MANAGEMENT'S DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") of the financial condition and results of operations of Aphria Inc., (the "Company" or "Aphria"), is for the three months ended August 31, 2016. It is supplemental to, and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and the accompanying notes for the three months ended August 31, 2016, as well as the financial statements and MD&A for the year ended May 31, 2016. The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts presented herein are stated in Canadian dollars, unless otherwise indicated.

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

In this MD&A, reference is made to cash costs to produce, adjusted cash costs to produce, "all-in" cost of sales, adjusted "all-in" cost of sales, adjusted gross profit, adjusted gross margin, EBITDA, cash break-even and EBITDA percentage, which are not measures of financial performance under IFRS. The Company calculates each as follows:

- *Cash costs to produce is equal to cost of sales less the non-cash increase (plus the non-cash decrease) in the fair value ("FV") of biological assets, if any, amortization and packaging costs divided by grams sold in the quarter. Management believes this measure provides useful information as it removes non-cash and post production expenses tied to our growing costs and provides a benchmark of Company against its competitors*
- *"All-in" cost of sales per gram is equal to cost of sales less the non-cash increase (plus the non-cash decrease) in FV of biological assets, if any, divided by grams sold in the quarter. Management believes this measure provides useful information as a benchmark of the company against its competitors.*
- *Adjusted gross profit is equal to gross profit less the non-cash increase (plus the non-cash decrease) in the FV of biological assets, if any. Management believes this measure provides useful information as it removes fair value metrics tied to increasing stock levels (decreasing stock levels) required by IFRS*
- *Adjusted gross margin is adjusted gross profit divided by sales. Management believes this measure provides useful information as it represents the gross profit based on the Company's cost to produce inventory sold and removes fair value metrics tied to increasing stock levels (decreasing stock levels) required by IFRS.*
- *EBITDA is net income(loss), plus (minus) income tax expense (recovery) plus (minus) finance expense(income), plus amortization, plus share-based compensation, plus (minus) non-cash FV adjustments related to biological assets, plus amortization of non-capital assets and certain one-time non-operating expenses, as determined by management.. Management believes this measure provides useful information as it is a commonly used measure in the capital markets and as it is a close proxy for repeatable cash generated by operations.*
- *Cash break-even represents the year-to-date EBITDA of the Company. Management believes this measure provides useful information as it includes all EBITDA for the year-to-date.*
- *EBITDA percentage is equal to EBITDA divided by revenue. Management believes this measure provides useful information as it is a commonly used measure in the capital markets. This measure is not necessarily comparable to similarly titled measures used by other companies.*

All amounts in this MD&A are expressed in Canadian dollars and where otherwise indicated.

This MD&A is prepared as of October 6, 2016.

COMPANY OVERVIEW

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

Pure Natures Wellness (PNW), a wholly-owned subsidiary of the Company, is licenced to produce and sell medical marijuana under the provisions of the *Access to Cannabis for Medical Purposes Regulations* ("ACMPR"). PNW received its licence to produce and sell medical marijuana on November 26, 2014, followed by its licence to sell cannabis extracts on August 18, 2016. PNW's operations are based in Leamington, Ontario. The Leamington greenhouse facility provides Aphria with the opportunity to be a scalable low cost producer of medical marijuana.

The Company is focused on producing and selling medical marijuana and its derivatives through a two-pronged growth strategy, including both retail sales and wholesale channels. Retail sales are primarily sold through Aphria's online store as well as telephone orders. Wholesale shipments are sold to other ACMPR Licenced Producers.

INVESTOR HIGHLIGHTS

	Q1-2017	Q4-2016
Revenue	$ 4,375,512	$ 2,776,316
Kilograms (or kilogram equivalents) sold	585.2	340.4
Cash cost to produce / gram	$ 1.23	$ 1.15
"All-in" cost of sales / gram	$ 1.80	$ 2.08
Adjusted gross margin	75.9%	74.5%
Cash and cash equivalents on hand	$ 53,452,414	$ 16,472,664
Working capital	$ 56,513,651	$ 20,626,394
Capital and intangible asset expenditures	$ 7,529,688	$ 434,600

- Retail & wholesale platforms
- Capacity secured to service recreational market
- No crop failures since inception
- Strong executive team
    - 20+ years of Pharma experience
    - 35+ years of greenhouse growing experience

QUARTERLY HIGHLIGHTS

Aphria positive earnings for the third consecutive quarter

The Company reported positive earnings for the quarter including net income both with and without IFRS fair value adjustments, net income for the quarter was $895,269 with IFRS fair value adjustments and $434,720 without IFRS fair value adjustments, respectively.

