Cultivating Excellence

2017
ANNUAL REPORT

Aphria

shaping the future

OF MEDICAL CANNABIS

We invite you to read about our journey, commitment, and business performance in our 2017 Annual Report.

Aphria

expanding **our roots**

VIC NEUFELD

Chief Executive Officer Message

Success has been defined in many ways - forward-thinking vision, superior strategy, flawless execution, transformative innovation, or balanced risk management behaviour.

But one key and most fundamental ingredient to any success story is the need for passionate leaders. It is people responsible for strategy building and executing on plans. It is people that bring the committed skills to work each and every day. It is people that successful companies build their DNA around. The leadership at Aphria is reflective of all these attributes. From our humble and frugal beginnings, when a mere handful of energetic and resourceful leaders came together, to the dynamic team assembled today, I can say I am most proud of the Aphria team and what we have achieved together.

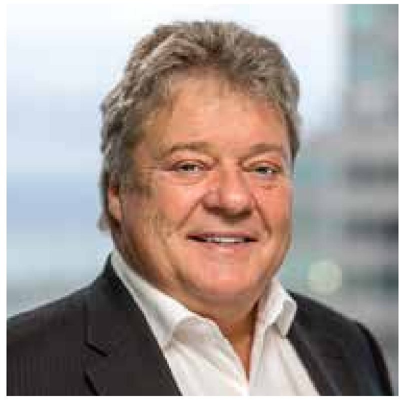
Fiscal 2017 was a remarkable year measured in many ways. Our success was shared across all facets of our operations, from plant to patient. Solid patient growth, revenues growing fourfold, continued positive cash flows, record harvests, industry leading low cost producer, no crop failures, staying true to our core quality values, implemented "Seed to Sale Certification" patient guarantee, four successful capital raises, a vision of ensuring capacity growth - the list is almost endless. But the real highlight in 2017 is the growth of our bench strength. Adding leaders is clearly one of the key underlying reasons that Aphria hit home runs in many metrics.

The future has never looked brighter for Aphria. Our medical go-to-market strategies are delivering. Our unrelenting focus on improving growing yields. Our persistent attention on lowering our costs. Raising the quality bar in the industry. These are things that separate Aphria from the rest.

A keen focus on capital expenditures sets the stage for tomorrow's market growth. Product innovation, for both medical and the eventual recreational markets, is proceeding as planned. Investments in certain strategic areas remains on our radar.

On behalf of my fellow Co-Founders, Cole Cacciavillani and John Cervini, we thank all our stakeholders in believing in our vision and the Aphria story. We really do have "a good thing growing".

Management Team



Vic Neufeld
President & Chief Executive Officer

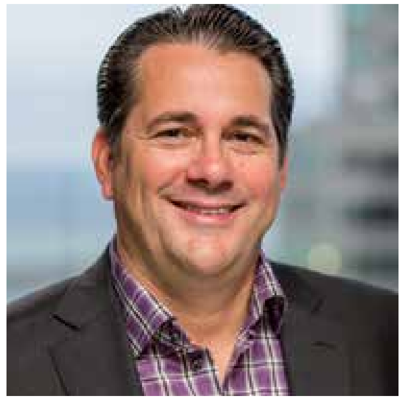
Vic Neufeld is the President and Chief Executive Officer of Aphria. Mr. Neufeld is the former CEO of Jamieson Laboratories Canada's largest manufacturer and distributor of natural vitamins, minerals, concentrated food supplements, herbs and botanical medicines.

Carl Merton
Chief Financial Officer

Carl Merton, Chief Financial Officer, has almost 25 years of financial and business expertise, including 12 years at Big Four accounting firms and 12 years in industry, of which 10 has been serving as Chief Financial Officer of publicly listed enterprises. Mr. Merton is a Chartered Professional Accountant, Chartered Accountant and a Fellow, Chartered Business Valuator.

Cole Cacciavillani
Co-Chair & Founder

Cole Cacciavillani, Aphria's co-founder, is an industrial engineer with 35 years of experience in the agricultural and greenhouse industry. Cole has accumulated expertise of how to best utilize nature's light and proprietary growing techniques and technologies to create competitive, safe and cost effective products.



John Cervini
Co-Chair & Founder

John Cervini, Aphria's co-founder, comes from fourth generation growers in southwestern Ontario with hydroponic agricultural experience. Together with his father and brother, Mr. Cervini helped established Lakeside Produce, as a leader of North America sales and marketing companies selling fresh produce from Canada to multinational retailers throughout North America.

Gary Leong
Chief Science Officer

Gary Leong, Aphria's Chief Scientific Officer has a personal background in quality assurance, quality control, quality system audits, international and domestic regulatory affairs and product research and development. Gary's commitment to research and scientific knowledge of the medical marijuana industry allows us here at Aphria to produce a cost effective and quality product.

Seed-to-Sale **Certified**

Seed-to-Sale Certified isn't a new system we put in place. From the day we started growing and producing medical cannabis products, Aphria has adopted a strict quality management program which includes 509 steps. In fact, most of the quality processes we put into place were adopted from the highly restricted and regulated pharmaceutical industry and go above and beyond cannabis industry regulations mandated by Health Canada:

STATE-OF-THE-ART FACILITY:
Located in Leamington, Ontario, our facility sets the gold standard for the cannabis industry. Our greenhouse is powered by sunlight to provide optimal and natural growing conditions.

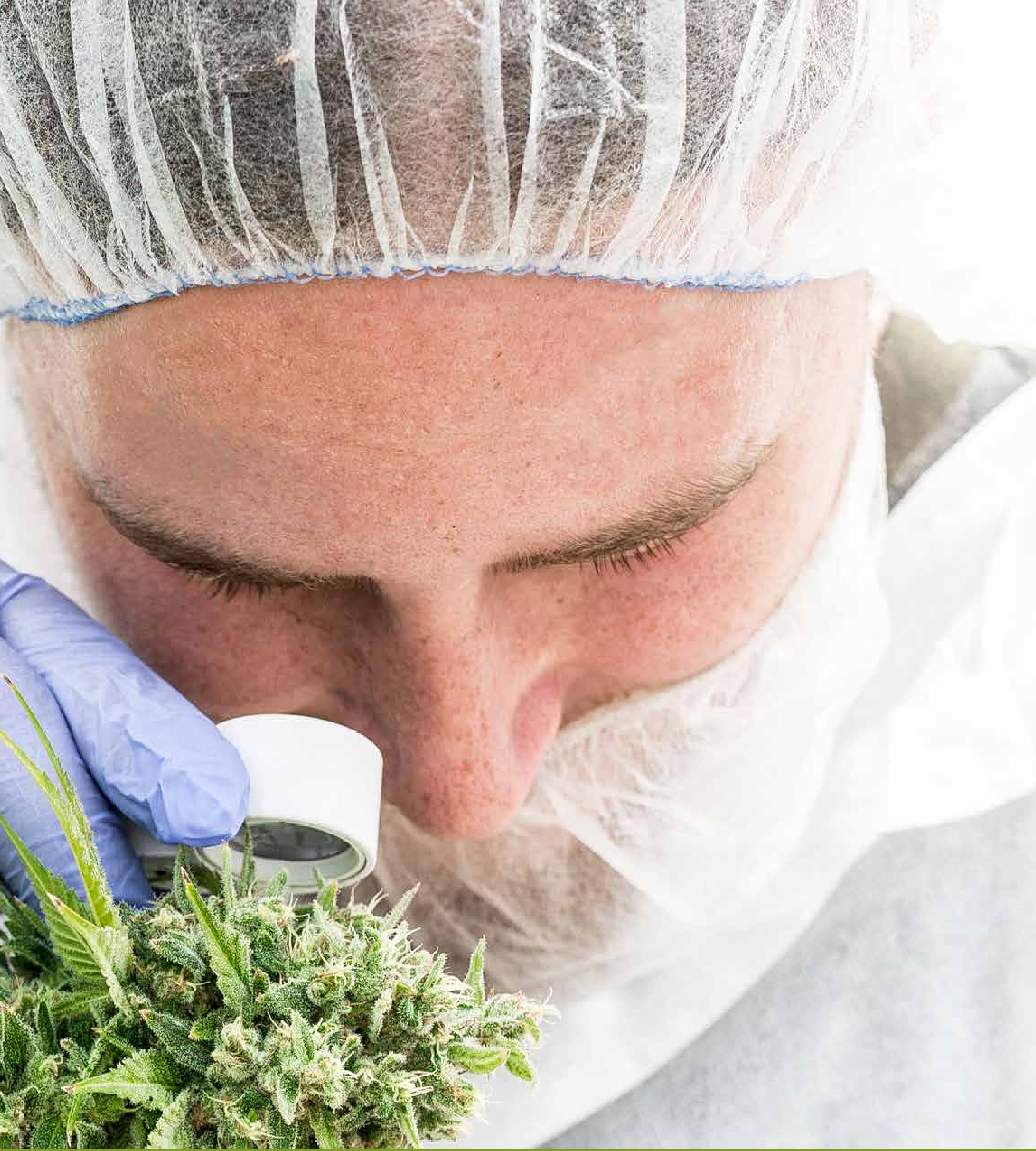
TIGHTLY CONTROLLED GROWING PROCESSES:
From water sampling and nutrient profiling to integrated pest management systems and in-depth record keeping, we track and control every step of the growing process.

QUALITY PRODUCTION AND PROCEDURES:
We apply strict harvesting, drying, blending and extracting procedures to ensure that our patients receive consistently high-quality products with every order. Every cannabis product we produce undergoes extensive testing by our experienced in-house scientists and third-party laboratories test for potency levels as well as impurities such as microbiological contaminants, heavy metals, pesticides and aflatoxins.

ESTABLISHED SUPPLY CHAIN:
Our products are only as good as our supply chain. We inspect and test all our raw materials and they are only used if they too meet our exacting quality standards. We also regularly conduct site visits and audits of our key suppliers to ensure that they meet our strict requirements for quality, consistency and safety.

STANDARD PRACTICES AND TRAINING:
Each step involved in the cultivation and production of our medical cannabis follows clearly defined Standard Operating Procedures. We provide regular reports to Health Canada and go over and above what is required by the regulations.

We firmly believe that patients deserve the cleanest and safest medicine possible to meet their health needs. Our Seed-to-Sale Certified quality promise is our commitment to ensuring that every Aphria product we produce is clean and safe, 100% of the time. No exceptions.



Management's Discussion & Analysis

This management discussion and analysis ("MD&A") of the financial condition and results of operations of Aphria Inc., (the "Company" or "Aphria"), is for the three and twelve months ended May 31, 2017. It is supplemental to, and should be read in conjunction with the Company's audited consolidated financial statements and the accompanying notes for year ended May 31, 2017, 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 "all-in" cost of sales, cash costs to produce, adjusted gross profit, adjusted gross margin and EBITDA, which are not measures of financial performance under IFRS. The Company calculates each as follows:

- *"All-in" cost of sales of dried cannabis per gram is equal to cost of sales of dried cannabis less the non-cash increase (plus the non-cash decrease) in the fair value ("FV") of biological assets, if any, of dried cannabis plus (minus) increase (decrease) in plant inventory divided by gram equivalents of cannabis sold in the quarter. Management believes this measure provides useful information as a benchmark of the Company against its competitors.*
- *Cash costs to produce dried cannabis per gram is equal to cost of sales of dried cannabis less the non-cash increase (plus the non-cash decrease) in the FV of biological assets, if any, amortization and packaging costs plus (minus) increase (decrease) in plant inventory divided by gram equivalents of cannabis sold in the quarter. Management believes this measure provides useful information as it removes non-cash and post production expenses tied to our growing costs and provides a benchmark of the Company against its competitors.*
- *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 revenue. Management believes this measure provides useful information as it represents the gross profit based on the Company's cost to produce inventory sold and removes fair value metrics tied to increasing stock levels (decreasing stock levels) required by IFRS.*
- *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, plus impairment of intangible assets, plus (minus) loss (gain) on marketable securities, plus (minus) loss (profit) from equity accounted investee, plus (minus) EBITDA profit (loss) from equity accounted investee, plus (minus) loss (gain) on long-term investments and certain one-time non-operating expenses, as determined by management. Management believes this measure provides useful information as it is a commonly used measure in the capital markets and as it is a close proxy for repeatable cash generated by operations.*

These measures are 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.

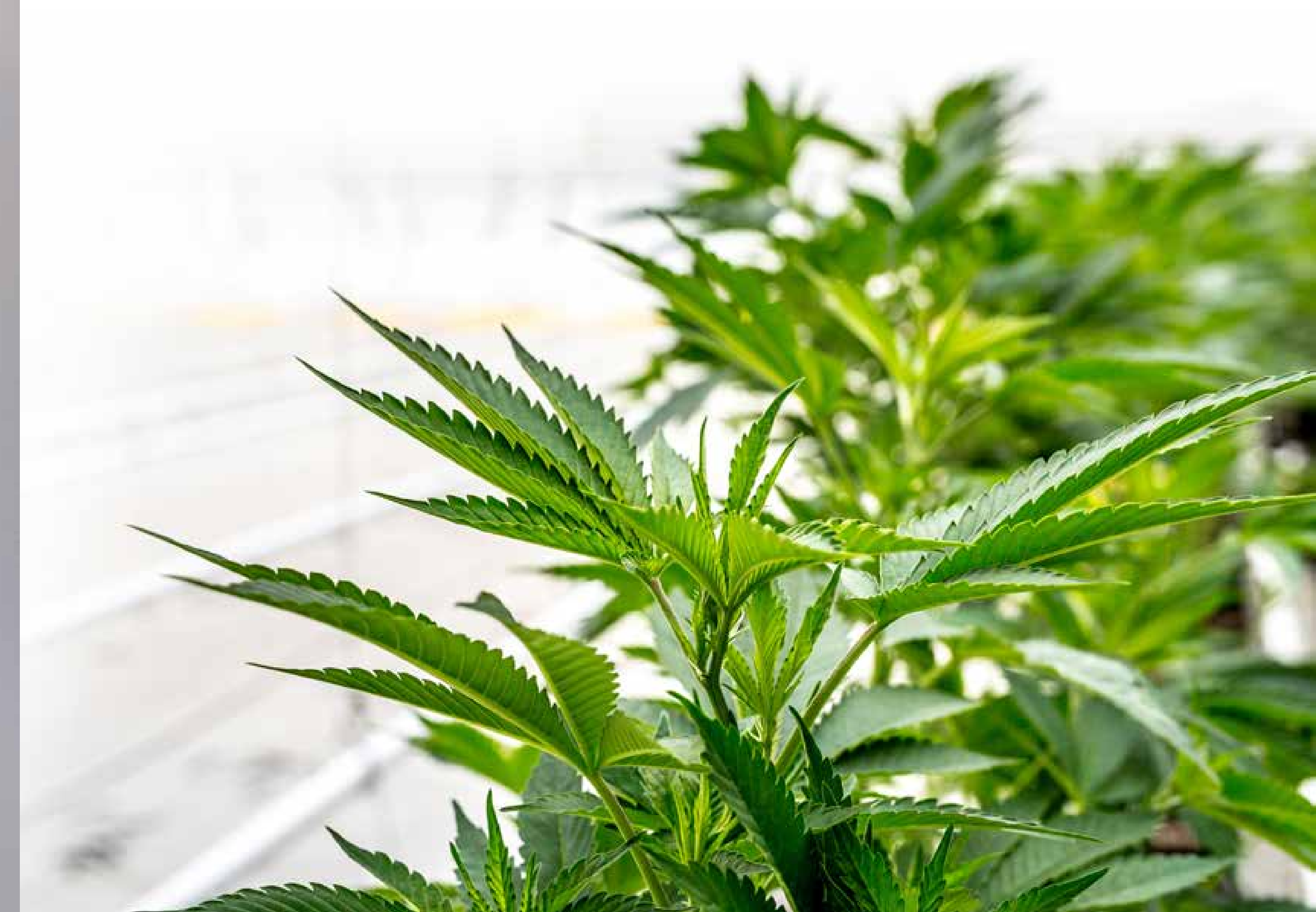
This MD&A is prepared as of July 11, 2017.

COMPANY OVERVIEW

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

Pure Natures Wellness (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

	Q4-2017	Q3-2017
Revenue	$ 5,717,866	$ 5,118,516
Kilograms equivalents sold	738.3	652.7
Cash cost to produce dried cannabis / gram – Aphria's definition	$ 1.11	$ 1.73
Cash cost to produce dried cannabis / gram – Using competitors' definition	$ 0.79	$ 1.42
"All-in" cost of sales of dried cannabis / gram	$ 1.67	$ 2.23
Adjusted gross margin	85.7%	70.0%
EBITDA	$ 2,826,667	$ 1,005,073
Cash and cash equivalents & marketable securities	$ 167,257,202	$ 122,029,195
Working capital	$ 169,051,562	$ 123,144,983
Capital and intangible asset expenditures	$ 31,955,214	$ 23,419,877

- *Retail & wholesale platforms*
- *Upgraded to 9,000 kgs (annualized) production capability with first sale expected in late August 2017*
- *Short-term capacity upgrade to 30,000 kgs (annualized) production capability expected in next year*
- *Mid-term capacity upgrade to 100,000 kgs (annualized) production capability expected in 18 months*
- *Long-term capacity available via additional 200-acre property in Leamington, Ontario*
- *No crop failures since inception*
- *Seven consecutive quarters of EBITDA*
- *Four bought deals closed during the year, raising over $204,000,000 in share capital*
- *Strong executive team*
  - *20+ years of Pharma experience*
  - *35+ years of greenhouse growing experience*

QUARTERLY HIGHLIGHTS

INCREASE IN CAPACITY EXPECTATIONS

The Company continues to refine and improve its industry leading greenhouse agricultural growing practices, combined with unique engineering changes embedded in both fully funded Part III and Part IV expansions, presently underway. Management believes that once full crop rotation has been attained after Part IV expansion is complete, annualized capacity will exceed 100,000 kilograms. Supporting management's revised capacity projections are recent yield improvements resulting from the introduction of new lighting strategies, growing techniques and leveraging other "unique to greenhouse" strengths.

As a result of the above, the Company amended its previously reported capacity expectations for its expansion projects. The Company believes that the capacity after full crop rotation in Part II will increase from 8,000 kgs to 9,000 kgs annualized, in Part III it will increase from 22,000 kgs to 30,000 kgs annualized and in Part IV it will increase from 75,000 kgs to 100,000 kgs annualized.

HEALTH CANADA APPROVAL RECEIVED FOR PART II EXPANSION

On May 15, 2017, the Company announced that Health Canada approved a license amendment that provides Aphria with additional production space of 57,000 square feet, as part of its Part II expansion at its facility in Leamington, Ontario. The announcement indicated that this would more than triple Aphria's production capacity of medical cannabis from 2,600 kgs annually to 8,000 kgs annually. The 8,000 kgs annual capacity was subsequent increased to 9,000 kgs annually as discussed in the preceding paragraph. The first crop cultivated and produced at the Part II expansion will be available for sale in the middle of August.

APHRIA REPORTS SEVENTH CONSECUTIVE QUARTER OF POSITIVE EBITDA

The Company reported EBITDA of $2,826,667 for the quarter and $6,082,546 for the year.

