,021	2,171	2,321	2,321	2,921
Accumulated deficit	(8,719)	(9,196)	(9,627)	(9,694)	(9,527)	(9,527)	(8,363)	(8,127)	(7,927)	(7,491)	(7,491)	1,695
Total equity	13,345	12,916	12,767	23,725	23,992	23,992	31,444	31,829	33,062	33,648	33,648	43,434
Total liabilities and equity	14,293	14,508	14,374	25,089	25,406	25,406	33,072	33,465	34,734	35,460	35,460	45,554

Source: Corporate filings and Clarus estimates.

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Cash Flow Statement

CASH FLOW STATEMENT (in C$000's except as noted)	FY2015	Aug-15 Q1-FY16	Nov-15 Q2-FY16	Forecast Feb-16 Q3-FY16	Forecast May-16 Q4-FY16	Forecast FY2016	Forecast Aug-16 Q1-FY17	Forecast Nov-16 Q2-FY17	Forecast Feb-17 Q3-FY17	Forecast May-17 Q4-FY17	Forecast FY2017	Forecast FY2018
Net income	(6,543)	(477)	(431)	(67)	167	(808)	1,164	235	201	436	2,035	9,186
Depreciation and amortization	381	139	158	201	212	710	222	287	381	502	1,391	2,608
Non-cash listing expense	2,468	-	-	-	-	-	-	-	-	-	-	-
Non-cash change in biological assets	(998)	(333)	290	234	120	312	(635)	516	754	835	1,470	1,869
Share-based compensation	1,262	47	212	100	100	459	150	150	150	150	600	600
Gain on sale of capital assets	-	-	(6)	-	-	(6)	-	-	-	-	-	-
Accounts receivable	-	(376)	(1,089)	157	(183)	(1,490)	(320)	(356)	(369)	(509)	(1,553)	(2,788)
Other receivables	(743)	(189)	740	-	-	551	-	-	-	-	-	-
Inventory	(727)	1	(255)	(77)	(22)	(354)	(99)	257	291	(820)	(370)	(2,173)
Biological assets	(289)	15	(31)	(294)	(300)	(610)	135	(576)	(754)	(875)	(2,070)	(3,369)
Prepaid expenses	(167)	11	(63)	-	-	(53)	-	-	-	-	-	-
Accounts payable	(87)	525	135	(243)	50	467	214	8	36	140	398	308
Cash from (used by) operating activities	(5,443)	(638)	(340)	12	144	(822)	831	521	689	(140)	1,901	6,241
Purchases of property and equipment, net	(2,405)	(1,356)	(1,424)	(250)	(250)	(3,281)	(2,250)	(3,250)	(4,250)	(3,250)	(13,000)	(7,000)
Investment in intangibles	(108)	-	-	(25)	(25)	(50)	(25)	(25)	(25)	(25)	(100)	(100)
Investment in promissory notes receivable	(600)	(39)	(39)	-	-	(78)	-	-	-	-	-	-
Cash received on RTO	79	-	-	-	-	-	-	-	-	-	-	-
Cash from (used by) investing activities	(3,034)	(1,395)	(1,463)	(275)	(275)	(3,408)	(2,275)	(3,275)	(4,275)	(3,275)	(13,100)	(7,100)
Proceeds from share issuance, net	17,270	-	70	10,925	-	10,995	-	-	-	-	-	-
Due to related parties, net	(1,912)	120	(120)	-	-	-	-	-	-	-	-	-
Proceeds from options and warrants	-	-	-	-	-	-	6,138	-	882	-	7,020	-
Cash from (used by) financing activities	15,358	120	(50)	10,925	-	10,995	6,138	-	882	-	7,020	-
Net change in cash for period	6,881	(1,913)	(1,853)	10,662	(131)	6,765	4,694	(2,754)	(2,703)	(3,415)	(4,178)	(859)
Cash and equivalents, beginning of period	170.455	7,052	5,139	3,286	13,948	7,052	13,816	18,510	15,757	13,053	13,816	9,638
Cash and equivalents, end of period	7,052	5,139	3,286	13,948	13,816	13,816	18,510	15,757	13,053	9,638	9,638	8,779

Source: Corporate filings and Clarus estimates.

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