Acquisition of Cacciavillani and F.M. Farms Ltd Property

On June 30, 2016, the Company closed the Purchase Agreement to acquire 9 acres of greenhouses, situated on 36 acres of property, known as 265 Talbot Street West, in Leamington, Ontario. The purchase price for the land and greenhouses was $6,100,000 and is considered a non-arm's length transaction because the vendor is a director and officer of the Company. $3,250,000 of the purchase price was payable in cash on closing, and the remainder will be paid as a vendor take-back mortgage, bearing interest at 6.75% per annum, with a 5-year term and amortization. The Company maintains a right of first refusal to acquire an additional acre of property, known as 243 Talbot Street West, in Leamington, Ontario. The vendor maintains a put option on the same property valued at $1,000,000, subject to annual inflationary adjustments equal to the increases in the Consumer Price Index, which put option can only be exercised upon certain operating metrics being achieved.

Closing of bought deal financing

On August 18, 2016, the Company announced the closing of its bought deal financing. Under the bought deal, the Company raised gross proceeds of $34,500,000, and net proceeds of approximately $32,000,000 after accounting for underwriting, legal and other costs and issued 17,250,000 common shares. The Company plans to use the proceeds primarily to fund future expansion.

Approval of Supplemental Oil Sales License

On August 17, 2016, the Company received an amendment to its licence to produce and sell medical cannabis. The Company currently has capacity to produce approximately 12,000 60 mL bottles of cannabis oil per month. Each 60 mL bottle of oil contains the equivalent of 10 grams of dried cannabis.

Commencement of Part II Expansion

During the quarter, the Company received board approval and began construction on a fully funded $10,000,000 capital expansion project. The project, referred to as "Part II Expansion", will increase the Company's greenhouse production space from approximately 43,000 to 100,000 square feet. The capital project includes 57,000 square feet of ACMPR greenhouse space, an 8,000 square foot corporate office, a 2,400 square foot Level 10 vault, and electrical and sewer upgrades necessary of the operation of Aphria's current and future greenhouse space. The capital project is expected to increase the Company's annual growing capacity from 2,500 kgs to 6,000 kgs.

Announcement of Medlab Supply Agreement

On August 22, 2016, the Company announced that it entered into a supply agreement with Medlab Clinical Limited. Medlab is an Australian based biotechnology company that develops and sells nutraceuticals in the US and Australia to support drug discovery and development of new medicines.

Announcement of purchase agreement for DiNiro Farms Inc.

On August 19, 2016, the company entered in an agreement to purchase 11 acres of additional greenhouse property adjacent to its existing campus for a $2,100,000 cash payment. The property consists of 345,000 square feet of existing greenhouse. Concurrent with this transaction, the abutting property will be merged into Aphria's existing municipal address, thereby avoiding the need to apply for a new Health Canada site licence.

FAIR VALUE MEASUREMENTS

Impact of fair value metrics on biological assets and inventory

In accordance with IFRS, the Company is required to record its biological assets at fair value. During the growth phase, the cost of each plant is accumulated on a weekly basis. At the time of harvest, the accumulated cost of each plant is based on the number of grams harvested. Upon harvest, the Company increases the cost value to fair value.