IMPROVEMENT IN CASH COST TO PRODUCE AND "ALL-IN" COST OF SALES OF DRIED CANNABIS PER GRAM

During the quarter, our "all-in" costs of dried cannabis per gram decreased from $2.23 in the prior quarter to $1.67 in the current quarter, representing a $0.56 decrease or a 25.1% decrease, and cash cost to produce per gram decreased from $1.73 to $1.11, representing a decrease of $0.62 or a 35.8% decrease. The decrease related to improved growing techniques and better cooperation from Mother Nature.

INVESTMENT IN SECURECOM MOBILE INC.

On November 23, 2016, Aphria invested $200,000 in SecureCom Mobile Inc. ("SecureCom") via an unsecured convertible debenture. The debenture bore interest at 12% and was convertible into equity at $0.05 per share, and included the right to a warrant for each share of equity on conversion, priced at $0.08. On March 31, 2017, the Company exercised its conversion rights under the debenture and received 4,000,000 shares and 4,000,000 warrants priced at $0.08. Concurrently, the Company exercised its warrants at a cost of $320,000 and received an additional 4,000,000 shares. As a result of these transactions, Aphria owns 8,000,000 shares in SecureCom at a cost of $520,000.

INVESTMENT IN DFMMJ INVESTMENTS, LTD.

On April 5, 2017, the Company announced it would invest $25 million into DFMMJ Investments, Ltd. ("DFMMJ"), which would acquire all or substantially all of the assets of Chestnut Hill Tree Farm LLC, through its subsidiary DFMMJ Investments, LLC, and subsequently amalgamate into a subsidiary of SecureCom Mobile Inc., a public company listed on the Canadian Securities Exchange, as part of a business combination (the

“Business Combination”). As part of the series of transactions, Aphria agreed to license its Aphria Know-How System to DFMMJ. The funds, when combined with an additional $35 million raised in a brokered private placement led by Clarus Securities Inc., would be used for the launch of its US expansion strategy in an entity to be renamed Liberty Health Sciences Inc. (“Liberty”) that will operate in the United States under the brand “Aphria USA”. Also as part of the transaction, Aphria has agreed, to license its medical brand to DFMMJ, in exchange for a perpetual 3% royalty on all sales of cannabis and related products. Once the business combination is completed in July, the Company will own approximately 37.6% of the issued and outstanding common shares of Liberty.

CLOSING OF MAY BOUGHT DEAL AND DEBT FINANCINGS

On May 9, 2017, the Company closed a bought deal financing and a separate debt financing, raising in excess of $105,000,000. The bought deal financing resulted in the Company issuing 13,269,252 common shares at a purchase price of $6.50 per share for $81,322,498, net of cash issuance costs. The debt financing raised $25,000,000 in a five-year term loan, with a 15-year amortization, bearing interest at 3.95%. The debt financing is secured by a first charge on the Company’s real estate holdings, a first position on a general security agreement, certain cash security and an assignment of fire insurance to the lender. As a result of the financings, the Company’s Part IV expansion project is now fully funded. In addition, the Company raised funds to support its working capital needs after completion of the expansion project and raised funds for possible strategic investment.

ANNUAL HIGHLIGHTS

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 was 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 AUGUST 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. At the time, the Company currently had 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.

ANNOUNCEMENT OF PURCHASE AGREEMENT FOR DINIRO FARMS INC.

On August 19, 2016, the Company entered into 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, which was subsequently demolished. Concurrent with the transaction, the abutting property was merged into Aphria’s existing municipal address, thereby avoiding the need to apply for a new Health Canada site licence.

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.

COMMENCEMENT OF PART II EXPANSION

During the quarter ended August 31, 2016, 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”, increased 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. At the time, the capital project was expected to increase the Company’s annual growing capacity from 2,500 kgs to 6,000 kgs. This figure was subsequently increased to 9,000 kgs.

ANNOUNCEMENT OF TOKYO SMOKE LICENSING DEAL

On September 7, 2016, the Company announced a ground-breaking licensing deal with Tokyo Smoke, a premium cannabis-oriented lifestyle brand. The transaction will be the first-of-its-kind in Canada as it combines a premium consumer lifestyle brand and a licensed producer and seeks to pave the way for how future cannabis brands operate in Canada. The deal will allow Aphria to ship Tokyo Smoke branded cannabis in Canada to registered patients through the Access to Cannabis for Medical Purposes Regulations ("ACMPR") system.

BOARD APPROVAL RECEIVED FOR PART III EXPANSION

On September 16, 2016, the Company announced that its Board of Directors approved a fully funded $24.5 million capital project internally identified as Part III expansion. The project will increase Aphria's capacity under the Access to Cannabis for Medical Purposes Regulations ("ACMPR") from 100,000 square feet to 300,000 square feet and, at the time, was expected to increase the Company's ACMPR compliant growing capabilities from 7,500 kgs annually to 21,000 kgs annually. This figure was subsequently adjusted to 30,000 kgs. The project includes 200,000 square feet of state-of-the-art Dutch style greenhouses, 21,000 square feet of infrastructure, including four Level 9 vaults, automation for both the greenhouses and processing areas and security consistent with ACMPR standards. Aphria anticipates completion of this phase of the project within 12 months of the announcement, Health Canada approvals within 4 months of completing the expansion and reaching full crop rotation within 4 months after Health Canada approval.

IP TRANSFER AGREEMENT WITH COPPERSTATE FARMS LLC IN ARIZONA

On October 27, 2016, the Company agreed to license its greenhouse growing intellectual property to Copperstate Farms LLC ("CSF") in exchange for 5,000 membership units of CSF (representing a 5% membership interest at the time). At the same time, the Company, through its subsidiary Aphria (Arizona) Inc., paid $1.3 million (USD) for 2,600 membership units (representing a 5% membership interest at the time) in Copperstate Farms Investors LLC ("CSFI"), the parent company of Copperstate Farms LLC.

On December 19, 2016, the Company paid an additional $1.3 Million USD for an additional 2,600 membership units (representing a 5% membership interest at the time) in CSFI.

On March 24, 2017, the Company paid an additional $3 million USD for an additional 6,000 membership units in CSFI.

CLOSING OF NOVEMBER BOUGHT DEAL FINANCING

On November 30, 2016, the Company announced the closing of its bought deal financing. Under the bought deal, the Company raised gross proceeds of $40,250,000, and net proceeds of $37,263,475 after accounting for underwriting, legal and other costs and issued 10,062,500 common shares. The Company plans to use the proceeds primarily to fund future expansion.

INVESTMENT IN RESOLVE DIGITAL HEALTH INC.

On December 1, 2016, Aphria purchased 10,432 common shares of Resolve Digital Health Inc. ("Resolve"), a private company in the process of developing a delivery system for medical marijuana, and an equivalent number of common share purchase warrants for gross proceeds of $1,000,000. Following a stock split in January 2017, Aphria now owns 2,000,024 common shares and 2,000,024 common share purchase warrants of Resolve, exercisable at $0.65 per warrant at any time for a period expiring five years from the date of issuance.

INVESTMENT IN TETRA BIO-PHARMA INC.

On December 6, 2016, Aphria purchased 5,000,000 common shares of Tetra Bio-Pharma Inc. ("TBP"), a company engaged in pain management research, at a price of $0.20 per share for an aggregate purchase price of $1,000,000, pursuant to a private placement. As part of the transaction, Aphria received 5,000,000 warrants, each for conversion into one common share, at a price of $0.26 per warrant for a period of three years. The warrants are subject to an accelerated expiry if TBP's shares trade above $0.45 for 30 consecutive trading days at which time the warrants will become subject to a 30-day expiry period if not exercised. The Company subsequently exercised the warrants at a cost of $1,300,000.

TASK FORCE ON CANNABIS LEGALIZATION AND REGULATION ISSUES REPORT TO FEDERAL GOVERNMENT

On December 13, 2016, the Task Force on Cannabis Legalization and Regulation (the "Task Force"), which was established by the Canadian Federal Government to seek input on the design of a new system to legalize, strictly regulate and restrict access to marijuana, completed its review and published its report outlining its recommendations. It is expected that the Canadian Federal Government will introduce for consideration legislation for the legalization of marijuana in the spring of 2017.

APHRIA SECURES SECONDARY SITE WITH 200-ACRE PROPERTY ACQUISITION

On December 14, 2016, Aphria entered into a purchase and sale agreement to acquire 200 acres of fully serviced vacant land for $6.24 million. As the land acquired is not adjacent to the Company's existing operations, the Company will require a new site license from Health Canada for the property. The transaction closed on January 31, 2017.

INVESTMENT IN CANABO MEDICAL INC.

On December 23, 2016, Aphria purchased 6,000,000 common shares of Canabo Medical Inc. ("Canabo"), the owner and operator of Cannabinoid Medical Clinics, or CMClinics, Canada's largest referral-only clinics for medical cannabis, at a price of $1.40 per common share for an aggregate price of $8,483,333, including issuance costs, pursuant to a private placement subject to a mandatory four-month holding period. Following the financing, Aphria owned approximately 16.6% of the total issued and outstanding common shares of Canabo. On March 9, 2017, the Company sold 500,000 common shares held in Canabo for net proceeds of approximately $340,000, which were subject to a mandatory 4-month holding period, expiring on April 23, 2017. The Company purchased 500,000 shares on March 13, 2017 for $370,700. In May 2017, the Company sold 5,200,000 shares for net proceeds of $2,345,000.

BOARD APPROVAL RECEIVED FOR PART IV EXPANSION

On January 16, 2017, the Company announced that its Board of Directors ("the Board") approved a $137 million capital project internally identified as Part IV expansion. The project will increase Aphria's capacity under the ACMPR from 300,000 square feet to 1,000,000 square feet and is expected to increase the Company's ACMPR compliant growing capabilities, at the time, from 21,000 kgs annually to 70,000 kgs annually. This figure was subsequently amended to 100,000 kgs. The project includes 700,000 square feet of state-of-the-art Dutch style greenhouses, 200,000+ square feet of infrastructure, including four Level 9 vaults, automation for both the greenhouses and processing areas and security consistent with ACMPR standards. Aphria anticipates completion of this phase of the project within 18 months of the announcement, Health Canada approvals within 4 months of completing the expansion and reaching full crop rotation within 4 months after Health Canada approval.

INVESTMENT IN GREEN ACRES CAPITAL FUND

On January 23, 2017, Aphria agreed to invest in Green Acres Capital Fund, a Canadian investment fund seeking investments in the legal marijuana sector in Canada, the United States and internationally. In relation to its participation, Aphria committed $2,000,000 to the expected $30,000,000 fund and as of the date of this MD&A, has invested $300,000.

ADDITIONAL INVESTMENTS IN KALYTERA THERAPEUTICS, INC.

On January 31, 2017, Aphria subscribed for an additional 2,222,000 common shares of Kalytera for a purchase price of $999,900 pursuant to a private placement which closed on February 7, 2017, subject to final approval of the TSXV. On February 22, 2017, Aphria purchased an additional 1,450,000 common shares of Kalytera Therapeutics, Inc. in the secondary market for a purchase price of $1,014,420.

CLOSING OF FEBRUARY BOUGHT DEAL FINANCING

On February 24, 2017, the Company announced the closing of its bought deal financing. Under the bought deal, the Company raised gross proceeds of $57,500,000, and net proceeds of $53,869,357 after accounting for underwriting, legal and other costs and issued 11,500,000 common shares. The Company plans to use 80% of the proceeds primarily to fund its Part IV expansion and reserve the remainder for strategic investments.

APPROVAL RECEIVED TO GRADUATE TO TORONTO STOCK EXCHANGE

On February 6, 2017, Aphria received conditional approval from the TSX to graduate from the TSX Venture Exchange and to list its common shares on the TSX. On March 21, 2017, the Company announced that its common shares began trading on the TSX as of the open of the market on March 22, 2017. The common shares continue to trade under the symbol “APH”. In conjunction with listing on the TSX, the common shares were voluntarily delisted from the TSX Venture Exchange prior to the commencement of trading on March 22, 2017.

FAIR VALUE MEASUREMENTS

IMPACT OF FAIR VALUE METRICS ON BIOLOGICAL ASSETS AND INVENTORY

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

As at May 31, 2017, the Company’s harvested cannabis and cannabis oil, as detailed in Note 9, and biological assets, as detailed in Note 10 of its financial statements, are as follows:

	MAY 31, 2017	FEBRUARY 28, 2017
Harvested cannabis – at cost	$ 1,076,818	$ 801,639
Harvested cannabis – fair value increment	1,430,145	924,068
Harvested cannabis trim – at cost	152,081	--
Harvested cannabis trim – fair value increment	268,241	--
Cannabis oil – at cost	316,412	387,845
Cannabis oil – fair value increment	365,644	298,090
Biological assets – at cost	1,203,479	574,256
Biological assets – fair value increment	159,270	77,791
Cannabis products – at fair value	$ 4,972,090	$ 3,063,689

In an effort to increase transparency, the Company’s biological assets are carried at fair value increments of $0.54, $1.08, $1.62 and $2.14 per gram for weeks 13, 14, 15 and 16, respectively. Harvested cannabis, harvest cannabis trim and cannabis oil are carried at fair values of $3.75 per gram, $3.00 per gram and $0.625 per mL, respectively. The individual components of fair values are as follows:

	MAY 31, 2017	FEBRUARY 28, 2017
Harvested cannabis – at cost – per gram	$ 1.61	$ 1.74
Harvested cannabis – fair value increment – per gram	2.14	2.01
Harvested cannabis trim – at cost – per gram	1.09	--
Harvested cannabis trim – fair value increment – per gram	1.91	--
Cannabis oil – at cost – per mL	0.35	0.35
Cannabis oil – fair value increment – per mL	0.28	0.28

COST PER GRAM

CALCULATION OF "ALL-IN" COSTS OF SALES OF DRIED CANNABIS PER GRAM

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

	THREE MONTHS ENDED	
"ALL-IN" COST OF SALES OF DRIED CANNABIS PER GRAM	MAY 31, 2017	FEBRUARY 28, 2017
Cost of sales for the quarter including IFRS adjustments	$ (108,445)	$ 1,550,447
Add (Less): Cost of accessories	(31,398)	(26,778)
Cannabis oil conversion costs	(27,857)	(50,468)
Increase in plant inventory	480,000	--
Net effect of FV change in biological assets	923,351	(14,243)
Cost of sales of dried cannabis excluding IFRS adjustments	$ 1,235,651	$ 1,458,958
Grams equivalents sold during the quarter	738,299	652,472
"All-in" cost of sales of dried cannabis per gram	$ 1.67	$ 2.23

In the current quarter, the Company included a new reconciling item in its calculation of "All-in" costs to produce dried cannabis per gram, increase (decrease) in plant inventory. As part of its Part II expansion, the number of plants the Company is growing increased. This increase attributed a portion of the production expenses normally incurred by the Company in the quarter to biological assets, as opposed to inventory and/or unasborbed overhead, which is a period expense. To maintain comparability of this figure from quarter to quarter, the Company determined it was appropriate to normalize this item as part of the above calculation. In the future, the Company anticipates that it will have further increases in the number of plants it is growing, with such increases tied to the start of production in each future expansion project.

CALCULATION OF CASH COSTS TO PRODUCE DRIED CANNABIS PER GRAM – APHRIA'S DEFINITION

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

	THREE MONTHS ENDED	
CASH COSTS TO PRODUCE DRIED CANNABIS PER GRAM – APHRIA'S DEFINITION	MAY 31, 2017	FEBRUARY 28, 2017
Cost of sales of dried cannabis excluding IFRS adjustments	$ 1,235,651	$ 1,458,958
Amortization	(267,826)	(236,175)
Packaging costs	(150,695)	(91,411)
Cash costs to produce dried cannabis – Aphria's definition	$ 817,130	$ 1,131,372
Gram equivalents sold in the quarter	738,299	652,742
Cash costs to produce per gram – Aphria's definition	$ 1.11	$ 1.73

CALCULATION OF CASH COSTS TO PRODUCE DRIED CANNABIS PER GRAM – USING COMPETITORS' DEFINITION

While the Company believes strongly in its definition of cash costs to produce dried cannabis per gram, certain of its publicly traded competitors are disclosing a similar metric but for which they are using a different definition of cash costs. The primary differences between Aphria's definition and certain competitors' definition is that Aphria's definition includes the costs related to indirect labour expenses and quality control costs. Aphria believes that both of these expenses should be included in any cash cost calculation. However, for the sole purpose of presenting a figure which is comparable to this other definition, we re-calculated our cash costs to produce dried cannabis per gram as follows:

	THREE MONTHS ENDED	
CASH COSTS TO PRODUCE DRIED CANNABIS PER GRAM - USING COMPETITORS' DEFINITION	MAY 31, 2017	FEBRUARY 28, 2017
Cash costs to produce dried cannabis	$ 817,130	$ 1,131,372
Post production costs	(230,902)	(206,803)
Cash costs to produce dried cannabis – Using competitors' definition	$ 586,228	$ 924,569
Gram equivalents sold in the quarter	738,299	652,742
Cash costs to produce per gram- Using competitors' definition	$ 0.79	$ 1.42

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 November 24, 2016 and February 17, 2017, remain substantially unchanged in respect of the year ended May 31, 2017. However, certain additional risks are outlined below, and the most significant risks from our previous disclosure are reported for reference purposes.

RECENT ANNOUNCEMENTS IN THE UNITED STATES

On March 27, 2017, the Company announced that it had made an additional investment of $3 million USD in Copperstate. The investment increased Aphria's equity ownership in Copperstate from 10% to 18.5% on a non-diluted basis. As previously disclosed, Copperstate's wholly-owned subsidiary, Copperstate Farms, LLC, is a US-based licensed producer and seller of medical cannabis under the *Arizona Medical Marijuana Act*.

On April 4, 2017, the Company announced the launch of its US expansion strategy through a strategic lead investment in an entity to be renamed Liberty Health Sciences Inc. ("Liberty") that will operate in the United States under the brand "Aphria USA". In connection with the investment, Liberty will acquire all or substantially all of the assets of Chestnut Hill Tree Farm LLC, a licensed holder and authorized dispensing organization of low-THC medical cannabis to patients in need in the State of Florida. While the initial investment relates to the State of Florida, the intention of Aphria's US expansion strategy is to target key states that have approved the medical use of marijuana and meet the Company's stringent investment criteria.

In light of these recent announcements, the Board has undertaken to consider, evaluate, assess and provide additional disclosure on any risks there may be to investors as a result of certain investments in entities involved with medical marijuana in the United States. Outlined below is a summary of certain risks that the Board has identified as being appropriate to highlight to investors at this time. These risks will continue to be considered, evaluated, reassessed, monitored and analyzed on an on-going basis and will be supplemented, amended and communicated to investors as necessary or advisable in the Company's future public disclosure.

While marijuana is legal in many US state jurisdictions, it continues to be a controlled substance under the United States federal Controlled Substances Act

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical marijuana under the *Access to Cannabis for Medical Purposes Regulations*, investors are cautioned that in the United States, marijuana is largely regulated at the state level. To the Company's knowledge, there are to date a total of 28 states, plus the District of Columbia, that have legalized marijuana in some form, including Arizona and Florida as noted above in connection with the investments in Copperstate and Liberty. Notwithstanding the permissive regulatory environment of medical marijuana at the state level, marijuana continues to be categorized as a controlled substance under the *Controlled Substances Act* (the "CSA") in the United States and as such, may be in violation of federal law in the United States.

