



Alternative Health Fund Market View

December 4 2018

Aphria's stock traded down approximately 30% on concerns regarding the company's recently acquired Latin American assets. We believe there will be considerable uncertainty surrounding the stock and the sector over the next few days.

The concerns surround the value of the assets acquired and whether the companies were in fact operating as they had represented. In addition, although disclosed at the time of the acquisition, a group of Aphria directors and senior management had a combined 2% interest in Scythian, which was the selling entity of the Latin American assets.

There is also heightened investor concern surrounding Aphria's international acquisitions due to the company's previous purchase of Nuuvera, early in 2018. The transaction value was about \$450mm and a number of senior officers and directors of Aphria were shareholders of Nuuvera (combined stake of under 1%).

At the time, Aphria announced several steps that it took to both disclose related party interests as well as avoid conflicts.

Vic Neufeld, CEO of Aphria stepped down as Chairman of Scythian in April to avoid any conflicts and as a result of his resignation forfeited \$2 million of equity based compensation in the process. In addition, Directors of Aphria who held shares in Scythian, recused themselves from the Aphria board meeting when the deal to acquire the assets was held.

The Board of Directors of Aphria received a fairness opinion from Cormark Securities that, as of July 16, 2018, and subject to the assumptions, limitations and qualifications on which such opinions are based, the consideration to be offered by Aphria in respect of the Transaction is fair, from a financial point of view, to Aphria. The eligible directors of Aphria, after receiving legal and financial advice, have unanimously approved the Transaction.

Stikeman Elliott LLP acted as legal counsel to Aphria. Cormark Securities Inc. provided a fairness opinion and acted as financial advisor to the Board of Directors of Aphria.

Gowling WLG (Canada) LLP acted as legal counsel to Scythian. Haywood Securities Inc. provided a fairness opinion and a valuation under Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions and Clarus Securities Inc. acted as financial advisor to the Board of Directors of Scythian and provided a fairness opinion.

This is only one of several companies that have had short reports released on them. TLRy, Cronos and Aurora have also had short reports.

The sector is vulnerable to these reports because of its early stage, and that so much of the value is

Investment Team



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based on future promises.

Risk management is an important part of our portfolio process. One aspect of risk management is managing portfolio position size and it is important to know that our APHA position is less than 4% relative to the HMMJ that maintains a 7.32% weight.

In a press release this morning, executives of Aphria have stated that they were in the market yesterday purchasing over \$3 million of shares. The press release from the company today reiterates support for the due diligence undertaken on the operations.

We will continue to monitor the situation and bring you updated news as we know it.

The Alternative Health Fund Team

Compounded Returns¹

	1MTH	YTD	3MTH	6MTH	1YR	INCEPTION
FUND	-1.9	27.9	-0.2	21.9	48.2	62.61
INDEX	-1.2	11.8	-8.8	8.5	27.3	37.51

¹ All returns and fund details are a) based on Series F units; b) net of fees; c) annualized if period is greater than one year; d) as at November 30, 2018. The index is 70% Thomson Reuters Canada Health Care Total Return Index and 30% Thomson Reuters United States Healthcare Total Return Index and is computed by Ninepoint Partners LP based on publicly available index information.

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