As at August 31, 2016, the Company's harvested cannabis and cannabis oil, as detailed in Note 6 of its financial statements, is as follows:

	August 31, 2016	May 31, 2016
Harvested cannabis – at cost	$ 917,206	$ 993,744
Harvested cannabis – fair value increment	1,037,067	721,153
Cannabis oil – at cost	372,246	106,838
Cannabis oil – fair value increment	202,857	58,222
Cannabis products – at fair value	$ 2,529,376	$ 1,879,957

In an effort to increase transparency, the Company's cannabis product, which consists of dried flower and cannabis oil, are carried at fair values of $3.75 per gram and $0.62 per mL, respectively. The individual components of fair value are as follows:

	August 31, 2016	May 31, 2016
Harvested cannabis – at cost – per gram	$ 1.76	$ 2.19
Harvested cannabis – fair value increment – per gram	1.99	1.56
Cannabis oil – at cost – per mL	0.40	0.40
Cannabis oil – fair value increment – per mL	0.22	0.22

COST PER GRAM

The Company calculates "all-in" and adjusted "all-in" cost of sales per gram as follows:

"All-in" cost of sales per gram	Three months ended August 31, 2016	May 31, 2016
Cost of sales for the quarter	$ 593,367	$ 669,922
Net effect of FV change in biological assets	(460,549)	(37,387)
Cost of sales excluding IFRS adjustments	$ 1,053,916	$ 707,309
Grams sold	585,187	340,422
"All-in" cost of sales per gram	$ 1.80	$ 2.08

Calculation of cash costs to produce per gram

The Company calculates cash costs and adjusted cash costs to produce per gram as follows:

Cash costs per gram to produce	Three months ended August 31, 2016	May 31, 2016
Cost of sales excluding IFRS adjustments from above	$ 1,053,916	$ 707,309
Amortization	(253,208)	(247,510)
Packaging costs	(79,132)	(66,744)
Cash costs to produce	$ 721,576	$ 393,055
Grams sold	585,187	340,422
Cash costs to produce per gram	$ 1.23	$ 1.15

INDUSTRY TRENDS AND RISKS

The Company's overall performance and results of operations are subject to a number of risks and uncertainties. The economic, industry and risk factors discussed in our Annual Report, each in respect of the year ended May 31, 2016 and in our Short Form Prospectus, dated August 11, 2016, remain substantially unchanged in respect of the three months ended August 31, 2016, however, the most significant of which are repeated below.

Reliance on the Licence

Aphria's ability to grow, store and sell medical marijuana in Canada is dependent on maintaining its licence with Health Canada. Failure to comply with the requirements of the licence or any failure to maintain its licence would have a material adverse impact on the business, financial condition and operating results of Aphria. Although Aphria believes it will meet the requirements of the ACMPR for extension of the licence, there can be no guarantee that Health Canada will extend or renew the licence or, if it is extended or renewed, that it will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the licence or should it renew the licence on different terms, the business, financial condition and results of the operation of Aphria would be materially adversely affected.

Legislative or Regulatory Reform

The commercial medical marijuana industry is a new industry and the Company anticipates that such regulations will be subject to change as the Federal Government monitors Licenced Producers in action. Aphria's operations are subject to a variety of laws, regulations, guidelines and policies relating to the manufacture, import, export, management, packaging/labelling, advertising, sale, transportation, storage and disposal of medical marijuana but also including laws and regulations relating to drugs, controlled substances, health and safety, the conduct of operations and the protection of the environment. While to the knowledge of management, Aphria is currently in compliance with all such laws, any changes to such laws, regulations, guidelines and policies due to matters beyond the control of Aphria may cause adverse effects to its operations.

Limited Operating History

Aphria, through its operating subsidiary PNW, which incorporated in 1994, began carrying on business in 2012 and did not generate revenue from the sale of products until late 2014. The Company is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

History of Losses

The Company has incurred losses in recent periods. Aphria may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, Aphria expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If Aphria's revenues do not increase to offset these expected increases in costs and operating expenses, Aphria will not be profitable.

Competition

On October 19, 2015, the Liberal Party of Canada ("Party") obtained a majority government in Canada. The Party has committed to the legalization of recreational cannabis in Canada, though no model for this regulatory change has been publicly disclosed or timeline for implementation put forward. This regulatory change may not be implemented at all. The introduction of a recreational model for cannabis production and distribution may impact the medical marijuana market. The impact of this potential development may be negative for the Company and could result in increased levels of competition in its existing medical market and/or the entry of new competitors in the overall cannabis market in which the Company operates.