The United States Congress has passed appropriations bills each of the last three years that have not appropriated funds for prosecution of marijuana offenses of individuals who are in compliance with state medical marijuana laws. American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state law. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. And if Congress restores funding, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the CSA's five-year statute of limitations.

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

The approach to the enforcement of marijuana laws may be subject to change or may not proceed as previously outlined

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

The Cole Memorandum outlined certain priorities for the Department of Justice relating to the prosecution of marijuana offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing marijuana in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of marijuana, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the Department of Justice has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memorandum standard.

In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the Department of Justice should be focused on addressing only the most significant threats related to marijuana. States where medical marijuana had been legalized were not characterized as a high priority. In March of this year, newly appointed Attorney General Jeff Sessions again noted limited federal resources and acknowledged that much of the Cole Memorandum had merit, however, he disagreed that it had been implemented effectively and has not committed to utilizing the Cole Memorandum framework going forward.

The Board has informed its decision to authorize and approve the investments in Copperstate and Liberty based on the guidelines outlined in the Cole Memorandum and believes that the risk of federal prosecution and enforcement is currently unlikely. However, unless and until the Cole Memorandum is memorialized in federal legislation, there can be no assurance that the federal government will not seek to prosecute cases involving medical marijuana businesses that are otherwise compliant with state law.

Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation, even if such proceedings were concluded successfully in favour of the Company.

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

In February 2014, the Financial Crimes Enforcement Network ("FCEN") of the Treasury Department issued a memorandum providing instructions to banks seeking to provide services to marijuana-related businesses. The FCEN Memo states that in some circumstances, it is permissible for banks to provide services to marijuana-related businesses without risking prosecution for violation of federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on marijuana-related violations of the CSA. It is unclear at this time whether the current administration will follow the guidelines of the FCEN Memo.

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

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

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

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

VOLATILE MARKET PRICE OF THE COMMON SHARES

The market price of the Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control. This volatility may affect the ability of holders of Common Shares to sell their securities at an advantageous price. Market price fluctuations in the Common Shares may be due to the Company's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by Aphria or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the Common Shares. Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Common Shares may be materially adversely affected.

RISK FACTORS RELATED TO DILUTION

The Company may issue additional Common Shares in the future, which may dilute a shareholder's holdings in the Company. The Company's articles permit the issuance of an unlimited number of Common Shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of the Company have discretion to determine the price and the terms of issue of further issuances. Moreover, additional Common Shares will be issued by the Company on the exercise of options under the Company's stock option plan and upon the exercise of outstanding warrants.

RISKS INHERENT IN AN AGRICULTURAL BUSINESS

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

ENVIRONMENTAL REGULATIONS AND RISKS

Aphria's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Aphria's operations. Government approvals and permits are currently, and may in the future be required in connection with Aphria's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from its proposed production of medical marijuana or from proceeding with the development of its operations as currently proposed. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing the production of medical marijuana, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in expenses, capital expenditures or production costs or reduction in levels of production or require abandonment or delays in development.

RELIANCE ON A SINGLE FACILITY

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

THIRD PARTY TRANSPORTATION

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

RELIANCE ON KEY PERSONNEL

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management (collectively, "Key Personnel"). Aphria's future success depends on its continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and the Company may incur significant costs to attract and retain them. The loss of the services of a Key Person, or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on the Aphria's ability to execute on its business plan and strategy, and the Company may be unable to find adequate replacements on a timely basis, or at all. Further, as a Licensed Producer, each Key Person is subject to a security clearance by Health Canada. Under the ACMPR a security clearance cannot be valid for more than five years and must be renewed before the expiry of a current security clearance. There is no assurance that any of the Company's existing personnel who presently or may in the future require a security clearance will be able to obtain or renew such clearances or that new personnel who require a security clearance will be able to obtain one. A failure by a Key Person to maintain or renew his or her security clearance, would result in a material adverse effect on the Company's business, financial condition and results of operations. In addition, if a Key Person leaves the Company, and the Company is unable to find a suitable replacement that has a security clearance required by the ACMPR in a timely manner, or at all, there could occur a material adverse effect on the Company's business, financial condition and results of operations. While employment agreements are customarily used as a primary method of retaining the services of Key Personnel, these agreements cannot assure the continued services of such employees.

LIMITED OPERATING HISTORY

Aphria, while 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.

PRODUCT LIABILITY

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

PRODUCT RECALLS

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

RESULTS OF FUTURE CLINICAL RESEARCH

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC). Although Aphria believes that the articles, reports and studies support its beliefs regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, prospective purchasers of Offered Shares should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those stated in this prospectus or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to medical cannabis, which could have a material adverse effect on the demand for the Company's products with the potential to lead to a material adverse effect on the Company's business, financial condition and results of operations.

INSURANCE COVERAGE

The Company has insurance to protect its assets, operations, directors and employees. While the Company believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which Aphria is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, there could be a material adverse effect on the Company's business, financial condition and results of operations.

NEGATIVE CONSUMER PERCEPTION

The Company believes the medical cannabis industry is highly dependent upon consumer perception regarding the medical benefits, safety, efficacy and quality of the cannabis distributed for medical purposes to such consumers. Consumer perception of Aphria's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, political statements both in Canada and in other countries, media attention and other publicity (whether or not accurate or with merit) regarding the consumption of cannabis products for medical purposes, including unexpected safety or efficacy concerns arising with respect to the products of the Company or its competitors. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the medical cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations and financial condition of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity (whether or not accurate or with merit), could have an adverse effect on any demand for Aphria's products which could have a material adverse effect on the Company's business, financial condition and results of operations. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis for medical purposes in general, or the Company's products specifically, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products legally, appropriately or as directed.

SECURING ADEQUATE FINANCING TO FUND OPERATIONS AND MEET EXPECTED CONSUMER DEMAND

There is no guarantee that the Company will be able to achieve its business objectives. The continued development of Aphria may require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the Company ceasing to carry on business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to the Company. In addition, from time to time, Aphria may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. Debt financings may also contain provisions which, if breached, may entitle lenders or their agents to accelerate repayment of loans and/or realize upon security over the assets of the Company, and there is no assurance that the Company would be able to repay such loans in such an event or prevent the enforcement of security granted pursuant to such debt financing.

IDENTIFY AND EXECUTE FUTURE ACQUISITIONS OR DISPOSITIONS, OR TO SUCCESSFULLY MANAGE THE IMPACT OF SUCH TRANSACTIONS ON ITS OPERATIONS

Although there is no present intention to undertake any of the following transactions, material acquisitions, dispositions and other strategic transactions involve a number of risks, including: (i) potential disruption of the Company's ongoing business; (ii) distraction of management; (iii) Aphria may become more financially leveraged; (iv) the anticipated benefits and cost savings of those transactions may not be realized fully or at all or may take longer to realize than expected; (v) increasing the scope and complexity of the Company's operations, and (vi) loss or reduction of control over certain of the Company's assets.

The presence of one or more material liabilities of an acquired company that are unknown to the Company at the time of acquisition could have a material adverse effect on the results of operations, business prospects and financial condition of the Company. A strategic transaction may result in a significant change in the nature of the Company's business, operations and strategy. In addition, the Company may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into the Company's operations.

REGULATORY OR AGENCY PROCEEDINGS, INVESTIGATIONS AND AUDITS

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

LITIGATION
The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the value of the Common Shares and could use significant resources. Even if Aphria is involved in litigation and wins, litigation can redirect significant Company resources, including the time and attention of management and available working capital. Litigation may also create a negative perception of the Company's brand.

INTELLECTUAL PROPERTY
The ownership and protection of trademarks, patents, trade secrets and intellectual property rights are significant aspects of the Company's future success. Unauthorized parties may attempt to replicate or otherwise obtain and use the Company's products and technology. Policing the unauthorized use of the Company's current or future trademarks, patents, trade secrets or intellectual property rights could be difficult, expensive, time-consuming and unpredictable, as may be enforcing these rights against unauthorized use by others. Identifying unauthorized use of intellectual property rights is difficult as Aphria may be unable to effectively monitor and evaluate the products being distributed by its competitors, including parties such as unlicensed dispensaries, and the processes used to produce such products. In addition, in any infringement proceeding, some or all of the Company's trademarks, patents or other intellectual property rights or other proprietary know-how, or arrangements or agreements seeking to protect the same for the benefit of the Company, may be found invalid, unenforceable, anti-competitive or not infringed. An adverse result in any litigation or defense proceedings could put one or more of the Company's trademarks, patents or other intellectual property rights at risk of being invalidated or interpreted narrowly and could put existing intellectual property applications at risk of not being issued. Any or all of these events could materially and adversely affect the business, financial condition and results of operations of the Company.

In addition, other parties may claim that the Company's products infringe on their proprietary and perhaps patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders and/or require the payment of damages. As well, Aphria may need to obtain licenses from third parties who allege that the Company has infringed on their lawful rights. However, such licenses may not be available on terms acceptable to the Company or at all. In addition, the Company may not be able to obtain or utilize on terms that are favorable to it, or at all, licenses or other rights with respect to intellectual property that it does not own.

CONSTRAINTS ON MARKETING PRODUCTS
The development of the Company's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by Health Canada. The regulatory environment in Canada limits the Company's ability to compete for market share in a manner similar to other industries. If Aphria is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and operating results could be adversely affected.

FRAUDULENT OR ILLEGAL ACTIVITY BY ITS EMPLOYEES, CONTRACTORS AND CONSULTANTS
The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data.

It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against Aphria, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on our business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

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

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

BREACHES OF SECURITY AT ITS FACILITIES, OR IN RESPECT OF ELECTRONIC DOCUMENTS AND DATA STORAGE AND MAY FACE RISKS RELATED TO BREACHES OF APPLICABLE PRIVACY LAWS
Given the nature of the Company's product and its lack of legal availability outside of channels approved by the Government of Canada, as well as the concentration of inventory in its facilities, despite meeting or exceeding Health Canada's security requirements, there remains a risk of shrinkage as well as theft. A security breach at one of the Company's facilities could expose Aphria to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company's products.

In addition, Aphria collects and stores personal information about its patients and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions. Theft of data for competitive purposes, particularly patient lists and preferences, is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on the Company's business, financial condition and results of operations.

In addition, there are a number of federal and provincial laws protecting the confidentiality of certain patient health information, including patient records, and restricting the use and disclosure of that protected information. In particular, the privacy rules under the Personal Information Protection and Electronics Documents Act (Canada) ("PIPEDA"), protect medical records and other personal health information by limiting their use and disclosure of health information to the minimum level reasonably necessary to accomplish the intended purpose. If Aphria was found to be in violation of the privacy or security rules under PIPEDA or other laws protecting the confidentiality of patient health information, it could be subject to sanctions and civil or criminal penalties, which could increase its liabilities, harm its reputation and have a material adverse effect on the business, results of operations and financial condition of the Company.

EXPANSION OF FACILITIES

Certain contemplated capital expenditures previously publicly disclosed by the Company, including, without limitation, Part III Expansion and Part IV Expansion, will require Health Canada approval. There is no guarantee that Health Canada will approve the contemplated expansions in a timely fashion, nor is there any guarantee that the expansion will be completed in its currently proposed form, if at all. The failure of the Company to successfully execute its expansion strategy (including receiving the expected Health Canada approvals in a timely fashion) could adversely affect the business, financial condition and results of operations of the Company.

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.

HISTORY OF LOSSES

The Company incurred losses in prior 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.

CHANGES TO REIMBURSEMENT ALLOWANCES FOR VETERANS

On November 22, 2016, the Minister of Veterans Affairs announced that Veterans Affairs Canada ("VAC") will issue new rules related to the reimbursement of medical cannabis for veterans. The new rules limit the amount of reimbursement to veterans in two ways. First, the amount of medical marijuana that can be reimbursed is expected to be limited to 3.0 grams per day (per veteran), such change to be effective as of May 21, 2017. Second, effective November 22, 2016, the price per gram reimbursement was limited to $8.50 per gram. The Company understands that the new rules may allow individual veterans to receive reimbursement for more than 3.0 grams a day, on a case by case basis, subject to specific conditions, which as of the date hereof have yet to be fully delineated. Accordingly, the Company has not yet been able to fully model the impact that the proposed VAC changes may have on the Company's revenue stream. It is also unclear how many veteran patients of Aphria, if any, may meet the case by case exemption referenced herein. Investors are cautioned that the VAC changes may have a material effect on Aphria's business in the event that the Company is unable to secure offsetting revenue streams, its veteran patients do not qualify for an exemption or if further amendments to the VAC changes are announced.

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. See Risk Factors - Changes in Laws, Regulations and Guidelines for more information on Bill C-45, which proposes the enactment of the Cannabis Act, to regulate the production, distribution and sale of cannabis for unqualified adult use, with a target implementation date of no later than July 1, 2018. However, it is unknown if this regulatory change will 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 51 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.

RESULTS OF OPERATIONS

REVENUE

Revenue for the three months ended May 31, 2017 was $5,717,866 versus $2,776,316 in the same period of 2016 and $5,118,516 in the third quarter of fiscal 2017.

The increase in revenue from the same period in the prior year was largely related to the continued growth of patients offset by a decrease in the average selling price per gram equivalent from $8.16 to $7.67.

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

- Continued acceleration of patient onboarding, including sales of 146,430 gram equivalents to patients on-boarded in the quarter;
- Continued growth of sales to existing patients, including sales of 581,800 gram equivalents to patients on-boarded prior to the quarter;
- Wholesale orders to other Licensed Producers of 10,069 grams; and,
- An increase in the percentage of cannabis oil sold, at a higher average price than dried cannabis, to 31.7% of sales from 25.6% in the prior quarter.

These factors were partially offset by a decrease in the average selling price per gram equivalent from $7.85 to $7.67.

Revenue for the year ended May 31, 2017 was $20,438,483 versus $8,433,929 in the same period of 2016. The reason for the increase in sales in the twelve-month period is consistent with the reasons for the increase in sales in the three-month period of the prior year above, being continued acceleration of patient onboarding, continued growth of sales to existing patients, introduction for sale of cannabis oils, offset by lower average pricing per gram to veterans during the last two quarters of the fiscal year and patient churn.

GROSS PROFIT AND GROSS MARGIN

The gross profit for the three months ended May 31, 2017 was $5,826,311, compared to $2,106,394 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 offset, decreased production costs per gram equivalent and the increase in the fair value adjustment for biological assets against the decrease in average selling price per gram equivalent.

The gross profit for the year ended May 31, 2017 was $17,297,533, compared to a gross profit of $5,977,428 in the same period of 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 May 31, 2017 and the three months ended February 28, 2017.

The gross profit for the three months ended May 31, 2017 increased to $5,826,311, compared to $3,568,069 in the prior quarter, as shown below:

	THREE MONTHS ENDED	
	MAY 31, 2017	FEBRUARY 28, 2017
Revenue	$ 5,717,866	$ 5,118,516
Cost of sales		
Cost of goods sold	547,080	1,300,029
Amortization	267,826	236,175
Net effect of FV change in biological assets	(923,351)	14,243
	(108,445)	1,550,447
Gross profit	$ 5,826,311	$ 3,568,069
Gross margin	101.9%	69.7%

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 cannabis sold. This would include growing, cultivation and harvesting costs, stringent quality assurance and quality control, cannabis oil processing costs, as well as packaging and labelling. All medical cannabis shipped and sold by Aphria has been grown and produced by the Company.

(ii) Amortization includes amortization of production equipment and greenhouse infrastructure utilized in the production of medical cannabis.

(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 9 – Consolidated financial statements for the year ended May 31, 2017) consists of dried flower, dried trim and cannabis oil, of which dried flower is carried at a value of $3.75 per gram, dried trim is carried at $3.00 a gram and cannabis oil is carried at $0.625/mL (6mL of cannabis oil is equivalent to 1 gram of dried product).

The decrease in cost of goods sold is primarily attributable to increased over-absorption of overhead costs in the quarter, which represent period costs as described above. The incremental over-absorption of overhead costs was primarily a function of increased production yields in the greenhouse versus our standard costs.

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

	THREE MONTHS ENDED MAY 31, 2017 IFRS	ADJUSTMENTS	THREE MONTHS ENDED MAY 31, 2017 ADJUSTED
Revenue	$ 5,717,866	$ --	$ 5,717,866
Cost of sales			
Cost of goods sold	547,080	--	547,080
Amortization	267,826	--	267,826
Net effect of FV change in biological assets	(923,351)	923,351	--
	(108,445)	923,351	814,906
Gross profit	$ 5,826,311	(923,351)	$ 4,902,960
Gross margin	101.9%		85.7%

The following is the Company's adjusted gross profit and adjusted gross margin as compared to IFRS for the year ended May 31, 2017:

	YEAR ENDED MAY 31,2017 IFRS	ADJUSTMENTS	YEAR ENDED MAY 31,2017 ADJUSTED
Revenue	$ 20,438,483	$ --	$ 20,438,483
Cost of sales			
Cost of goods sold	3,599,342	--	3,599,342
Amortization	985,533	--	985,533
Net effect of FV change in biological assets	(1,443,925)	1,443,925	--
	3,140,950	1,443,925	4,584,875
Gross profit	$ 17,297,533	(1,443,925)	$ 15,853,608
Gross margin	84.6%		77.6%

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses are comprised of general and administrative, share-based compensation, selling, marketing and promotion, amortization, research and development and impairment of intangible asset. These costs increased by $1,746,404 to $3,860,184 from $2,113,780 in the same quarter in the prior year and increased $11,621,406 to $18,689,495 from $7,068,089 in the twelve-month period of the prior year.

SELLING, GENERAL AND ADMINISTRATIVE COSTS	THREE MONTHS ENDED MAY,		YEAR ENDED MAY,	
	2017	2016	2017	2016
General and administrative	$ 1,263,118	$ 783,136	$ 4,678,054	$ 2,425,123
Share-based compensation	688,546	57,235	2,399,111	462,314
Selling, marketing and promotion	1,609,445	1,109,944	6,663,862	3,598,481
Amortization	240,748	163,463	956,043	361,763
Research and development	58,327	2	492,425	220,408
Impairment of intangible asset	--	--	3,500,000	--
	$ 3,860,184	$ 2,113,780	$ 18,689,495	$ 7,068,089

GENERAL AND ADMINISTRATIVE COSTS	THREE MONTHS ENDED MAY,		YEAR ENDED MAY,	
	2017	2016	2017	2016
Executive compensation	$ 209,169	$ 296,208	$ 828,924	$ 752,337
Consulting fees	87,308	5,410	219,619	39,723
Office and general	230,655	165,312	1,336,508	591,555
Professional fees	216,812	95,422	607,846	359,580
Salaries and wages	353,193	125,048	1,141,873	394,627
Travel and accommodation	143,960	83,033	463,914	242,237
Rent	22,021	12,703	79,370	45,064
	$ 1,263,118	$ 783,136	$ 4,678,054	$ 2,425,123

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;
- Consulting fees, predominantly associated with various negotiations, investor relations and reviews of current and potential business relationships necessary to sustain growth of the Company, and
- Professional fees, predominantly comprised of legal costs, associated with various negotiations and reviews of current and potential business relationships necessary to sustain growth of the Company, including our recent listing on the TSX.

The increase in general and administrative costs during the twelve-month period was largely related to the same factors as in the three-month period.

SHARE-BASED COMPENSATION

The Company recognized share-based compensation expense of $688,546 for the three months ended May 31, 2017 compared to $57,235 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, 140,000 in the current period compared to 50,000 in the same period of the prior year. Of the stock options granted in the quarter, 44,999 vested in the quarter. In addition to stock options, during the quarter, the Company issued 112,500 common shares, priced at $4.96 per share to a third-party consultant of the Company in exchange for services to be provided.

For the year ended May 31, 2017, the Company incurred share-based compensation of $2,399,111 as opposed to $462,314 in the prior year, including the expenses related to the shares for services described in the three-month period. 2,253,000 options were granted during the twelve-month period ended May 31, 2017, as opposed to 565,000 options in the comparable period of the prior year. Of the options granted in the twelve-month period ended May 31, 2017, only 807,448 vested in that twelve-month period.

SELLING, MARKETING AND PROMOTION COSTS

For the three months ended May 31, 2017, the Company incurred selling, marketing and promotion costs of $1,609,445, or 28.1% of revenue versus $1,109,944 or 40.0% of revenue in the comparable prior period. These costs related to patient acquisition and ongoing patient maintenance, the Company's call centre operations, shipping costs, marketing department, 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.

For the year ended May 31, 2017, the Company incurred selling, marketing and promotion costs of $6,663,862 or 32.6% of revenue, as opposed to $3,598,481 or 42.7% of revenue, in the comparable prior period. The increase in costs in the twelve-month period is consistent with the increase in the three-month period.

AMORTIZATION

The Company incurred non-production related amortization charges of $240,748 for the three months ended May 31, 2017 compared to $163,463 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.

The Company incurred non-production related amortization charges of $956,043 for the year ended May 31, 2017 compared to $361,763 for the same period in the previous year. The increase for the twelve-month period is consistent with the increase for the three-month period.

RESEARCH AND DEVELOPMENT

Research and development costs of $58,327 were expensed during the three months ended May 31, 2017 compared to $2 in same period last year. These relate to costs associated with process validation of the Company's internal chemistry and micro biology labs, as well as researching different aspects of genetics. The Company is also experimenting with different growing methods and methods of extraction of cannabis oils and related derivatives for future commercialization.

For the year ended May 31, 2017, the Company incurred research and development costs of $492,425 as opposed to $220,408 in the comparable prior period. The increase in costs primarily relates to:

- Validation of laboratory
- Development of processes and methods associated with extraction
- Phenotyping of genetics

IMPAIRMENT OF INTANGIBLE ASSETS

The Company incurred a non-cash expense of $3,500,000 relating to the impairment of its CannWay brand intangible asset. The Company recorded the impairment for the CannWay brand following the changes to reimbursement allowances for veterans, including an $8.50 per gram cap on reimbursement, effective November 24, 2016 and a limit to individual patient usage of 3.0 grams per day, effective May 24, 2017. In quantifying the impairment, the Company compared the carrying value as at the measurement date to its recoverable amount. The Company calculated its recoverable amount using the discounted cash flow technique, forecasting future sales attributable to the CannWay patient base over the remaining useful life based on the revised cap on VAC reimbursement policies combined with our current cost structure, net present valuing the result using a 15% discount rate.

NON-OPERATING ITEMS

During the three months ended May 31, 2017, the Company incurred a non-operating loss of $4,425,107 consisting of a loss on its long-term investment portfolio of $5,572,278 (of which $4,649,596 represented a realized loss and $922,682 represented a loss of fair value), offset by consulting revenue of $295,208, $417,165 foreign exchange gain, $29,765 of finance income, net, $194,633 of gain on marketable securities and $210,400 of profit from its equity accounted investee, all compared to non-operating income of $109,550 in the prior year.

For the year ended May 31, 2017, the Company earned non-operating income of $5,724,179 consisting of gain on its investment portfolio of $3,571,129 (of which $6,311,979 represents fair value gains and realized gains of $2,268,757 offset by a realized loss of $5,009,607), $511,875 of consulting revenue, $482,596 of foreign exchange gains, $728,249 of finance income, net, $208,563 of gain on marketable securities and $210,400 of profit from its equity accounted investee and $11,367 related to a gain on the sale of capital assets, all compared to non-operating income of $288,622 in the prior year.

NET INCOME (LOSS)

The Company incurred a loss for the three months ended May 31, 2017 of $2,592,742 or $(0.02) per share as opposed to net income of $1,302,164 or $0.02 per share in the same period of the prior year. The primary reason for the loss in the quarter was the $5,572,278 loss on the Company's long-term investment portfolio.

The net income for the year ended May 31, 2017 was $4,198,455 or $0.04 per share as opposed to $397,961 or $0.01 per share in the same period of the prior year.

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) income taxes (recovery), plus (minus) finance income, net plus amortization, plus impairment of intangible asset, plus share-based compensation, plus (minus) non-cash fair value ("FV") adjustments related to biological assets, plus amortization of non-capital assets, plus (minus) loss (gain) on sale of capital assets, plus allowance for bad debts, plus (minus) loss (gain) on marketable securities, plus (minus) loss (profit) from equity accounted investee, plus (minus) EBITDA profit (loss) from equity accounted investee plus (minus) loss (gain) on long-term investments all as follows:

	THREE MONTHS ENDED MAY		YEAR ENDED MAY	
	2017	2016	2017	2016
Net income (loss)	$ (2,592,742)	$ 1,302,164	$ 4,198,455	$ 397,961
Income tax expense (recovery)	133,762	(1,200,000)	133,762	(1,200,000)
Finance income, net	(29,765)	(109,550)	(728,249)	(281,497)
Amortization	508,574	410,973	1,941,576	952,178
Impairment of intangible asset	--	--	3,500,000	--
Share-based compensation	688,546	57,235	2,399,111	462,314
Non-cash FV adjustments in biological assets	(923,351)	(37,387)	(1,443,925)	4,646
Amortization of non-capital assets	3,112	58,254	66,613	193,009
Allowance for bad debts	(84,714)	38,996	60,662	51,402
Profit from equity accounted investee	(210,400)	--	(210,400)	--
EBITDA loss from equity accounted investee	(44,000)	--	(44,000)	--
Gain on sale of capital assets	--	--	(11,367)	(7,125)
Gain on marketable securities	(194,633)	--	(208,563)	--
Loss (gain) on long-term investments	5,572,278	--	(3,571,129)	--
EBITDA	$ 2,826,667	$ 520,685	$ 6,082,546	$ 572,888

LIQUIDITY AND CAPITAL RESOURCES

Cash flow generated from operations for the year improved by $6,313,699 from cash flow used in operations of $988,134 in the twelve-month period of the prior year to cash flow generated from operations of $5,325,565 in the current twelve-month period. The improvement in cash flow generated from operations is primarily a result of:

- Increased profitability for the period stemming from increased sales volume; 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 inventory, where the increase is primarily made up of an increase in the amount of cannabis oil in storage; and,
- Increase in other receivables, where the increase is primarily made up of an increase in expected government remittances receivable related to our capital expansions.

CASH RESOURCES / WORKING CAPITAL REQUIREMENTS

The Company constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations. As at May 31, 2017, Aphria maintained $79,910,415 of cash and cash equivalents on hand plus $87,346,787 in liquid marketable securities, compared to $16,472,664 in cash and cash equivalents at May 31, 2016 and $84,351,132 in cash and cash equivalents plus $37,678,063 in liquid marketable securities at February 28, 2017. Liquid sources of cash increased $150,784,538 in the twelve-month period and increased $45,228,007 in the quarter.

Working capital provides funds for the Company to meet its operational and capital requirements. As at May 31, 2017, the Company maintained working capital of $169,051,562. 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 May 31, 2017, the Company invested $31,955,214 in capital and intangible assets, of which $233,820 are considered maintenance CAPEX and the remainder $31,721,394 growth CAPEX, related to the property acquisitions, the Company's Part II, Part III and Part IV Expansions.

For the year ended May 31, 2017, the Company invested $67,834,650 in capital and intangible assets, of which $781,664 are considered maintenance CAPEX and the remainder, $67,052,986 growth CAPEX, related to the Company's Part II Expansion and Part III 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 April 2017, the Company indemnified the landlord of the office space to be used by its equity accounted investee, DFMMJ Investments, Ltd., subsequently to be renamed Liberty Health Sciences Inc. after completion of a reverse takeover transaction.

During the year, the Company terminated its lease commitment for rental of greenhouse and warehouse space in conjunction with the purchase of the 265 Talbot St. West property. The Company continues to lease office space from a related party, the lease commitment ends December 31, 2018 with the option to renew for two additional five year terms, and the Company continues to lease office space in Toronto for $4,500 per month until September 2017. In April of 2017, the Company indemnified the landlord of the office space leased by Liberty Health Sciences Inc. at 35 McFaul Street, Toronto. As discussed above, the Company has agreed to contribute an additional $1,700,000 to Green Acre Capital Fund. The Company has a lease commitments until September 2019 and August 2020 for motor vehicles.

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

PAYMENTS DUE BY PERIOD

	TOTAL	LESS THAN 1 YEAR	1 – 3 YEARS	4 – 5 YEARS	AFTER 5 YEARS
Outstanding capital related commitments	$ 22,098,567	$ 8,805,235	$ 13,293,332	$ --	$ --
Operating leases	69,794	50,712	19,082	--	--
Motor vehicle leases	83,016	28,911	50,838	3,267	--
Long-term debt	32,205,871	765,224	1,672,155	29,768,492	--
TOTAL	**$ 54,457,248**	**$ 9,650,082**	**$ 15,035,407**	**$ 29,771,759**	**$ --**

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.

SHARE CAPITAL

Aphria has the following securities issued and outstanding, as at July 11, 2017:

	PRESENTLY OUTSTANDING	EXERCISABLE	EXERCISABLE & IN-THE-MONEY*	FULLY DILUTED
Common stock	138,819,504			138,819,504
Warrants	--	3,703,408	3,703,408	3,703,408
Stock options	--	3,911,242	3,684,580	5,917,701
FULLY DILUTED				**148,440,613**

** Based on closing price on July 11, 2017*

QUARTERLY RESULTS

The following table sets out certain unaudited financial information for each of the eight fiscal quarters up to and including the fourth quarter of fiscal 2017, ended May 31, 2017. The information has been derived from the Company's unaudited consolidated financial statements, which in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements filed in the Company's 2017 Annual Report and include all adjustments necessary for a fair presentation of the information presented. Past performance is not a guarantee of future performance and this information is not necessarily indicative of results for any future period.

	AUG/16	NOV/16	FEB/17	MAY/17
Revenue	$ 4,375,512	$ 5,226,589	$ 5,118,516	$ 5,717,866
Net income (loss)	895,269	945,678	4,950,250	(2,592,742)
Income per share - basic	0.01	0.01	0.04	(0.02)
Income per share – fully diluted	0.01	0.01	0.04	(0.02)
	AUG/15	**NOV/15**	**FEB/16**	**MAY/16**
Revenue	$ 950,740	$ 2,026,975	$ 2,679,898	$ 2,776,316
Net income (loss)	(476,825)	(431,098)	3,720	1,302,164
Loss per share - basic	(0.01)	(0.00)	0.00	0.02
Loss per share – fully diluted	(0.01)	(0.00)	0.00	0.02

RELATED PARTY BALANCES AND TRANSACTIONS

Prior to going public, the Company funded operations through the support of related parties. Since going public, the Company has continued to leverage the purchasing power of these related parties for certain of its growing related expenditures. Through these related parties, Aphria can leverage the purchasing power for growing related commodities and labour, which provides the Company with better rates than if Aphria was sourcing these on its own. These transactions are measured at their exchange amounts. The Company owed $nil to related parties as at May 31, 2017 (2016 - $nil). These amounts were due upon demand and are non-interest bearing. These parties are related as they are corporations that are controlled by certain officers and directors of the Company (Mr. Cole Cacciavillani and Mr. John Cervini).

During the twelve months ended May 31, 2017, related party corporations charged or incurred expenditures on behalf of the Company (including rent) totaling $387,892 (2016 - $1,139,788). Included in this amount was rent of $49,389 charged during the twelve months ended May 31, 2017 (2016 - $193,593).

The Company funded the start-up costs and operations of DFMMJ Investments, Ltd. The balance owing from the related party as at May 31, 2017 was $463,916 (May 31, 2016 - $nil).

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

The CEO and CFO have caused an evaluation of the effectiveness of the Company's internal controls over financial reporting as of May 31, 2017. This evaluation included documentation activities, management inquiries, tests of controls and other reviews as deemed appropriate by management in consideration of the size and nature of the Company's business including those matters described above. Based on that evaluation, the CEO and the CFO concluded that the design and operating effectiveness of internal controls over financial reporting was effective as at May 31, 2017 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

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

There have been no changes in the Company's internal controls over financial reporting during the year ended May 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

SUBSEQUENT EVENTS

On June 1, 2017, the Company's subsidiary, CannWay was amalgamated with Pure Natures Wellness Inc. (o/a Aphria).

On June 22, 2017, the Company purchased land and buildings from a third party for approximately $500,000.

On June 30, 2017, the Company entered into a subscription agreement with Tokyo Smoke for the purchase of 140,845 common shares, for a total cost of $1,000,000.

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

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

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

Expanding Our Roots

CONSOLIDATED FINANCIAL STATEMENTS

Aphria

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2017 AND MAY 31, 2016

(Expressed in Canadian Dollars, unless otherwise noted)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements and other financial information in this annual report were prepared by management of Aphria Inc., reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the consolidated financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company's consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These financial statements have been audited by the shareholders' auditors, PwC LLP, and their report is presented herein.

"Vic Neufeld"	"Carl A. Merton", CPA, CA, FCBV
Chief Executive Officer	Chief Financial Officer

July 11, 2017

July 11, 2017

Independent Auditor's Report

To the Shareholders of Aphria Inc.

We have audited the accompanying consolidated financial statements of Aphria Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at May 31, 2017 and the consolidated statements of earnings, comprehensive earnings, changes in equity (deficiency) and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aphria Inc. and its subsidiaries as at May 31, 2017 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

OTHER MATTER

The financial statements of Aphria Inc. for the year ended May 31, 2016 were audited by another auditor who expressed an unmodified opinion on those financial statements on July 7, 2016.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Windsor, Ontario, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	NOTE	MAY 31, 2017	MAY 31, 2016
ASSETS			
Current assets			
Cash and cash equivalents		$ 79,910,415	$ 16,472,664
Marketable securities	7	87,346,787	--
Accounts receivable		825,511	1,778,679
Other receivables	8	4,511,639	126,952
Inventory	9	3,886,607	2,088,850
Biological assets	10	1,362,749	697,997
Prepaid assets		1,059,624	160,156
Due from DFMMJ Investments, Ltd.	11	463,916	--
Promissory notes receivable	12	--	567,588
		179,367,248	21,892,886
Capital assets	13	72,500,148	7,309,220
Intangible assets	4,14	1,891,237	4,317,680
Convertible note receivable	15	1,360,548	--
Embedded derivative	15	173,000	--
Interest in equity accounted investee	16	28,376,092	--
Long-term investments	17	27,787,578	1,560,200
Deferred tax asset	6	3,314,570	--
Goodwill	4	1,200,000	1,200,000
		$ 315,970,421	$ 36,279,986
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		$ 5,872,962	$ 1,266,492
Deferred gain from equity accounted investee	16	2,800,000	--
Current portion of promissory note payable	19	877,500	--
Current portion of long-term debt	20	765,224	--
		10,315,686	1,266,492
Long-term liabilities			
Promissory note payable	19	365,625	--
Long-term debt	20	31,420,230	--
		42,101,541	1,266,492
Shareholders' equity			
Share capital	21	274,316,548	40,916,880
Warrants	22	444,912	693,675
Share-based payment reserve	23	3,229,929	1,723,903
Deficit		(4,122,509)	(8,320,964)
		273,868,880	35,013,494
		$ 315,970,421	$ 36,279,986

Nature of operations (Note 1)
Commitments (Note 32)
Subsequent events (Note 33)

Approved on behalf of the Board:

"John Cervini"
Signed: Director

"Cole Cacciavillani"
Signed: Director

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	NOTE	FOR THE YEAR ENDED MAY 31, 2017	FOR THE YEAR ENDED MAY 31, 2016
Revenue		$ 20,438,483	$ 8,433,929
Cost of sales:			
Cost of goods sold, net	10	3,599,342	1,861,440
Amortization	13,14	985,533	590,415
Net effect of changes in fair value of biological assets and inventory	10	(1,443,925)	4,646
		3,140,950	2,456,501
Gross profit		17,297,533	5,977,428
Expenses:			
General and administrative	25	4,678,054	2,425,123
Share-based compensation	26	2,399,111	462,314
Selling, marketing and promotion		6,663,862	3,598,481
Amortization	13,14	956,043	361,763
Research and development		492,425	220,408
Impairment of intangible asset	14	3,500,000	--
		18,689,495	7,068,089
		(1,391,962)	(1,090,661)
Consulting revenue	19	511,875	--
Foreign exchange gain		482,596	--
Gain on marketable securities	7	208,563	--
Gain on sale of capital assets	13	11,367	7,125
Profit from equity accounted investee	16	210,400	--
Finance income, net	27	728,249	281,497
Gain on long-term investments	28	3,571,129	--
Income (loss) before income taxes		4,332,217	(802,039)
Income tax expense (recovery)	6	133,762	(1,200,000)
Net income and comprehensive income		**$ 4,198,455**	$ 397,961
Weighted average number of common shares – basic		**104,341,319**	58,442,827
Weighted average number of common shares – diluted		**111,427,893**	58,442,827
Earnings per share – basic	29	**$ 0.04**	$ 0.01
Earnings per share – diluted	29	**$ 0.04**	$ 0.01

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)

	NUMBER OF COMMON SHARES	SHARE CAPITAL (NOTE 21)	WARRANTS (NOTE 22)	SHARE-BASED PAYMENT RESERVE (NOTE 23)	DEFICIT	TOTAL
Balance at May 31, 2015	52,479,587	$ 20,246,095	$ 556,589	$1,261,589	$ (8,718,925)	$ 13,345,348
Warrants exercised	5,127,976	6,191,892	(126,748)	--	--	6,065,144
Share issued on Bought Deal	8,846,370	10,136,277	263,834	--	--	10,400,111
Share issued on CannWay Purchase	3,600,000	4,342,616	--	--	--	4,342,616
Share-based payments	--	--	--	462,314	--	462,314
Net income for the year	--	--	--	--	397,961	397,961
BALANCE AT MAY 31, 2016	**70,053,933**	**$ 40,916,880**	**$ 693,675**	**$1,723,903**	**$ (8,320,964)**	**$35,013,494**