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

The government has only issued to date a limited number of licenses, under the ACMPR, to produce and sell medical marijuana. There are, however, several hundred applicants for licenses. The number of licenses granted could have an impact on the operations of the Company. Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. According to Health Canada there are currently 35 Licensed Producers. If the number of users of medical marijuana in Canada increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales

and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

Exchange Restrictions on Business

As a condition to initially listing on the TSXV, the TSXV required that the Company deliver an undertaking (the ''Undertaking'') confirming that, while listed on TSXV, the Company will only conduct the business of production, acquisition, sale and distribution of medical marijuana in Canada as permitted under the License. The Undertaking could have an adverse effect on the Company's ability to do business or operate outside of Canada and on its ability to expand its business into other areas including the provision of non-medical marijuana in the event that the laws were to change to permit such sales and the Company is still listed on the TSXV and still subject to the Undertaking at the time. The Undertaking may prevent the Company from expanding into new areas of business when the Company's competitors have no such restrictions.

RESULTS OF OPERATIONS

Revenue

Revenue for the three months ended August 31, 2016 was $4,375,512 versus $950,740 in the same period of 2015 and $2,776,316 in the fourth quarter of 2016.

The increase in revenue during the quarter was largely related to:

- Continued patient onboarding;
- Continued improvement in grams sold per order; and,
- A refinement of strains, resulting greater variety of product offerings for patients
- Continued execution of the company's wholesale strategy as a secondary revenue source

These factors were offset by:

- Decrease in the average selling price per gram.

Gross profit and gross margin

The gross profit for the three months ended August 31, 2016 was $3,782,145, compared to $678,555 in the same period in the prior year. The increase in gross profit from the prior year is consistent with the much larger patient base over the prior year combined with improved production costs per gram over the same quarter in the prior year.

Due to the rapid volume of growth in the Company over the past 12 months as a result of continued patient acquisitions, management believes more appropriate comparisons of gross profit and gross margin are between the three months ended August 31, 2016 and the three months ended May 31, 2016.

The gross profit for the three months ended August 31, 2016 increased $1,675,751 to $3,782,145, compared to $2,106,394 in the prior quarter, as shown below:

	Three months ended	
	August 31, 2016	May 31, 2016
Revenue	$ 4,375,512	$ 2,776,316
Cost of sales		
Cost of goods sold	800,708	459,799
Amortization	253,208	247,510
Net effect of FV change in biological assets	(460,549)	(37,387)
	593,367	669,922
Gross profit	$ 3,782,145	$ 2,106,394
Gross margin	86.4%	75.9%

Cost of sales currently consist of three main categories: (i) cost of goods sold; (ii) amortization and, (iii) net effect of FV change in biological assets.

(i) Cost of goods sold include the direct cost of materials and labour related to the medical marijuana sold. This would include growing, cultivation and harvesting costs, stringent quality assurance and quality control, as well as packaging and labelling. All medical marijuana shipped and sold by Aphria has been grown and produced by the Company.

(ii) Amortization includes amortization of production equipment and leasehold improvements utilized in the production of medical marijuana.

(iii) Net effect of FV change in biological assets is part of the Company's cost of sales due to IFRS standards relating to agriculture and biological assets (i.e. living plants or animals). This line item represents the net effect of the non-cash fair value adjustment of biological assets (medical cannabis) produced and sold in the period. In an effort to increase transparency, management deems it necessary to disclose that inventory of Harvested cannabis (Note 6 – Interim consolidated financial statements period ended August 31, 2016) consists of dried flower and cannabis oil, all of which is carried at a value of $3.75 per gram (cannabis oil is carried at $0.625/mL, 6mL of cannabis oil is equivalent to 1 gram of dried product).

The increase in gross margin in the quarter compared to last quarter was attributable to a large fair value adjustment for change in biological assets, decreasing cost of goods sold in the quarter by $460,549 versus $37,387 in the fourth quarter of fiscal 2016. In the first quarter, the cost of goods sold as a percentage of sales was 86.4% compared to 75.9% in the fourth quarter.