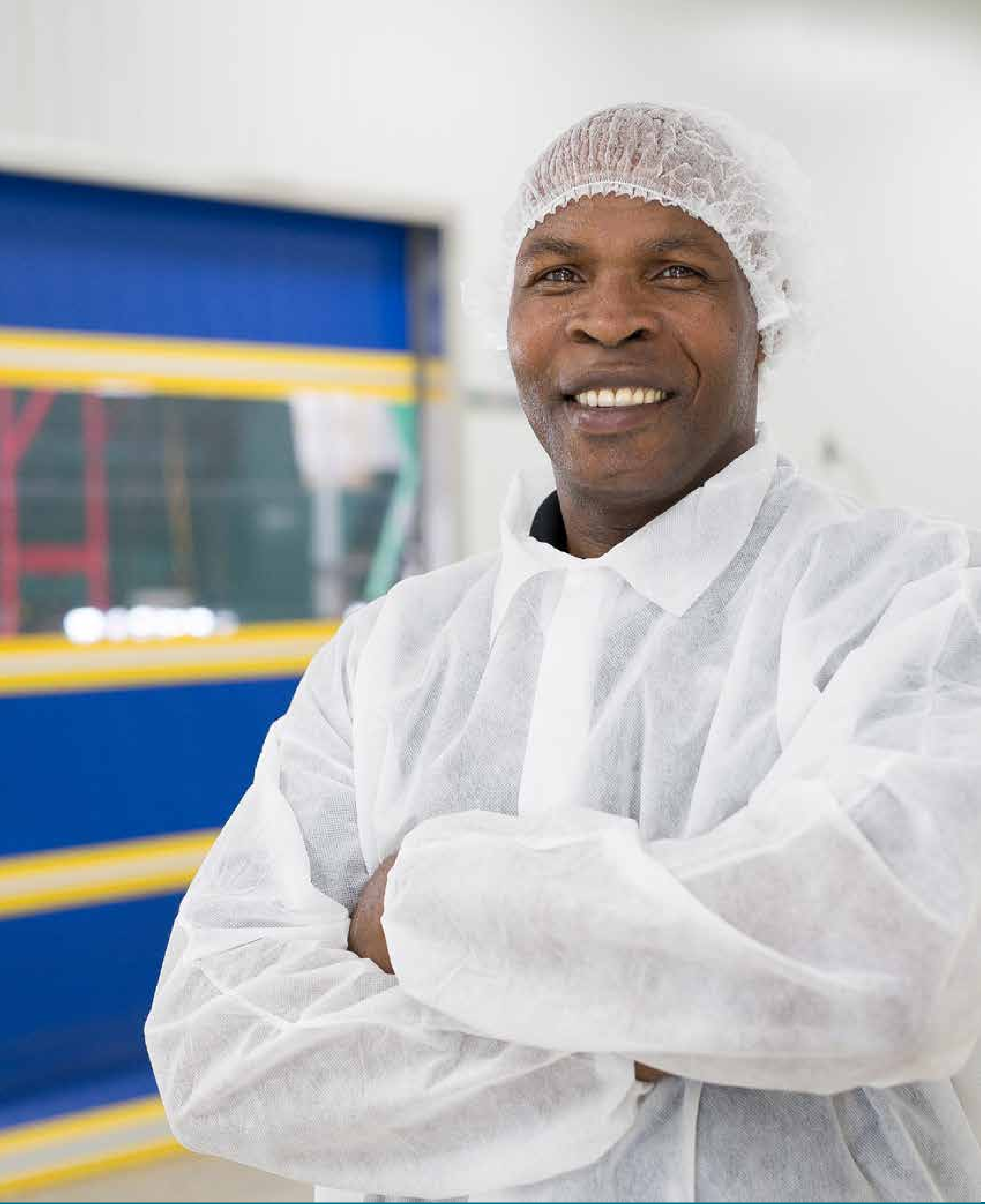
	NUMBER OF COMMON SHARES	SHARE CAPITAL (NOTE 21)	WARRANTS (NOTE 22)	SHARE-BASED PAYMENT RESERVE (NOTE 23)	DEFICIT	TOTAL
Balance at May 31, 2016	70,053,933	$ 40,916,880	$ 693,675	$ 1,723,903	$ (8,320,964)	$ 35,013,494
Share issuance – August 2016 bought deal	17,250,000	31,959,093	--	--	--	31,959,093
Share issuance – November 2016 bought deal	10,062,500	37,263,475	--	--	--	37,263,475
Share issuance – February 2017 bought deal	11,500,000	53,869,357	--	--	--	53,869,357
Share issuance – May 2017 bought deal	13,269,252	81,322,498	--	--	--	81,322,498
Income tax recovery on share issuance costs	--	3,448,332	--	--	--	3,448,332
Share and warrant issuance – intangible asset acquisition	38,759	100,000	359,480	--	--	459,480
Share issuance – warrants exercised	15,251,165	23,646,825	(608,243)	--	--	23,038,582
Share issuance – options exercised	1,053,095	1,533,513	--	(558,183)	--	975,330
Share-based payments	100,000	256,575	--	2,064,209	--	2,320,784
Shares held in escrow for services not yet earned	50,000	--	--	--	--	--
Net income for the year	--	--	--	--	4,198,455	4,198,455
BALANCE AT MAY 31, 2017	**138,628,704**	**$ 274,316,548**	**$ 444,912**	**$ 3,229,929**	**$ (4,122,509)**	**$ 273,868,880**

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	NOTE	YEAR ENDED MAY 31, 2017	YEAR ENDED MAY 31, 2016
Cash generated from (used in) operating activities:			
Net income for the year		$ 4,198,455	$ 397,961
Adjustments for:			
Income tax expense (recovery)	6	133,762	(1,200,000)
Net effect of change in fair value of biological assets	10	(5,004,615)	4,646
Amortization	13,14	1,941,576	952,178
Gain on sale of capital assets	13	(11,367)	(7,125)
Disposition and usage of bearer plants	13	66,613	--
Impairment of intangible assets	14	3,500,000	--
Accrued interest on convertible note advanced to debtors	15	(33,548)	--
Profit from equity accounted investee	16	(210,400)	--
Amortization of finance fees on long-term debt	20	4,583	--
Gain on marketable securities		(208,563)	--
Share-based compensation	26	2,399,111	462,314
Unrealized gain on long-term investments	28	(6,311,979)	--
Realized loss on long-term investments	28	2,740,850	--
Consulting revenue	19	(511,875)	--
Change in non-cash working capital	30	2,632,962	(1,598,108)
		5,325,565	(988,134)
Cash provided by financing activities:			
Share capital issued, net of cash issuance costs		204,408,498	10,314,727
Share capital issued on warrants exercised		23,038,582	6,065,144
Share capital issued on stock options exercised		975,330	--
Advances from related parties	11	387,892	1,139,788
Repayment of amounts due to related parties	11	(851,808)	(1,139,788)
Proceeds from long-term debt, net of finance fees	20	32,825,000	--
Repayment of long-term debt	20	(644,129)	--
		260,139,365	16,379,871
Cash used in investing activities:			
Issuance of promissory notes receivable	12	--	(200,000)
Repayment of promissory notes receivable	12	567,588	232,412
Investment in capital assets	13	(66,416,305)	(4,426,059)
Proceeds from disposal of capital assets	13	32,823	36,570
Investment in intangible assets, net of shares issued	14	(1,306,120)	(53,705)
Convertible note advanced to debtors	15	(1,500,000)	--
Purchase of equity investments	16	(25,365,692)	--
Investment in marketable securities		(109,268,749)	--
Proceeds from disposal of marketable securities		22,130,525	--
Investment in long-term investments	17	(28,097,293)	(1,560,200)
Proceeds from divestiture of long-term investments	28	7,196,044	--
		(202,027,179)	(5,970,982)
Increase in cash and cash equivalents		63,437,751	9,420,755
Cash and cash equivalents, beginning of year		16,472,664	7,051,909
CASH AND CASH EQUIVALENTS, END OF YEAR:		**$ 79,910,415**	$ 16,472,664

The accompanying notes are an integral part of these consolidated financial statements



1. NATURE OF OPERATIONS

Aphria Inc. (the "Company" or "Aphria") was continued in Ontario.

Pure Natures Wellness Inc. (o/a Aphria) ("PNW"), a wholly-owned subsidiary of the Company, is licensed to produce and sell medical marijuana under the provisions of the *Access to Cannabis for Medical Purposes Regulations* ("ACMPR"). The registered office is located at 5300 Commerce Court West, 199 Bay Street, Toronto, Ontario.

The Company's common shares are listed under the symbol "APH" on the Toronto Stock Exchange ("TSX") and under the symbol "APHQF" on the United States OTCQB Venture Market exchange.

These consolidated financial statements were approved by the Company's Board of Directors on July 11, 2017.

2. BASIS OF PREPARATION

(a) Statement of compliance
The policies applied in this consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC").

(b) Basis of measurement
These financial statements have been prepared on the going concern basis, under the historical cost convention except for certain financial instruments that are measured at fair value and biological assets that are measured at fair value less costs to sell, as detailed in the Company's accounting policies.

(c) Functional currency
The Company and its subsidiaries' functional currency, as determined by management, is Canadian dollars. These consolidated financial statements are presented in Canadian dollars.

(d) Basis of consolidation
Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

WHOLLY OWNED SUBSIDIARIES	JURISDICTION OF INCORPORATION
Pure Natures Wellness Inc.	Ontario
Aphria (Arizona) Inc.	Arizona
CannWay Pharmaceuticals Ltd	Ontario

Intragroup balances, and any unrealized gains and losses or income and expenses arising from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity. Unrealized losses are eliminated to the extent of the gains, but only to the extent that there is no evidence of impairment.

(e) Foreign currency translation
All figures presented in the consolidated financial statements are reflected in Canadian dollars, which is the functional currency of the Company.

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

The assets and liabilities of foreign operations, including marketable securities, long-term investments and promissory note payable, are translated in Canadian dollars at year-end exchange rates. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates. Exchange differences resulting from translating foreign operations are recognised in other comprehensive income and accumulated in equity.

(f) Interest in equity-accounted investees
The Company's interest in equity accounted investees is comprised of its interest in associates.

EQUITY ACCOUNTED INVESTEE	JURISDICTION OF INCORPORATION
DFMMJ Investments, Ltd.	British Columbia

In accordance with IFRS 10, associates are those in which the Company has significant influence, but not control or joint control over the financial and accounting policies.

Interests in associates are accounted for using the equity method in accordance with IAS 28. They are recognized initially at cost, which includes transaction costs. After initial recognition, the consolidated financial statements include the Company's share of the profit or loss and other comprehensive income ("OCI") of equity accounted investees until the date on which significant influence ceases.

If the Company's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 3(i).

The Company treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Company. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to the owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by the Company are as follows:

a. Revenue
Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is recognized when all the following conditions have been satisfied, which are generally met once the products are shipped to customers.

- The Company has transferred the significant risks and rewards of ownership of the goods to the purchaser;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company recognized revenue from consulting services on a straight-line basis over the term of its consulting agreement with a third party as the services are provided.

Amounts disclosed as revenue are net of allowances, discounts and rebates.

b. Cash and cash equivalents
Cash and cash equivalents are comprised of cash and highly liquid investments that are readily convertible into known amounts of cash with original maturities of three months or less.

c. Marketable securities
Marketable securities are comprised of liquid investments in federal, provincial and/or corporate bonds with maturities less than 3.5 years. Marketable securities are recognized initially at fair value and subsequently adjusted to fair value through profit or loss ("FVTPL").

d. Inventory
Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Inventories of harvested cannabis are transferred from biological assets into inventory at their fair value at harvest less costs to sell, which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. Packaging and supplies are initially valued at cost.

e. Biological assets
The Company's biological assets consist of medical cannabis plants which are not yet harvested. These biological assets are measured at fair value less costs to sell and costs to complete. At the point of harvest, the biological assets are transferred to inventory at fair value less costs to sell and costs to complete.

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

f. Capital assets

Capital assets are stated at cost, net of accumulated amortization and accumulated impairment losses, if any.

Amortization is calculated using the following terms and methods:

Land	Not amortized	No term
Greenhouse infrastructure	Straight-line	20 years
Bearer plants	Unit of Production	Number of units
Production equipment	Straight-line	5 – 10 years
Office equipment	Straight-line	3 – 5 years
Automotive equipment	Straight-line	10 years
Leasehold improvements	Straight-line	over lease term
Construction in progress	Not amortized	no term

An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the consolidated statements of income and comprehensive income in the year the asset is derecognized.

The assets' residual values, useful lives and methods of amortization are reviewed at each financial year end, and adjusted prospectively if appropriate.

g. Intangible assets

Intangible assets are comprised of an e-commerce platform, a purchased private label brand, licenses and permits as well as a licensing agreement with a third party. All are recorded at cost less accumulated amortization. Amortization of the e-commerce platform is recorded on a straight-line basis over the estimated useful life of 2 years. Amortization of the private label brand is recorded on a straight-line basis over the remaining useful life of 15 months. Amortization for the licenses and permits is recorded on a straight-line basis over the estimated useful life of 90 months. Amortization of the licensing agreement is recorded on a straight-line basis over the estimated useful life of 60 months.

h. Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of subsidiaries over the fair value of the net tangible and intangible assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

i. Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit, or "CGU"). An impairment loss is recognized for the amount, if any, by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and the value in use (being the present value of expected future cash flows of the asset or CGU). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized.

j. Income taxes

Income tax expense consisting of current and deferred tax expense is recognized in the consolidated statements of income and comprehensive income. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

k. Earnings per share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year. The dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

l. Share-based compensation

The Company has a stock option plan in place. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Fair value is measured using the Black-Scholes option pricing model. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. Any revisions are recognized in the consolidated statements of income and comprehensive income such that the cumulative expense reflects the revised estimate.

m. Research and development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures that do not meet the above criteria are recognized in the consolidated statements of income and comprehensive income as incurred.

n. Financial instruments

Financial assets and other financial liabilities are classified into one of four categories:

- FVTPL;
- held-to-maturity ("HTM");
- available for sale ("AFS"); and
- loans and receivables.

(i) FVTPL financial assets

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL. Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in the consolidated statements of income and comprehensive income. Transaction costs are expensed as incurred.

(ii) HTM investments

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs and subsequently at amortized cost.

(iii) AFS financial assets

AFS financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories. Gains and losses arising from changes in fair value are recognized in other comprehensive income.

(iv) Loans and receivables

Loans and receivables are financial assets having fixed or determinable payments that are not quoted in an active market. They are initially recognized at the transaction value and subsequently carried at amortized cost less, when material, a discount to reduce the loans and receivables to fair value.

(v) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statements of income and comprehensive income. With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized; the previously recognized impairment loss is reversed through the consolidated statements of income and comprehensive income.

(vi) Financial liabilities and other financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities at FVTPL are stated at fair value, with changes being recognized through the consolidated statements of income and comprehensive income. Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(vii) Embedded derivatives

The Company has convertible loans receivables whereby balances can be converted into equity. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Derivatives are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognised in profit or loss.

(viii) Classification of financial instruments

Cash and cash equivalents – FVTPL
Marketable securities – FVTPL
Accounts receivables – loans and receivables
Other receivables – loans and receivables
Promissory notes receivable – loans and receivables
Convertible note receivable – AFS
Embedded derivative – embedded derivatives
Long-term investments – FVTPL
Accounts payable and accrued liabilities – other financial liabilities
Promissory note payable – other financial liabilities
Long-term debt – other financial liabilities

(ix) Determination on fair value of long-term investments

All long-term investments (other than Level 3 warrants) are initially recorded at the transaction price, being the fair value at the time of acquisition. Thereafter, at each reporting period, the fair value of an investment may be adjusted using one or more of the valuation indicators described below. These are included in Level 3 in Note 17. Warrants of private companies are carried at their intrinsic value.

o. Critical accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

The determination of fair value of the Company's long-term investments at other than initial cost are subject to certain limitations. Financial information for private companies in which the Company has investments may not be available and, even if available, that information may be limited and/or unreliable.

Use of the valuation approach described below may involve uncertainties and determinations based on the Company's judgment and any value estimated from these techniques may not be realized or realizable.

Company-specific information is considered when determining whether the fair value of a long-term investment should be adjusted upward or downward at the end of each reporting period. In addition to company-specific information, the Company will take into account trends in general market conditions and the share performance of comparable publicly-traded companies when valuing long-term investments.

The fair value of long-term investments may be adjusted if:

- There has been a significant subsequent equity financing provided by outside investors at a valuation different than the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place;
- There have been significant corporate, political, or operating events affecting the investee company that, in management's opinion, have a material impact on the investee company's prospects and therefore its fair value. In these circumstances, the adjustment to the fair value of the investment will be based on management's judgment and any value estimated may not be realized or realizable;
- The investee company is placed into receivership or bankruptcy;
- Based on financial information received from the investee company, it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern;
- Important positive/negative management changes by the investee company that the Company's management believes will have a positive/negative impact on the investee company's ability to achieve its objectives and build value for shareholders.

Adjustment to the fair value of a long-term investment will be based upon management's judgment and any value estimated may not be realized or realizable. The resulting values for non-publicly traded investments may differ from values that would be realized if a ready market existed.

BIOLOGICAL ASSETS AND INVENTORY

Management is required to make a number of estimates in calculating the fair value less costs to sell of biological assets and harvested cannabis inventory. These estimates include a number of assumptions such as estimating the stage of growth of the cannabis, harvesting costs, sales price, and expected yields.

ESTIMATED USEFUL LIVES, IMPAIRMENT CONSIDERATIONS AND AMORTIZATION OF CAPITAL AND INTANGIBLE ASSETS

Amortization of capital and intangible assets is dependent upon estimates of useful lives based on management's judgment.

Goodwill and indefinite life intangible asset impairment testing requires management to make critical estimates in the impairment testing model. On an annual basis, the Company tests whether goodwill and indefinite life intangible assets are impaired.

Impairment of definite long-lived assets is influenced by judgment in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses.

The recoverable value of goodwill, indefinite and definite long-lived assets is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

SHARE-BASED COMPENSATION

The fair value of share-based compensation expenses are estimated using the Black-Scholes option pricing model and rely on a number of estimates, such as the expected life of the option, the volatility of the underlying share price, the risk free rate of return, and the estimated rate of forfeiture of options granted.

p. New standards and interpretations issued but not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended May 31, 2017 and have not been applied in preparing these consolidated financial statements:

IFRS 9 - Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, introduces new requirements for the classification, measurement and derecognition of financial instruments and introduces a new impairment model for financial assets. The Company has performed a preliminary assessment of the potential impact of the adoption of IFRS9 on its consolidated financial statements based on its positions at May 31, 2017, which are discussed below.

CLASSIFICATION AND MEASUREMENT

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS9 largely retains the existing requirements in IAS39 for the classification of financial liabilities. Based on its preliminary assessment, the Company does not believe that the new classification requirements will have a significant impact on its consolidated financial statements.

IMPAIRMENT

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. Applying the ECL model will require considerable judgment, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments, and to contract assets. The Company is currently assessing the impact of this change on its consolidated financial statements and is continuing to assess the impact of the ECL model on its other financial assets.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The Company will apply the new rules retrospectively from June 1, 2018 with the practical expedients permitted under the standards. Comparatives will not be restated.