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

Adjusted gross profit and adjusted gross margin are non-GAAP financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The gross profit has been adjusted from IFRS by removing the non-cash change in biological assets of $460,549.

The following is the Company's adjusted gross profit and adjusted gross margin as compared to IFRS for the quarter:

	Three months ended August 31, 2016 IFRS	Adjustments	Three months ended August 31, 2016 Adjusted
Revenue	$ 4,375,512	$ --	**$ 4,375,512**
Cost of sales			
Cost of goods sold	800,708	--	**800,708**
Amortization	253,208	--	**253,208**
Net effect of FV change in biological assets	(460,549)	460,549	**--**
	593,367	460,549	**1,053,916**
Gross profit	$ 3,782,145	(460,549)	**$ 3,321,596**
Gross margin	86.4%		**75.9%**

Selling, general and administrative

Selling, general and administrative expenses are comprised of general and administrative, share-based compensation, selling, marketing and promotion, amortization and research and development. These costs increased by $1,791,200 to $2,994,317 from $1,203,117 in the same quarter in the prior year.

	Three months ended August 2016	2015
General and administrative	**$ 959,592**	$ 423,932
Share-based compensation	**203,095**	47,013
Selling, marketing and promotion	**1,380,647**	615,648
Amortization	**201,670**	30,025
Research and development	**249,313**	86,499
	$ 2,994,317	$ 1,203,117

General and administrative costs

	Three months ended August 2016	2015
Executive compensation	**$ 212,309**	$ 122,954
Consulting fees	**44,765**	9,900
Office and general	**291,144**	120,511
Professional fees	**106,007**	35,826
Salaries and wages	**224,648**	66,090
Travel and accommodation	**72,566**	58,811
Rent	**8,153**	9,840
	$ 959,592	$ 423,932

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

- Salaries and wages and office and general as a result of increased activity within the business over the same period in the prior year;
- Professional fees, predominantly comprised of legal costs, associated with various negotiations and reviews of current and potential business relationships necessary to sustain growth of the company; and,

- Executive compensation associated with increases in compensation payable to C-suite executives.

Share-based compensation

The Company recognized share-based compensation expense of $203,095 for the three months ended August 31, 2016 compared to $47,013 for the prior year. Share-based compensation was valued using the Black-Scholes valuation model and represents a non-cash expense. The increase in share-based compensation is consistent with the increase in stock options issued during the respective period, 423,000 in the current period compared to 30,000 in the same period of the prior year.

Selling, marketing and promotion costs

For the three months ended August 31, 2016, the Company incurred selling, marketing and promotion costs of $1,380,647, versus $615,648 in the comparable prior period. These costs related to commissions on sales, the Company's call centre operations, shipping costs, as well as the development of promotional and information materials. The increase is directly correlated with the increase in patient and sales volumes over the comparable period.

Amortization

The Company incurred non-production related amortization charges of $201,670 for the three months ended August 31, 2016 compared to $30,025 for the same period in the prior year. The increase in amortization charges are a result of the capital expenditures made during the prior and current year, the largest of which relates to the acquisitions of CannWay Pharmaceuticals Ltd. and land and greenhouses purchased from Cacciavillani and F.M. Farms Ltd.

Research and development

Research and development costs of $249,313 were expensed during the three months ended August 31, 2016 compared to $86,499 in same period last year. These relate to researching aspects of the genetics of various cannabis strains, including phenotyping, and testing the growth patterns of cannabis under different conditions. Management anticipates increasing the consistency of finished product through this testing, which would reduce costs of production while still providing customers a high quality product. The Company is also experimenting with different methods of extraction of cannabis oils and related derivatives for future commercialization.

The increase in costs primarily relate to:

- The Company increased experimentation with extraction of cannabis oils and related derivatives.

Non-operating items

During the three months ended August 31, 2016, the Company earned non-operating income of $107,441 consisting of $144,626 of finance income, $48,552 of finance expense, and $11,367 related to a gain on sale of capital assets compared to non-operating income of $47,737 in the prior year, consisting solely of finance income.

Net income (loss)

The net income for the three months ended August 31, 2016 was $895,269 or $0.01 per share as opposed to a net loss in the same period of the prior year of $476,825 or $0.01 per share.

EBITDA

EBITDA is a non-GAAP financial measure that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The Company calculates EBITDA as net income (loss) plus (minus) finance expense (income) plus amortization plus (minus) loss (gain) on sale of capital assets, plus share-based compensation, plus (minus) non-cash fair value adjustments related to biological assets, plus allowance for bad debts, plus amortization of non-capital assets, plus expenses relating to adjustment of standard costs, all as follows:

	Three months ended August	
	2016	2015
Net income (loss)	$ 895,269	$ (476,825)
Finance income	(144,626)	(47,737)
Finance expense	48,552	--
Amortization	454,878	138,719
Share-based compensation	203,095	47,013
Non–cash fair value adjustments in biological assets	(460,549)	(125,405)
Amortization of non-capital assets	14,854	95,066
Allowance for bad debts	54,163	--
Gain on sale of assets	(11,367)	--
EBITDA	**$ 1,054,269**	**$ (369,169)**

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations for the three months improved by $2,164,533 from cash flow used in operations of $637,830 in the three-month period of the prior year to cash flow generated from operations of $1,526,703 in the current three-month period. The improvement in cash flow generated from operations is primarily a result of a:

- Increased profitability for the period stemming from increased sales volume;
- Decreased production costs per gram; and,
- Increased Accounts payable and accrued liabilities, which primarily related to unpaid capital expenditures at the end of the period.

These factors were partially offset by:

- Increased Accounts receivable.

Cash resources / working capital requirements

The Company constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations. As at August 31, 2016, Aphria maintained $53,452,414 of cash and cash equivalents on hand, compared to $16,472,664 at May 31, 2016 and $5,139,091 at August 31, 2015. Cash and cash equivalents on hand increased $36,979,750 in the quarter and increased $48,313,323 from August 31, 2015.

Working capital provides funds for the Company to meet its operational and capital requirements. As at August 31, 2016, the Company maintained working capital of $56,513,651. Management expects the Company to have adequate funds available on hand to meet the Company's planned growth and expansion of facilities over the next 24 months.

Capital and intangible asset expenditures

For the three months ended August 31, 2016, the Company invested $7,529,688 in capital and intangible assets, of which $261,592 are considered maintenance CAPEX and the remainder $7,268,096 growth CAPEX, related to the property acquisitions and Company's Part II expansion.

Financial covenants

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

Contractual obligations and off-balance sheet financing

In the period, the Company terminated its lease commitment for rental of greenhouse and warehouse space in conjunction with the purchase of the 265 Talbot St. West property. The Company continues to lease office space from a related party, the lease commitment ends December 31, 2018 with the option to renew for two additional five year terms. The Company has a lease commitment until August 30, 2020 for a motor vehicle. Minimum payments payable over the next five years are as follows:

		Payments due by period			
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Operating leases	$ 76,328	$ 32,712	$ 43,616	$ --	$ --
Motor vehicle lease	81,790	24,626	39,198	17,966	--
Total	**$ 158,118**	**$ 57,338**	**$ 82,814**	**$ 17,966**	**$ --**

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

Aphria does not maintain any off-balance sheet financing.

Share capital

Aphria has the following securities issued and outstanding, as at August 31, 2016:

	Presently outstanding	Exercisable	Exercisable & in-the-money*	Fully diluted
Common stock	90,196,539			90,196,539
Stock options	--	3,917,436	3,917,436	5,083,454
Warrants	--	14,306,359	14,306,359	14,306,359
Compensation warrants	--	1,739,070	1,739,070	1,739,070
Warrants on exercise of compensation warrants	--			265,391
Fully diluted	**90,196,539**			**111,590,813**

**Based on closing price on August 31, 2016 of $2.58 per share*

QUARTERLY RESULTS

The following table sets out certain unaudited financial information for each of the eight fiscal quarters up to and including the first quarter of fiscal 2017, ended August 31, 2016. The information has been derived from the Company's unaudited consolidated financial statements, which in management's opinion, have been prepared on a

basis consistent with the audited consolidated financial statements filed in the Company's 2016 Annual Report and include all adjustments necessary for a fair presentation of the information presented. Past performance is not a guarantee of future performance and this information is not necessarily indicative of results for any future period.