IFRS 15 - Revenue from Contracts with Customers, effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, specifies how and when to recognize revenue and enhances relevant disclosures to be applied to all contracts with customers. The Company continues to assess the impact of the standard on its investees with a focus on consulting contracts and royalty fees.

The Company is still considering the impact on its customer loyalty programme, which is currently under consideration. The new standard will require that the total consideration received be allocated to the points and goods based on relative stand-alone selling prices rather than based on the residual method.

The Company intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of adoption will be recognized in retained earnings as of June 1, 2018 and that comparatives will not be restated.

IFRS 16 – Leases, in January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and a lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. Early adoption is permitted if IFRS 15 has also been adopted. Based on its current assets, interests and investments, no significant impact is anticipated from the new standard.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

The Company has reclassified certain immaterial items on the comparative consolidated statements of income and comprehensive income to improve clarity.

4. DISCLOSURE OF BUSINESS TRANSACTION

Effective January 13, 2016, Aphria acquired 100% of the issued and outstanding shares of CannWay Pharmaceuticals Inc. ("CannWay"). CannWay provides support services to veteran and first responders in the form of medical consultations, group therapy, and rehabilitation.

Pursuant to the acquisition, Aphria issued 3,600,000 common shares at $1.23 per share to the former shareholders of CannWay, of which 1,800,000 shares are being held in escrow and will be either (i) released to the former shareholders of CannWay, based on the achievement of certain operating metrics or (ii) released to the Company for cancellation, if the operating metrics are not achieved by December 31, 2018.

The shares held in escrow are recorded as equity and will be continuously evaluated and adjusted based on the probability of the operating metrics being achieved, as of May 31, 2017 management expects 0% of the remaining milestones to be achieved by December 31, 2018.

Purchase price allocation was as follows:		
Net tangible assets acquired	$	--
Intangible asset – CannWay brand		4,428,000
Goodwill		1,200,000
Deferred tax liability		(1,200,000)
TOTAL PURCHASE PRICE RECORDED	**$**	**4,428,000**

Net tangible assets acquired included the following:		
Cash held in trust to fund liabilities outstanding at closing	$	269,717
Accounts receivable		91,872
Accounts payable		(219,505)
HST payable		(58,107)
Income taxes payable		(83,977)
NET TANGIBLE ASSETS ACQUIRED	**$**	**--**

The CannWay brand was originally being amortized, beginning January 2016, over 10 years on a straight-line basis. Subsequent to an impairment adjustment applied in February 2017, management revised its estimate for the remaining useful life and is amortizing the brand over 15 months from date of impairment on a straight-line basis.

Goodwill arose in the acquisition of the CannWay brand because the cost of the acquisition reflected revenue growth and the future market development of the brand. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

Acquisition costs of $10,375 have been expensed in the prior year under General and administrative. Costs of issuing equity of $85,384 were applied against the fair value of the equity issued at the time of the acquisition.

5. REVERSE ACQUISITION

In December 2015, the Company completed its proposed transaction between Black Sparrow and PNW as previously disclosed in July 2015. PNW amalgamated with a new and direct wholly-owned subsidiary of Black Sparrow to become a direct, wholly-owned subsidiary of Black Sparrow. Black Sparrow changed its name to Aphria Inc. and remained as the resulting issuer. The transaction constituted the qualifying transaction of Black Sparrow under the policies of the TSX-V.

Immediately prior to the completion of the transaction, Black Sparrow consolidated its issued and outstanding common shares on the basis of one post-consolidation common share for each ten pre-consolidation common shares held. By way of a three-cornered amalgamation, Black Sparrow acquired all of the issued and outstanding shares of PNW by issuing one post-consolidation share for each PNW common share held. Each of the stock options and warrants to purchase common shares of PNW thereafter was exercisable for one post-consolidation common share of Aphria Inc.

This transaction has been accounted for as a reverse acquisition that does not constitute a business combination. For accounting purposes, the legal subsidiary, PNW, has been treated as the acquirer and Black Sparrow, the legal parent, has been treated as the acquiree.

CONSIDERATION TRANSFERRED (2,300,000 SHARES AT A PRICE OF $1.10 PER SHARE)	**$**	**2,530,000**
Net assets acquired		
Cash and cash equivalents	$	79,188
Other receivables		16,358
Accounts payable and accrued liabilities		(33,566)
		61,980
Excess attributed to cost of listing		
		2,468,020
	$	**2,530,000**
Listing cost:		
Excess attributed to cost of listing	$	2,468,020
Legal		570,034
Professional, consulting and other fees		240,014
	$	**3,278,068**

For accounting purposes, these consolidated financial statements reflect a continuation of the financial position, operating results and cash flows of the Company's legal subsidiary, PNW.

6. INCOME TAXES AND DEFERRED INCOME TAXES

A reconciliation of income taxes at the statutory rate with the reported taxes is as follows:

	FOR THE TWELVE MONTHS ENDED MAY 31	
	2017	**2016**
Income (loss) before income taxes	$ 4,332,217	$ (802,039)
Statutory rate	26.5%	26.5%
Expected income tax expense (recovery) at combined basic federal and provincial tax rate	1,148,037	(212,540)
Effect on income taxes of:		
Permanent differences	--	(101,560)
Business combination	--	1,200,000
Non-deductible share-based compensation and other expenses	658,759	--
Non-taxable portion of gains	(533,658)	--
Utilization of tax attributes not previously recognized	(876,608)	(1,331,062)
Deductible share issuance costs	(285,953)	--
Other	22,916	--
Tax assets not recognized	269	(754,838)
	$ 133,762	**$ (1,200,000)**

Deferred income tax assets and liabilities have not been recognized in respect of the following deductible temporary differences:

	FOR THE YEAR ENDED MAY 31	
	2017	**2016**
Non-capital loss carry forward	$ --	$ 785,964
Undepreciated capital cost in excess of net book value	--	183,157
Cumulative eligible capital	--	695,356
Deductible share issuance costs to be claimed	**$ --**	**$ 1,968,361**

The following table summarizes the components of deferred tax:

	MAY 31, 2017	MAY 31, 2016
Deferred tax assets		
Non-capital loss carry forward	$ 1,312,849	$ 1,171,189
Capital loss carryforward	380,362	--
Share issuance and financing fees	3,448,332	--
Undepreciated capital cost in excess of net book value	--	159,873
Other	34,138	--
Deferred tax liabilities		
Net book value in excess of undepreciated capital cost	(164,027)	--
Intangible assets in excess of tax costs	(193,890)	(1,124,528)
Unrealized gain	(914,019)	--
Biological assets and inventory in excess of tax costs	(589,175)	(206,534)
Net deferred tax assets	**$ 3,314,570**	**$ --**

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in net deferred tax assets (liabilities) during the year:

	MAY 31, 2017	MAY 31, 2016
Balance at beginning of year	$ --	$ --
Recognized in net income	(133,762)	1,200,000
Recognized in goodwill	--	(1,200,000)
Recognized in equity	3,448,332	--
Other	--	--
Balance at end of year	**$ 3,314,570**	**$ --**

The Company has non-capital losses available for deduction against taxable income that expire as follows:

FISCAL YEAR ENDING MAY 31,	
2031	$ 1,284
2032	74,702
2033	67,880
2034	81,588
2035	399,860
2036	793,742
2037	3,535,092
	$ 4,954,148

7. MARKETABLE SECURITIES

Marketable securities are classified as fair value through profit or loss, and are comprised of:

	S&P RATING AT PURCHASE	EFFECTIVE INTEREST RATE	MATURITY DATE	MAY 31, 2017	MAY 31, 2016
Ford Motor Credit Co. LLC	BBB	3.320%	12/19/17	1,988,184	--
Ford Motor Credit Co. LLC	BBB	3.700%	08/02/18	1,036,613	--
Ford Motor Credit Co. LLC	BBB	3.140%	06/14/19	5,206,828	--
Goldman Sachs	A	3.375%	02/01/18	5,078,194	--
Canadian Western Bank	A-	2.531%	03/22/18	3,038,997	--
Royal Bank of Canada	AA-	2.770%	12/11/18	5,179,711	--
Sobeys Inc.	BBB-	3.520%	08/08/18	3,078,141	--
Molson Coors Brewing Company	BBB-	3.950%	10/06/17	1,116,524	--
Canadian Western Bank	A-	3.077%	01/14/19	1,534,717	--
Sunlife Financial	A-	2.770%	05/13/19	3,063,816	--
Canadian Natural Resources Limited	BBB+	3.050%	06/19/19	2,053,607	--
Canadian Western Bank	A-	3.463%	12/17/19	1,027,752	--
Laurentian Bank	BBB	2.500%	01/23/20	6,098,888	--
Enercare Solutions Inc.	BBB	4.600%	02/03/20	4,007,550	--
Enbridge Inc.	BBB+	4.530%	03/09/20	5,394,630	--
Central 1 Credit Union	A+	1.870%	03/16/20	5,020,565	--
Choice Property REIT	BBB	3.600%	04/20/20	5,236,870	--
Penske Truck Leasing Co., L.P.	BBB	2.950%	06/12/20	5,145,483	--
Westcoast Energy Inc.	BBB	4.570%	07/02/20	5,429,820	--
The Manufacturer's Life Insurance Company	AA-	2.819%	02/26/18	1,471,818	--
Bank of Montreal (USD)	A+	1.400%	04/10/18	4,051,775	--
Citigroup Inc. (USD)	BBB	2.050%	12/17/18	4,081,546	--
Royal Bank of Canada (USD)	AA-	1.625%	04/15/19	4,039,998	--
Wells Fargo & Company (USD)	A	2.150%	01/30/17	3,964,760	--
				$ 87,346,787	**$ --**

The cost of marketable securities as at May 31, 2017 was $87,138,224 (2016 – $nil). During the year, the company divested of $22,130,525 (2016 - $nil) of marketable securities in its Canadian portfolio, converted the proceeds to United States dollars and then re-invested the United States dollars in its U.S. portfolio.

8. OTHER RECEIVABLES

Other receivables are comprised of:

	MAY 31, 2017	MAY 31, 2016
HST receivable (payable)	$ 3,675,188	$ (35,909)
Accrued interest	700,827	98,197
Credit card receivable	103,004	64,621
Other	32,620	43
	$ 4,511,639	**$ 126,952**

9. INVENTORY

Inventory is comprised of:

	MAY 31, 2017	MAY 31, 2016
Harvested cannabis	$ 2,506,963	$ 1,714,897
Harvested trim	420,322	--
Cannabis oil	682,056	165,060
Packaging and supplies	277,266	208,893
	$ 3,886,607	**$ 2,088,850**

Cost of inventory is recognized as an expense and included in cost of sales. Included in costs of sales for the year ended May 31, 2017 is $99,252 of cannabis oil conversion costs and $58,176 related to the cost of accessories.

The Company holds 668.5 kilograms of harvested cannabis (2016 – 457.3 kgs), 140.1 kilograms of harvested trim (2016 – nil kgs) and 1,091.3 litres of cannabis oils or 181.9 kilograms equivalent (2016 – 264.1 litres or 44.1 kilograms equivalent), at May 31, 2017.

10. BIOLOGICAL ASSETS

Biological assets are comprised of:

	AMOUNT
Balance as at May 31, 2016	$ 697,997
Cost incurred until harvest	4,188,319
Effect of unrealized changes in fair value of biological assets	5,004,615
Transferred to inventory upon harvest	(8,415,957)
Transferred to capital assets	(112,225)
BALANCE AS AT MAY 31, 2017	**$ 1,362,749**

Net effect of changes in fair value of biological assets and inventory include:

	AMOUNT
Unrealized change in fair value of biological assets	$ (5,004,615)
Realized fair value increments on inventory sold in the year	3,560,690
	$ (1,443,925)

The Company values medical cannabis plants at cost from the date of initial clipping from mother plants until the end of the twelfth week of its growing cycle. Measurement of the biological asset at fair value less costs to sell and costs to complete begins at the thirteenth week until harvest. The Company has determined the fair value less costs to sell of harvested cannabis to be $3.75 a gram. The Company has determined the fair value less costs to sell of its collected trim to be $3.00 a gram, upon harvest.

The net effect of the fair value less cost to sell over and above historical cost was an increase in non-cash value of inventory of $1,443,925 during the year ended May 31, 2017 (2016 – decrease of $4,646). In determining the fair value of biological assets, management is required to make several estimates, including: the expected cost required to grow the cannabis up to the point of harvest; harvesting costs; selling costs; sales price; and, expected yields for the cannabis plant. All of which represent Level 3 on the fair value hierarchy. These estimates are subject to volatility in market prices and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

11. RELATED PARTY 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 balance owing to related parties as at May 31, 2017 was $nil (May 31, 2016 - $nil). These parties are related as they are corporations that are controlled by certain officers and directors of the Company.

During the twelve months ended May 31, 2017, related party corporations charged or incurred expenditures on behalf of the Company (including rent) totalling $387,892 (2016 - $1,139,788). Included in this amount was rent of $49,389 charged during the twelve months ended May 31, 2017 (2016 - $193,593).

The Company funded the start-up costs and operations of DFMMJ Investments, Ltd., a related party through an equity investment. The balance owing from the related party as at May 31, 2017 was $463,916 (May 31, 2016 - $nil).

	AMOUNT
Balance as at May 31, 2016	$ --
Related party charges in year	387,892
Payments to related parties in year	(387,892)
Payments made on behalf of related parties in year	(463,916)
BALANCE DUE TO (FROM) RELATED PARTIES AS AT MAY 31, 2017	**$ (463,916)**

During the year, the Company purchased 36 acres of farm land, with 9 acres of greenhouses located thereon, from F.M. and Cacciavillani Farms Ltd., a company controlled by a director, for $6.1 million. The purchase price was allocated as follows: (i) $1.3 million to land; (ii) $3.55 million to greenhouse infrastructure; and, (iii) $1.25 million to licenses and permits – intangible assets.

Key management personnel compensation was comprised of:

	MAY 31, 2017	MAY 31, 2016
Salaries	$ 828,924	$ 752,337
Short-term employment benefits (included in office and general)	84,176	31,846
Share-based compensation	594,400	247,574
	$ 1,507,500	$ 1,031,757

Directors and officers of the Company control 13.7% or 19,017,866 of the voting shares of the Company.

12. PROMISSORY NOTES RECEIVABLE

	MAY 31, 2016	ADDITIONS	PAYMENTS	MAY 31, 2017
Note receivable - $100,000, bearing interest at prime + 3%, one-year term, collected during the year	$ 93,039	$ --	$ 93,039	$ --
Note receivable - $500,000, bearing interest at 3%, repayable in 24 equal blended monthly instalments, collected during the year	274,549	--	274,549	--
Note receivable - $100,000, non-interest bearing, one-year term, collected during the year	100,000	--	100,000	--
Note receivable - $100,000, non-interest, one-year term, collected during the year	100,000	--	100,000	--
	$ 567,588	**$ --**	**$ 567,588**	**$ --**

13.CAPITAL ASSETS

	LAND	GREENHOUSE INFRASTRUCTURE	BEARER PLANTS	EQUIPMENT	LEASEHOLD IMPROVEMENTS	CONSTRUCTION IN PROCESS	TOTAL CAPITAL ASSETS
Cost							
At May 31, 2015	$ --	$ --	$ --	$ 1,450,011	$ 2,231,612	$ 304,701	$ 3,986,324
Additions	--	--	--	1,051,980	221,204	3,152,875	4,426,059
Transfers	--	--	--	1,033,433	2,359,337	(3,392,770)	--
Disposals	--	--	--	(35,896)	--	--	(35,896)
At May 31, 2016	--	--	--	3,499,528	4,812,153	64,806	8,376,487
Additions	10,724,551	4,018,080	112,225	1,699,989	16,129	49,957,556	66,528,530
Transfers	104,283	12,151,836	--	173,834	(4,565,987)	(7,863,966)	--
Disposals	--	--	(66,613)	(32,823)	--	--	(99,436)
AT MAY 31, 2017	**$ 10,828,834**	**$ 16,169,916**	**$45,612**	**$ 5,340,528**	**$ 262,295**	**$ 42,158,396**	**$ 74,805,581**
Accumulated amortization							
At May 31, 2015	$ --	$ --	$ --	$ 172,860	$ 187,303	--	$ 360,163
Amortization	--	--	--	387,992	325,563	--	713,555
Disposals	--	--	--	(6,451)	--	--	(6,451)
At May 31, 2016	--	--	--	554,401	512,866	--	1,067,267
Amortization	--	457,891	--	717,207	74,435	--	1,249,533
Transfers	--	524,749	--	--	(524,749)	--	--
Disposals	--	--	--	(11,367)	--	--	(11,367)
AT MAY 31, 2017	**$ --**	**$ 982,640**	**$ --**	**$ 1,260,241**	**$ 62,552**	**$ --**	**$ 2,305,433**
Net book value							
At May 31, 2015	--	--	--	$ 1,277,151	$ 2,044,309	$ 304,701	$ 3,626,161
At May 31, 2016	--	--	--	$ 2,945,127	$ 4,299,287	$ 64,806	$ 7,309,220
AT MAY 31, 2017	**$ 10,828,834**	**$ 15,187,276**	**$ 45,612**	**$ 4,080,287**	**$ 199,743**	**$ 42,158,396**	**$ 72,500,148**

Included in cost of goods sold is $66,613 of expense related to the disposition and usage of bearer plants.

During the year, the Company disposed of capital assets with a net book value of $21,456 for proceeds of $32,823.

14. INTANGIBLE ASSETS

	CORPORATE WEBSITE	LICENSES & PERMITS	TOKYO SMOKE LICENSING AGREEMENT	CANNWAY BRAND	TOTAL INTANGIBLE ASSETS
Cost					
At May 31, 2015	$ 107,995	$ --	$ --	$ --	$ 107,995
Additions	53,705	--	--	4,428,000	4,481,705
At May 31, 2016	161,700	--	--	4,428,000	4,589,700
Additions	56,120	1,250,000	459,480	--	1,765,600
AT MAY 31, 2017	**$ 217,820**	**$1,250,000**	**$ 459,480**	**$4,428,000**	**$ 6,355,300**
Accumulated amortization					
At May 31, 2015	$ 33,397	$ --	$ --	$ --	$ 33,397
Additions	54,123	--	--	184,500	238,623
At May 31, 2016	87,520	--	--	184,500	272,020
Additions	67,845	152,879	56,939	414,380	692,043
Impairment	--	--	--	3,500,000	3,500,000
AT MAY 31, 2017	**$ 155,365**	**$ 152,879**	**$ 56,939**	**$ 4,098,880**	**$ 4,464,063**
Net book value					
At May 31, 2015	$ 74,598	$ --	$ --	$ --	$ 74,598
At May 31, 2016	$ 74,180	$ --	$ --	$ 4,243,500	$ 4,317,680
AT MAY 31, 2017	**$ 62,455**	**$ 1,097,121**	**$ 402,541**	**$ 329,120**	**$ 1,891,237**

The Company valued the purchase price for the Tokyo Smoke license agreement based on the fair value of the shares (note 21) and warrants (note 22) issued as part of the transaction.