	Nov/15	Feb/16	May/16	Aug/16
Sales	$ 2,026,975	$ 2,679,898	$ 2,776,316	$ 4,375,512
Net income (loss)	(431,098)	3,720	1,302,164	895,269
Income (Loss) per share - basic	(0.00)	0.00	0.02	0.01
Income (Loss) per share – fully diluted	(0.00)	0.00	0.02	0.01
	Nov/14	**Feb/15**	**May/15**	**Aug/15**
Sales	$ --	$ 51,540	$ 499,890	$ 950,740
Net income (loss)	(1,358,849)	(3,103,111)	(481,380)	(476,825)
Loss per share - basic	(0.04)	(0.06)	(0.01)	(0.01)
Loss per share – fully diluted	(0.04)	(0.06)	(0.01)	(0.01)

The Company obtained its MMPR licence to produce and sell on November 26, 2014, with sales commencing shortly thereafter. The Company recognized listing costs of $2,708,031 in the third quarter of 2015 and $314,037 in the second quarter of 2015.

RELATED PARTY BALANCES AND TRANSACTIONS

Prior to going public, the Company funded operations through the support of related parties. Since going public, the Company has continued to leverage the purchasing power of these related parties for certain of its growing related expenditures. The Company owed $nil to related parties as at August 31, 2016 (2015 - $120,369). These amounts were due upon demand and are non-interest bearing. These parties are related as they are corporations that are controlled by certain officers and directors of the Company (Mr. Cole Cacciavillani and Mr. John Cervini).

The Company transacts with related parties in the normal course of business. Through these related parties, Aphria is able to leverage the purchasing power for growing related commodities and labour, which provides the Company with better rates than if Aphria was sourcing these on its own. These transactions are measured at their exchange amounts.

During the three months ended August 31, 2016, related party corporations charged or incurred expenditures on behalf of the Company totaling $163,531 (2015 - $245,381), which were or are to be reimbursed, including rent of $24,855 (2015 - $34,662).

SUBSEQUENT EVENTS

Subsequent to the end of the quarter, the Company closed on the previously announced purchase and sale agreement with DiNiro Farms Inc. acquiring 11 acres of additional property adjacent to its existing campus for a $2,100,000 cash payment. The 11 acres of abutting property includes 345,000 square feet of existing greenhouses. Concurrent with this transaction, the abutting property will be merged into Aphria's existing municipal address, thereby avoiding the need to apply for a new Health Canada site licence.

Subsequent to the end of the quarter, the Company announced a licensing deal with Tokyo Smoke, a premium cannabis-oriented lifestyle brand. The deal will allow Aphria to ship Tokyo Smoke branded cannabis in Canada to registered patients through the ACMPR system. As part of the deal, the Company issued 38,759 common shares and 200,000 common share purchase warrants exercisable for 5 years at an exercise price of $3.14 per warrant. The warrants will be held in escrow subject to the achievement of certain sales thresholds.

Subsequent to the end of the quarter, the Company announced that its Board of Directors approved a fully funded $24,500,000 capital project as the first phase of its Part III expansion. The project will increase Aphria's capacity under the ACMPR from 100,000 square feet to 300,000 square feet.

Subsequent to the end of the quarter, the Company issued 75,000 stock options to employees and consultants of the Company. 25,000 of the options vest immediately and the remainder vest based on achievement of certain operating metrics. The options were issued at an exercise price of $3.00 per options and expire on September 8, 2019.

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

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

- *the intended expansion of the Company's facilities and receipt of approval from Health Canada to complete such expansion;*
- *the expected cost to produce a gram of medical cannabis; and*
- *the anticipated future gross margins of the Company's operations.*