In February 2017, the Company recorded an impairment of its intangible asset for the CannWay brand following the changes to reimbursement allowances for veterans, as announced by Veterans Affairs Canada ("VAC"). The changes announced by VAC lowered the reimbursement amount to $8.50 per gram and effective May 26, 2017, limited individual patients usage to 3.0 grams per day. Subsequent to its impairment test management concluded a write-down of $3,500,000 be applied to the value of the CannWay brand, and has reflected this on the statement of income and comprehensive income. In quantifying the impairment, the Company compared the carrying value as at the measurement date to its recoverable amount. The Company calculated its recoverable amount using the discounted cash flow technique, forecasting future sales attributable to the CannWay patient base over the remaining useful life based on the revised cap on VAC reimbursement policies combined with our current cost structure, net present valuing the result using a 15% discount rate.

15. CONVERTIBLE NOTE RECEIVABLE

	NOTES RECEIVABLE		EMBEDDED DERIVATIVE	
	MAY 31, 2017	MAY 31, 2016	**MAY 31, 2017**	MAY 31, 2016
CannaRoyalty Corp.	**$ 1,360,548**	$ --	**$ 173,000**	$ --

CANNAROYALTY CORP.

On October 19, 2016, Aphria loaned $1,500,000 to CannaRoyalty Corp. ("CR") as a convertible debenture. The convertible debenture bears interest at 5%, paid annually, matures in three years and includes the right to convert the debenture into common shares of CR at $2.00 per common share at any time before maturity. CR maintains the option of forced conversion of the convertible debenture if the common shares of CR trade on a stock exchange at a value of $4.00 or more.

The option to settle payments in common shares represents an embedded derivative in the form of a call option to the Company. This derivative asset is initially recognized by comparing a similar instrument without the conversion option and discounting the fair value of the host contract with the non-convertible instrument interest rate. The fair value of the derivative asset related to the convertible note is $173,000 at May 31, 2017.

As at May 31, 2017, the convertible note receivable totalled $1,533,548.

16. INTEREST IN EQUITY ACCOUNTED INVESTEE

	MAY 31, 2017	MAY 31, 2016
DFMMJ Investments, Ltd.	**$ 28,376,092**	$ --

DFMMJ INVESTMENTS, LTD.

On April 5, 2017 Aphria announced a strategic investment in DFMMJ Investments, Ltd. ("DFMMJ"), where DFMMJ, through a subsidiary, acquired all or substantially all of the assets of Chestnut Hill Tree Farm LLC ("Chestnut") and will subsequently amalgamate into a subsidiary of SecureCom Mobile Inc., as part of a business combination. As part of the steps involved in the business combination, Aphria first exchanged rights to use its intellectual property, Aphria's Know-How System ("System") to DFMMJ as part of a licensing agreement in exchange for common shares, where through an arm's length negotiation, the parties determined a value of $5,000,000 for the licensed use of the System. As a result of this in-kind transaction Aphria was issued 192,400,000 common shares in DFMMJ. Aphria is deemed to have significant influence over DFMMJ due to its resulting equity interest (44.2%), whereby the investment is valued under the equity method. For accounting purposes, the Company recorded the transaction at $2,800,000, representing its non-owned interest in the equity accounted investee.

DFMMJ and its board of directors elected to use April 30th as its year-end date for the reporting period ended April 30, 2017 DFMMJ reported net earnings of $478,200 for its fiscal period. In accordance with the equity method, Aphria recorded income of $210,400 from its investee relative to its ownership of the outstanding common shares at the time. As of April 30, 2017, DFMMJ has incurred no major capital spending, has no contingent liabilities and has yet to begin commercial activity. On May 24, 2017, DFMMJ completed its proposed transaction with Chestnut at a cost of $40,000,000 USD ($54,168,620 Cdn).

The following table summarizes, in aggregate, the financial information of the Company's associate as included in their own financial statements. The table also reconciles the summarized financial information to the carrying amount of the Company's interest as at May 31, 2017:

	APRIL 30, 2017	**APRIL 30, 2016**
Current assets	$ 5,723,960	$ --
Non-current assets	5,000,000	--
NET ASSETS	**10,723,960**	**--**

	MAY 31, 2017	**MAY 31, 2016**
Reconciliation to carrying amount		
Opening net assets June 1, 2016	--	--
Intangible asset contributed	5,000,000	--
Cash contributions	792,600	--
Cash contributions on May 24, 2017	50,167,600	--
Profit for the period ended April 30th	478,200	--
Closing net assets	**56,438,400**	--
Company's share in %	46.1%	
Company's share of net assets	$ 26,018,102	$ --
Fair value adjustment due to profit elimination	(2,200,000)	--
Goodwill	4,557,990	**--**
CARRYING AMOUNT OF INTEREST IN ASSOCIATE	**$ 28,376,092**	**$ --**

On May 24, 2017, the Company released $25,311,794, comprised of $625,000 Cdn and $18,340,857 USD, which itself was comprised of $24,375,000 Cdn converted into USD in March 2017 as required in the business combination agreement ($24,686,794 Cdn), from escrow to DFMMJ, after satisfaction of the escrow release conditions. In addition, the Company incurred $53,898 of transaction fees related to the investment. In exchange, the Company received 120,192,308 common shares of DFMMJ. Concurrently, DFMMJ issued a further 120,192,308 common shares to third parties in exchange for $25,000,000 Cdn in cash. As a result of these transactions, the Company owns 312,592,308 common shares in DFMMJ, representing approximately 46.1% of DFMMJ's issued and outstanding common shares.

Based on the most recent financing transaction share price, the DFMMJ shares held by Aphria have a fair value of approximately $65,000,000.

17. LONG-TERM INVESTMENTS

	COST AND FAIR VALUE MAY 31, 2016	INVESTMENT	DIVESTITURE (COST)	COST MAY 31, 2017	CUMULATIVE CHANGE IN FAIR VALUE	FAIR VALUE MAY 31, 2017
Level 1 on fair value hierarchy						
CannaRoyalty Corp.	$ 1,510,200	$ 1,625,000	$ (1,755,712)	$ 1,379,488	$ 413,512	$ 1,793,000
Kalytera Therapeutics, Inc.	--	3,014,320	--	3,014,320	(1,903,360)	1,110,960
MassRoots, Inc.	--	945,000	(436,575)	508,425	53,850	562,275
SecureCom Mobile Inc.	--	520,000	--	520,000	1,144,000	1,664,000
Tetra Bio-Pharma Inc.	--	2,300,000	--	2,300,000	7,200,000	9,500,000
Canabo Medical Inc.	--	8,854,033	(7,694,607)	1,159,426	(843,426)	316,000
	$ 1,510,200	$ 17,258,353	$ (9,886,894)	$ 8,881,659	$ 6,064,576	$ 14,946,235
Level 3 on fair value hierarchy						
Ample Organics Inc.	$ 50,000	$ --	$ (50,000)	$ --	$ --	$ --
Copperstate Farms, LLC	--	1,755,000	--	1,755,000	--	1,755,000
Copperstate Farm Investors, LLC	--	7,538,940	--	7,538,940	21,060	7,560,000
Resolve Digital Health Inc.	--	718,000	--	718,000	282,012	1,000,012
Resolve Digital Health Inc.	--	282,000	--	282,000	(40,000)	242,000
Green Acre Capital Fund	--	300,000	--	300,000	(15,669)	284,331
Scythian Biosciences Inc.	--	2,000,000	--	2,000,000	--	2,000,000
	$ 50,000	$ 12,593,940	$ (50,000)	$ 12,593,940	$ 247,403	$ 12,841,343
	$ 1,560,200	**$29,852,293**	**$ (9,936,894)**	**$21,475,599**	**$ 6,311,979**	**$27,787,578**

At year end, the Company has concluded that the fair value and carrying value of the Level 3 investments are equal to the most recent financing transactions, which represent the best proxy for fair value. The fair value attached to warrants in both Level 1 and Level 3 were determined using the Black-Scholes option pricing model.

CANNAROYALTY CORP.

On September 9, 2016, Aphria exercised 750,000 warrants, issued by CR to acquire 750,000 common shares of CR for $1,125,000 and subsequently purchased an additional 250,000 common shares of CR for $500,000 on September 27, 2016. In addition, CR licenced, for a five-year period, its Canadian portfolio of cannabis products in exchange for a 5% royalty fee paid by Aphria. In December 2016, Aphria sold 1,300,000 shares for total proceeds of $3,539,050, through three separate transactions, realizing a gain of $1,908,746 on disposal. On May 17, 2017, Aphria sold 100,000 shares for total proceeds of $198,000, realizing a gain of $72,592 on disposal. In summary, during the year the Company sold 1,400,000 common shares for proceeds of $3,737,050, realizing a gain of $1,981,338 on disposal. On May 31, 2017, CR shares closed trading at $1.63. As a result of these transactions, the Company holds 1,100,000 common shares at a cost of $1,379,488, with a fair value of $1,793,000.

KALYTERA THERAPEUTICS, INC.

On November 7, 2016, Aphria entered into a subscription agreement with Kalytera Therapeutics, Inc. ("Kalytera"). The Company purchased 2,500,000 subscription receipts at a price of $0.40 per receipt for a total of $1,000,000. On December 30, 2016, the Company's subscription receipts converted into common shares of Kalytera on a one-for-one basis. On January 31, 2017, Aphria subscribed for an additional 2,222,000 common shares of Kalytera for a purchase price of $999,900 pursuant to a private placement which closed on February 7, 2017. On February 22, 2017, the Company purchased an additional 1,450,000 common shares of Kalytera in the secondary market at a price of $0.70 per share for a total of $1,014,420. On May 31, 2017, Kalytera shares closed trading at $0.18 per share. As a result of these transactions, the Company owns 6,172,000 common shares in Kalytera for aggregate costs of $3,014,320 and a fair value of $1,110,960.

MASSROOTS, INC.

On October 18, 2016, Aphria purchased 500,000 common shares of MassRoots, Inc. ("MassRoots") for an aggregate purchase price of $250,000 USD ($337,500 Cdn) and received warrants to purchase an additional 500,000 common shares at $0.90 USD per common share, expiring October 17, 2019. Subsequent to October 18, 2016, Aphria divested itself of its 500,000 common shares of MassRoots for total proceeds of $600,599, realizing a gain of $263,099 on disposal. On March 30, 2017, the Company exercised its 500,000 warrants held in MassRoots for the aggregate price of $450,000 USD ($607,500 Cdn) and received an additional 500,000 common shares, subject to a six-month hold under MassRoots long-term incentive plan. During April and May, the Company sold 150,000 common shares for total proceeds of $123,395, realizing a gain of $24,320. In summary, during the year the Company sold 650,000 common shares for proceeds of $723,994, recognizing a gain of $287,419. On May 31, 2017, MassRoots shares closed trading at $0.49 USD ($0.66 Cdn). As a result of these transactions, the Company holds 850,000 shares at a cost of $508,425 with a fair value of $562,275.

SECURECOM MOBILE INC.

On November 23, 2016, Aphria invested $200,000 in SecureCom Mobile Inc. ("SecureCom") via an unsecured convertible debenture. The debenture bore interest at 12% and was convertible into equity at $0.05 per share, and included the right to a warrant for each share of equity on conversion, priced at $0.08. The warrant expired on December 1, 2019 and the conversion right expired November 20, 2018. On March 31, 2017, the Company exercised its conversion rights under the debenture and received 4,000,000 shares and 4,000,000 warrants priced at $0.08. Concurrently, the Company exercised its warrants at a cost of $320,000 and received an additional 4,000,000 shares. On May 31, 2017, SecureCom shares last traded at $0.46, however they were considered to have a fair value of $0.208 per share based on the DFMMJ and SecureCom business combination agreement. As a result of these transactions, Aphria owns 8,000,000 shares in SecureCom at a cost of $520,000 with a fair value of $1,664,000.

TETRA BIO-PHARMA INC.

On December 6, 2016, Aphria purchased 5,000,000 common shares of Tetra Bio-Pharma Inc. ("TBP") at a price of $0.20 per share for an aggregate purchase price of $1,000,000, pursuant to a private placement. As part of the transaction, Aphria also received 5,000,000 warrants, each for conversion into one common share, at a price of $0.26 per warrant for a period of three years. The warrants were subject to an accelerated expiry if TBP's shares traded above $0.45 for 30 consecutive trading days at which time the warrants became subject to a 30-day expiry period if not exercised. On March 20, 2017, the Company exercised its 5,000,000 warrants held in TBP for the aggregate price of $1,300,000. On May 31, 2017, TBP shares closed trading at $0.95 per share. As a result of these transactions, the Company owns 10,000,000 common shares at a cost of $2,300,000, with a fair value of $9,500,000.

CANABO MEDICAL INC.
On December 23, 2016, Aphria purchased 6,000,000 common shares of Canabo Medical Inc. at a price of $1.40 per common share for an aggregate price of $8,483,333, including issuance costs, pursuant to a private placement. On March 9, 2017, the Company sold 500,000 shares held in Canabo Medical Inc. for net proceeds of approximately $340,000, realizing a loss of $360,000, which were subject to a mandatory 4-month holding period, expiring April 23, 2017. The Company purchased 500,000 shares on March 13, 2017 for an aggregate purchase price of $370,700. In May 2017, the Company sold 5,200,000 shares held in Canabo Medical Inc. for net proceeds of approximately $2,345,000, realizing a loss of $4,649,607 on disposal. On May 31, 2017, Canabo Medical Inc. closed trading at $0.40 per share. As a result of these transactions, the Company owns 800,000 common shares with a cost of $1,159,426 and a fair value of $316,000.

AMPLE ORGANICS INC.
On May 31, 2017, Aphria received proceeds of $50,000 from Ample Organics Inc., the same amount as its initial investment.

COPPERSTATE FARMS
On October 27, 2016, Aphria entered into an intellectual property ("IP") transfer agreement with Copperstate Farms, LLC ("Copperstate"). Under the terms of the agreement, Aphria licensed its IP to Copperstate in exchange for 5,000 membership units in Copperstate through a consulting agreement which will be used to forgive payments otherwise owing on a $1,300,000 USD ($1,755,000 Cdn) promissory note in eight equal quarterly installments beginning in February 2017. On the same date, Aphria made a direct cash contribution of $1,300,000 USD ($1,755,000 Cdn) to Copperstate Farms Investors, LLC, the parent company of Copperstate, in return for 2,600 membership units. On December 20, 2016, Aphria made a further investment of $1,300,000 USD ($1,733,940 Cdn) in Copperstate Farms Investors, LLC for 2,600 membership units. On March 27, 2017, the Company purchased an additional 6,000 additional membership units for $3,000,000 USD ($4,050,000 Cdn). The Company has determined that due to a current open membership unit offering at the same price, the Company's carrying value and fair value are equal. As a result of these transactions, the Company owns 5,000 membership units in Copperstate for total cost of $1,300,000 USD ($1,755,000 Cdn), with a fair value of $1,755,000 and owns 11,200 membership units in Copperstate Farms Investors, LLC for a total cost of $5,600,000 USD ($7,538,940 Cdn) with a fair value of $7,560,000.

RESOLVE DIGITAL HEALTH INC.
On December 1, 2016, Aphria purchased 10,432 common shares of Resolve Digital Health Inc. ("Resolve") and an equivalent number of common share purchase warrants for gross proceeds of $1,000,000. Following a stock split in January 2017, Aphria now owns 2,000,024 common shares and 2,000,024 common share purchase warrants of Resolve, exercisable at $0.65 per warrant at any time for a period expiring five years from the date of issuance. The warrants contain a forced conversion provision if Resolve trades on a public stock exchange at a price of more than $1.30 for a period of at least 30 days. The Company has determined that due to a recent financing at the same price, the Company's carrying value of the shares is equal to its fair value. The fair value of the warrants have been valued using the Black Scholes model. As a result of these transactions, the Company owns 2,000,024 common shares and 2,000,024 warrants at a total cost of $1,000,000, with a fair value of $1,242,012.

GREEN ACRE CAPITAL FUND
On January 23, 2017, Aphria agreed to invest in Green Acre Capital Fund. In relation to its participation, the Company committed $2,000,000 to the expected $30,000,000 fund and as of the balance sheet date has invested $300,000. At May 31, 2017, the Company determined that the fair value of its investment was $284,331.

SCYTHIAN BIOSCIENCES INC.
On March 17, 2017, the Company entered into a subscription agreement with Scythian Biosciences Inc. The Company purchased 5,000,000 subscription receipts at a price of $0.40 per receipt for a total of $2,000,000. At May 31, 2017, the subscription receipts have yet to converted into common shares.

18. BANK INDEBTEDNESS

The Company secured an operating line of credit in the amount of $1,000,000 which bears interest at the lender's prime rate plus 75 basis points. As of the end of the year, the Company has not drawn on the line of credit. The operating line of credit is secured by first charge on 265 Talbot St West, Leamington, Ontario, and a first ranking position on a general security agreement.

19. PROMISSORY NOTE PAYABLE

	MAY 31, 2016	ADDITIONS	REDUCTION	MAY 31, 2017
Note payable to Copperstate Farms, LLC - $1,300,000 USD ($1,755,000), bearing nominal interest, two-year term, repayable in eight quarterly instalments of $162,500 USD in exchange for the provision of consulting services	$ --	$ 1,755,000	$ 511,875	$ 1,243,125
Deduct – principal portion included in current liabilities	--	--	--	(877,500)
	$ --	$ 1,755,000	$ 511,875	$ 365,625

20. LONG-TERM DEBT

	MAY 31, 2017	MAY 31, 2016
Term loan – $25,000,000 – 3.95%, compounded monthly, 15-year amortization due in April 2022.	$ 25,000,000	$ --
Term loan – $1,250,000 – 3.99%, 5-year term, with a 10-year amortization, repayable in equal monthly instalments of $12,630 including interest, due in July 2021.	1,163,971	--
Mortgage payable – $3,750,000 – 3.95%, 5-year term, with a 20-year amortization, repayable in equal monthly instalments of $22,562 including interest, due in July 2021.	3,645,240	--
Vendor take-back mortgage owed to related party – $2,850,000 – 6.75%, 5-year term, repayable in equal monthly instalments of $56,097 including interest, due in June 2021	2,396,660	--
	$ 32,205,871	$ --
Deduct – unamortized finance fees	(20,417)	--
– principal portion included in current liabilities	(765,224)	--
	$ 31,420,230	**$ --**

Total long-term debt repayments are as follows:

	YEAR ENDING MAY 31,
Next 12 months	$ 765,224
2 years	811,480
3 years	860,675
4 years	913,003
5 years	28,855,489
Balance of obligation	**$ 32,205,871**

The term loan of $25,000,000 was entered into on May 9, 2017 and is secured by a first charge on the Company's real estate holdings, a first position on a general security agreement, certain cash security and an assignment of fire insurance to the lender.

The mortgage payable of $3,645,240 and term loan of $1,163,971 were entered into on July 22, 2016 and are secured by a first charge on the property at 265 Talbot St West and a first position on a general security agreement.

The vendor take-back mortgage payable of $2,396,660, owed to a director of the Company, was entered into on June 30, 2016 in conjunction with the acquisition of the property at 265 Talbot St West. The mortgage is secured by a second charge on the property at 265 Talbot St West.

21. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares. As at May 31, 2017, the Company has issued 138,628,704 shares, of which 675,000 shares were held and subject to various escrow agreements.

COMMON SHARES	NUMBER OF SHARES	AMOUNT
Balance at May 31, 2016	70,053,933	$ 40,916,880
Bought deals, net of issuance	52,081,752	204,414,423
Warrants exercised	15,251,165	23,646,825
Options exercised	1,053,095	1,533,513
Income tax recovery on share issuance costs	--	3,448,332
Share issuance in exchange for intangible asset	38,759	100,000
Shares earned in exchange for services	100,000	256,575
Shares held in escrow for services not yet earned	50,000	--
BALANCE AT MAY 31, 2017	**138,628,704**	**$ 274,316,548**

a) In August 2016, the Company closed a bought deal financing in which it issued 17,250,000 common shares at a purchase price of $2.00 per share for $31,959,093, net of cash issuance costs and taxes.
b) In November 2016, the Company closed a bought deal financing in which it issued 10,062,500 common shares at a purchase price of $4.00 per share for $37,263,475, net of cash issuance costs and taxes.
c) In February 2017, the Company closed a bought deal financing in which it issued 11,500,000 common shares at a purchase price of $5.00 per share for $53,869,357, net of cash issuance costs and taxes.
d) In May 2017, the Company closed a bought deal financing in which it issued 13,269,252 common shares at a purchase price of $6.50 per share for $81,322,498, net of cash issuance costs and taxes.
e) Throughout the year, 15,251,165 warrants with exercise prices ranging from $0.60 to $1.75 were exercised for $23,646,825.
f) Throughout the year, 1,053,095 stock options with exercise prices ranging from $0.60 to $3.90 were exercised for $1,533,513.
g) In September 2016, the Company issued 38,759 common shares pursuant to execution of an exclusive supply and licensing agreement.
h) In January 2017, the Company issued 150,000 common shares in escrow pursuant to a third party consulting agreement for greenhouse related services, net of cash issuance costs. These shares are earned straight-line over 12 months and released to the third party on a quarterly basis. At May 31, 2017, 100,000 common shares of the total shares in escrow have been released.

The following table presents the maximum number of shares that would be outstanding if all the dilutive "in the money" instruments outstanding as at May 31, 2017 were exercised:

Common shares outstanding at May 31, 2017	138,628,704
Warrants outstanding and "in the money"	3,885,908
Options outstanding and "in the money"	5,341,001
FULLY DILUTED BALANCE AT MAY 31, 2017	**147,855,613**

22. WARRANTS

The warrant details of the Company are as follows

TYPE OF WARRANT	EXPIRY DATE	NUMBER OF WARRANTS	WEIGHTED AVERAGE PRICE	AMOUNT
Compensation warrant / option	December 10, 2018	106,157	$ 1.75	$ 85,432
Warrant	December 11, 2018	327,923	1.75	--
Warrant	December 2, 2019	3,251,828	1.50	--
Warrant	September 26, 2021	200,000	3.14	359,480
BALANCE AT MAY 31, 2017		**3,885,908**	**$ 1.61**	**$ 444,912**

	MAY 31, 2017		MAY 31, 2016	
	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of the year	18,721,987	$ 1.51	18,093,728	$ 1.37
Expired during the year	(50,305)	1.20	--	--
Issued during the year	465,391	2.35	5,756,235	1.67
Exercised during the year	(15,251,165)	1.51	(5,127,976)	1.18
Cancelled during the year	--	--	--	--
OUTSTANDING, END OF YEAR	**3,885,908**	**$ 1.61**	**18,721,987**	**$ 1.51**

The Company used the Black Scholes option pricing model to determine the fair value of warrants granted using the following assumptions: risk-free rate of 0.44-1.56% on the date of grant; expected life of 3 and 5 years; volatility of 70% based on comparable companies; forfeiture rate of nil; dividend yield of nil; and, the exercise price of the respective warrant.

23. SHARE-BASED PAYMENT RESERVE

Share-based payment reserve is comprised of:

	MAY 31, 2017	MAY 31, 2016
Balance, beginning of year	$ 1,723,903	$ 1,261,589
Amounts deducted from share-based payment reserve in respect of stock options exercised during the year	(558,183)	--
Amounts charged to share-based payment reserve in respect of share-based compensation	2,064,209	462,314
BALANCE, END OF YEAR	$ 3,229,929	**$1,723,903**

24. STOCK OPTIONS

The Company adopted a stock option plan under which it is authorized to grant options to officers, directors, employees and consultants enabling them to acquire common shares of the Company. The maximum number of common shares reserved for issuance of stock options that may be granted under the plan is 10% of the issued and outstanding common shares of the Company. The options granted can be exercised for up to a maximum of 10 years and vest as determined by the Board of Directors. The exercise price of each option may not be less than the market price of the common shares on the date of grant.

The Company recognized a share-based compensation expense of $2,399,111 during the year ended May 31, 2017 (2016 - $462,314). The total fair value of options granted during the year was $4,221,974 (2016 - $320,500).

	MAY 31, 2017		MAY 31, 2016	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of the year	4,975,000	$ 0.84	4,520,000	$ 0.81
Exercised during the year	(1,121,999)	1.05	--	--
Issued during the year	2,253,000	3.99	565,000	1.13
Cancelled during the year	(180,000)	1.09	(110,000)	1.08
OUTSTANDING, END OF YEAR	**5,926,001**	**$ 1.99**	**4,975,000**	**$ 0.84**
EXERCISABLE, END OF YEAR	**3,919,542**	**$ 1.36**	**3,906,454**	**$ 0.76**

In June 2016, the Company issued 283,000 stock options at an exercise price of $1.40 per share, exercisable for 5 years to employees and officers. Of the options issued, 94,329 vest immediately and 188,671 vest over 2 years.

In June 2016, the Company issued 30,000 stock options at an exercise price of $1.48 per share, exercisable for 5 years to a consultant of the Company. Of the options issued, 15,000 vest immediately and 15,000 vest in 1 year.

In July 2016, the Company issued 110,000 stock options at an exercise price of $1.64 per share, exercisable for 5 years to an employee. Of the options issued, 50,000 vest immediately and 60,000 vest over three years.

In September 2016, the Company issued 75,000 stock options at an exercise price of $3.00 per share, exercisable for 3 years to consultants and employees of the company. 25,000 vest immediately and 50,000 vest based on certain performance metrics attainable over the three-year period.

In October 2016, the Company issued 20,000 stock options at an exercise price of $ 3.49 per share, exercisable for 3 years to an employee of the company. 6,666 vest immediately and 13,334 vest over two years.

In October 2016, the Company issued 50,000 stock options at an exercise price of $ 3.70 per share, exercisable for 3 years to a director of the company. All 50,000 vest immediately.

In November 2016, the Company issued 1,000,000 stock options at an exercise price of $3.90 per share, exercisable for 3 years to directors, officers, consultants and employees of the company. 333,333 vest immediately and 666,667 vest over 2 years.

In December 2016, the Company issued 500,000 stock options at an exercise price of $5.25 per share, exercisable for 3 years to consultants of the company. All 500,000 vest based on certain performance metrics attainable over the three-year period.

In January 2017, the Company issued 45,000 stock options at an exercise price of $5.72 per share, exercisable for 3 years to employees of the company. 5,000 vest immediately and the remainder vest over 2 years.

In April 2017, the Company issued 140,000 stock options at an exercise price of $7.92 per share, exercisable for 3 years to employees and consultants of the company. 44,999 vest immediately and the remainder vest over 2 years.

The option details of the Company are as follows:

EXPIRY DATE	EXERCISE PRICE	NUMBER OF OPTIONS	VESTED AND EXERCISABLE
November 2017	$ 1.10	35,000	35,000
December 2017	$ 1.10	650,000	95,760
March 2018	$ 0.90	20,000	20,000
October 2018	$ 1.17	20,000	13,333
November 2018	$ 1.49	20,000	20,000
December 2018	$ 1.30	170,000	170,000
April 2019	$ 1.67	33,500	33,500
June 2019	$ 0.60	2,500,000	2,500,000
September 2019	$ 3.00	75,000	31,635
October 2019	$ 3.49 – 3.70	70,000	56,666
November 2019	$ 3.90	996,167	329,323
December 2019	$ 5.25	500,000	166,665
January 2020	$ 5.72	45,000	14,998
April 2020	$ 7.92	140,000	44,999
September 2020	$ 0.85	185,000	185,000
November 2020	$ 1.19	50,000	50,000
June 2021	$ 1.40	276,334	87,663
June 2021	$ 1.48	30,000	15,000
July 2021	$ 1.64	110,000	50,000
BALANCE AT MAY 31, 2017	**$ 1.99**	**5,926,001**	**3,919,542**

The Company used the Black Scholes option pricing model to determine the fair value of options granted using the following assumptions: risk-free rate of 0.44-1.56% on the date of grant; expected life of 3 and 5 years; volatility of 62-70% based on comparable companies; forfeiture rate of 5%; dividend yield of nil; and, the exercise price of the respective option.

25. GENERAL AND ADMINISTRATIVE EXPENSES

	FOR THE TWELVE MONTHS ENDED MAY 31	
	2017	2016
Executive compensation	$ 828,924	$ 752,337
Consulting fees	219,619	39,723
Office and general	1,336,508	591,555
Professional fees	607,846	359,580
Salaries and wages	1,141,873	394,627
Travel and accommodation	463,914	242,237
Rent	79,370	45,064
	$ 4,678,054	**$ 2,425,123**

26. SHARE-BASED COMPENSATION

Share-based compensation is comprised of:

	MAY 31, 2017	MAY 31, 2016
Amounts charged to share-based payment reserve in respect of share-based compensation	$ 2,064,209	$ 462,314
Accrued share-based compensation	44,000	--
Shares for services compensation	262,500	--
Deferred share units expensed in the year	28,402	--
TOTAL SHARE-BASED COMPENSATION	**$ 2,399,111**	**$ 462,314**

During the year, the Company issued 5,240 deferred share units to certain directors of the Company, under the terms of the Company's Deferred Share Unit Plan.

27. FINANCE INCOME, NET

Finance income, net is comprised of:

	MAY 31, 2017	MAY 31, 2016
Interest income	$ 1,115,348	$ 281,497
Interest expense	(387,099)	--
	$ 728,249	**$ 281,497**

28. GAIN ON LONG-TERM INVESTMENTS

Gain on long-term investments for the year ended May 31, 2017 is comprised of:

INVESTMENT	PROCEEDS	COST	REALIZED GAIN (LOSS) ON DISPOSAL	CHANGE IN FAIR VALUE	TOTAL
Level 1 on fair value hierarchy					
CannaRoyalty Corp	$ 3,737,050	$ 1,755,712	$ 1,981,338	$ --	$ 1,981,338
MassRoots Inc.	723,994	436,575	287,419	--	287,419
Canabo Medical Inc.	2,685,000	7,694,607	(5,009,607)	--	(5,009,607)
Ample Organics Inc.	50,000	50,000	--	--	--
Long-term investments (Note 17)	--	--	--	6,311,979	6,311,979
YEAR ENDED MAY 31, 2017	**$ 7,196,044**	**$ 9,936,894**	**$ (2,740,850)**	**$ 6,311,979**	**$ 3,571,129**

29. EARNINGS PER SHARE

The calculation of earnings per share for the year ended May 31, 2017 was based on the net income attributable to common shareholders of $4,198,455 (2016 – $397,961) and a weighted average number of common shares outstanding of 104,341,319 (2016 – 58,442,827) calculated as follows:

	2017	2016
Basic earnings per share:		
Net income for the year	$ 4,198,455	$ 397,961
Average number of common shares outstanding during the year	104,341,319	58,442,827
EARNINGS PER SHARE	**$ 0.04**	**$ 0.01**

	2017	2016
Diluted earnings per share:		
Net income for the year	$ 4,198,455	$ 397,961
Average number of common shares outstanding during the year	104,341,319	58,442,827
“in the money” warrants outstanding during the year	2,697,681	--
“in the money” options outstanding during the year	4,388,893	--
	111,427,893	58,442,827
EARNINGS PER SHARE	**$ 0.04**	**$ 0.01**

30. CHANGE IN NON-CASH WORKING CAPITAL

Change in non-cash working capital is comprised of:

	MAY 31, 2017	MAY 31, 2016
Decrease (increase) in accounts receivable	$ 953,168	$ (1,778,679)
(Increase) decrease in other receivables	(4,384,687)	632,576
Change in inventory	6,618,200	(369,249)
Change in biological assets (note 10)	(4,188,319)	(409,139)
(Increase) decrease in prepaid assets	(899,468)	7,114
Increase in accounts payable and accrued liabilities	4,534,068	319,269
	$ 2,632,962	**$ (1,598,108)**

31. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS

The Company has classified its cash and cash equivalents, marketable securities and long-term investments, with the exception of the debenture in CannaRoyalty Corp., as fair value through profit or loss, accounts receivable and other receivables and promissory notes receivable as loans and receivables, and accounts payable and accrued liabilities, promissory notes payable, and long-term debt as other financial liabilities. The debentures in CannaRoyalty Corp. are accounted for on at fair value with changes in fair value of the debt instrument recorded through other comprehensive income and changes in the fair value of the embedded derivative recorded in the statement of operations. There was no change in the fair value of the debt instrument in the period.

The carrying values of other receivables, promissory notes receivable, accounts payable and accrued liabilities, and promissory notes payable approximate their fair values due to their short periods to maturity.

The Company’s long-term debt of $32,185,454 is subject to fixed interest rates. The Company’s long-term debt is valued based on discounting the future cash outflows associated with the long-term debt. The discount rate is based on the incremental premium above market rates for Government of Canada securities of similar duration. In each period thereafter, the incremental premium is held constant while the Government of Canada security is based on the then current market value to derive the discount rate. The fair value of the Company’s long-term debt in repayment as at May 31, 2017 was $32,154,410.

FAIR VALUE HIERARCHY

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. Cash and cash equivalents are Level 1. The hierarchy is summarized as follows:

Level 1	quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 2	inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data
Level 3	inputs for assets and liabilities not based upon observable market data

	LEVEL 1	LEVEL 2	LEVEL 3	MAY 31, 2017
Financial assets at FVTPL				
Cash and cash equivalents	$ 79,910,415	$ --	$ --	79,910,415
Marketable securities	87,346,787	--	--	87,346,787
Embedded derivative	--	--	173,000	173,000
Long-term investments	14,946,235	--	12,841,343	27,787,578
	$ 182,203,437	**$ --**	**$ 13,014,343**	**$ 195,217,780**

	LEVEL 1	LEVEL 2	LEVEL 3	MAY 31, 2016
Financial assets at FVTPL				
Cash and cash equivalents	$ 16,472,664	$ --	$ --	16,472,664
Long-term investments	--	--	1,560,200	1,560,200
	$ 16,472,664	$ --	$ 1,560,200	$ 18,032,864

The following table presents the changes in level 3 items for the periods ended May 31, 2017 and May 31, 2016:

	UNLISTED EQUITY SECURITIES	CONTINGENT CONSIDERATION	TRADING DERIVATIVES	TOTAL
Opening balance June 1, 2015	$ --	$ --	$ --	$ --
Acquisitions	1,560,200	--	--	1,560,200
Closing balance May 31, 2016	$ 1,560,200	$ --	$ --	$ 1,560,200
Acquisitions	12,766,940	--	--	12,766,940
Disposals	(50,000)	--	--	(50,000)
Reclassification to Level 1	(1,510,200)	--	--	(1,510,200)
Unrealized gain on fair value	247,403	--	--	247,403
CLOSING BALANCE MAY 31, 2017	**$13,014,343**	**$ --**	**$ --**	**$ 13,014,343**

Investments in CannaRoyalty originally classified as a level 3 investments were reclassified subsequent to the investee going public, where the Company could value its investment based on the share price quoted in active markets.

FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments: credit risk; liquidity; currency rate; and, interest rate price risk.

(a) Credit risk

The maximum credit exposure at May 31, 2017 is the carrying amount of cash and cash equivalents, marketable securities, accounts receivable and other receivables and promissory notes receivable. The Company does not have significant credit risk with respect to customers. All cash and cash equivalents are placed with major Canadian financial institutions. Marketable securities are placed with major Canadian investment banks and are represented by investment grade corporate bonds.

The Company mitigates its credit risk and volatility on its marketable securities through its investment policy, which permits investments in Federal or Provincial government securities, Provincial utilities or bank institutions and Investment grade corporate bonds.

	TOTAL	0-30 days	31-60 days	60-90 days	90+ days
Trade receivables	**$ 825,511**	$ 658,675	$ 29,598	$ 29,523	$ 107,715
		80%	4%	4%	12%

(b) Liquidity risk

As at May 31, 2017, the Company's financial liabilities consist of accounts payable and accrued liabilities, which has contractual maturity dates within one year, promissory note payable, which has a contractual maturity within 15 months and long-term debt, which has contractual maturities over the next five years. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company's working capital position at May 31, 2017, management regards liquidity risk to be low.

(c) Currency rate risk

As at May 31, 2017, a portion of the Company's financial assets and liabilities held in USD consist of marketable securities, long-term investments and a promissory note payable. The Company's objective in managing its foreign currency risk is to minimize its net exposure to foreign currency cash flows by transacting, to the greatest extent possible, with third parties in Canadian dollars. The Company does not currently use foreign exchange contracts to hedge its exposure of its foreign currency cash flows as Management has determined that this risk is not significant at this point in time.

(d) Interest rate price risk

The Company manages interest rate risk by restricting the type of investments and varying the terms of maturity and issuers of marketable securities. Varying the terms to maturity reduces the sensitivity of the portfolio to the impact of interest rate fluctuations.

(e) Capital management

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach in the year. The Company considers its cash and cash equivalents and marketable securities as capital.

32. COMMITMENTS

The Company has a lease commitment until December 31, 2018 for rental of office space from a related party. The Company has an option to extend this lease for two additional 5 year periods. In July of 2016, the Company terminated its lease of greenhouse and warehouse property in conjunction with the acquisition of the 265 Talbot Street West property. The Company has a lease commitments for the use of two motor vehicles expiring September 2019 and August 2020 in the amounts payable of $9,313 and $19,599, respectively, annually and leased office space in Toronto for $4,500 per month until September 2017. In April of 2017, the Company indemnified the landlord of the office space leased by DFMMJ Investments, Ltd. at 35 McCaul Street, Toronto. As discussed in note 17, the Company has agreed to contribute an additional $1,700,000 to Green Acre Capital Fund. Minimum payments payable over the next five years are as follows:

	FISCAL YEAR ENDING MAY 31,
2018	$ 8,884,858
2019	13,341,325
2020	21,927
2021	3,267
2022	--
	$ 22,251,377

The Company has purchase orders outstanding at May 31, 2017 related to capital asset expansion of $20,398,567.

33. SUBSEQUENT EVENTS

On June 1, 2017, the Company's subsidiary, CannWay was amalgamated with Pure Natures Wellness Inc. (o/a Aphria).

On June 22, 2017, the Company purchased land and buildings from a third party for approximately $500,000.

On June 28, 2017, the Company entered into a subscription agreement with Tokyo Smoke for the purchase of 140,845 common shares, for a total cost of $1,000,000.

Aphria