Aphria

POWERED BY SUNLIGHT

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
MAY 31, 2016 AND MAY 31, 2015

(Expressed in Canadian Dollars, unless otherwise noted)

APHRIA INC.

Management's Responsibility for the Consolidated Financial Statements

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, MNP LLP, and their report is presented herein.

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

July 7, 2016

APHRIA INC.

Independent Auditors' Report

To the Shareholders of Aphria Inc.:

We have audited the accompanying consolidated financial statements of Aphria Inc., which comprise the consolidated statements of financial position as at May 31, 2016 and May 31, 2015, and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aphria Inc. as at May 31, 2016 and May 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Toronto, Ontario
July 7, 2016

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

APHRIA INC.
Consolidated Statements of Financial Position

	NOTES	MAY 31, 2016	MAY 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents		$ 16,472,664	$ 7,051,909
Accounts receivable		1,778,679	--
Other receivables	8	126,952	759,528
Inventory	9	2,088,850	1,724,247
Biological assets	10	697,997	288,858
Prepaid assets		160,156	167,270
Current portion of promissory notes receivable	11	567,588	346,255
		21,892,886	10,338,067
Capital assets	12	7,309,220	3,626 161
Intangible assets	4 ,13	4,317,680	74,598
Promissory notes receivable	11	--	253,745
Long-term investments	14	1,560,200	--
Goodwill	4	1,200,000	--
		$ 36,279,986	$ 14,292,571
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		$ 1,266,492	$ 947,223
Shareholders' equity			
Share capital	16	40,916,880	20,246,095
Warrants	17	693,675	556,589
Share-based payment reserve	18	1,723,903	1,261,589
Deficit		(8,320,964)	(8,718,925)
		35,013,494	13,345,348
		$ 36,279,986	$ 14,292,571

Commitments (Note 23)
Subsequent events (Note 24)
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

APHRIA INC.
Consolidated statements of income (loss) and comprehensive income (loss)

		FOR THE YEAR ENDED	
	NOTES	MAY 31, 2016	MAY 31, 2015
Revenue		$ 8,433,929	$ 551,430
Cost of sales:			
Cost of goods sold, net		1,861,440	(104,599)
Amortization	12,13	590,415	324,171
Pre-distribution growing costs		--	321,028
Net effect of unrealized changes in fair value of biological assets	10	4,646	(784,021)
		2,456,501	(243,421)
Gross profit		5,977,428	794,851
Expenses:			
General and administrative	20	2,425,123	2,082,417
Share-based compensation	18	462,314	1,261,589
Selling, marketing and promotion		3,598,481	720,217
Amortization	12,13	361,763	56,707
Research and development		220,408	69,528
		7,068,089	4,190,458
Loss from operations		(1,090,661)	(3,395,607)
Listing costs		--	(3,278,068)
Finance income		281,497	130,231
Gain on sale of capital assets		7,125	--
Loss before income taxes		(802,039)	(6,543,444)
Income tax recovery	6	(1,200,000)	--
Net income (loss) and comprehensive income (loss)		$ 397,961	$ (6,543,444)
Weighted average number of common shares – basic & diluted		58,442,827	45,386,330
Earnings (loss) per share – basic & diluted	**21**	$ 0.01	$ (0.14)

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

APHRIA INC.
Consolidated Statements of Changes in Equity (Deficiency)

	NUMBER OF COMMON SHARES	SHARE CAPITAL (NOTE 16)	WARRANTS (NOTE 17)	SHARE-BASED PAYMENT RESERVE (NOTE 18)	DEFICIT	TOTAL
Balance at May 31, 2014	26,666,667	$ 2,500	$ --	$ --	$ (2,175,481)	$ (2,172,981)
Shares issued, net of issuance costs	10,346,253	5,535,748	216,261	--	--	5,752,009
Conversion of due to related parties	1,666,667	1,000,000	--	--	--	1,000,000
Subscription receipts, net of issuance costs	11,500,000	11,177,847	340,328	--	--	11,518,175
Shares retained by Black Sparrow shareholders	2,300,000	2,530,000	--	--	--	2,530,000
Share-based payments	--	--	--	1,261,589	--	1,261,589
Net loss for the year	--	--	--	--	(6,543,444)	(6,543,444)
Balance at May 31, 2015	52,479,587	$ 20,246,095	$ 556,589	$ 1,261,589	$ (8,718,925)	$ 13,345,348

	NUMBER OF COMMON SHARES	SHARE CAPITAL (NOTE 16)	WARRANTS (NOTE 17)	SHARE-BASED PAYMENT RESERVE (NOTE 18)	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**

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

APHRIA INC.
Consolidated Statements of Cash Flows

	NOTES	FOR THE YEAR ENDED MAY 31, 2016	MAY 31, 2015
Cash used in operating activities:			
Net income (loss) for the year		**$ 397,961**	$ (6,543,444)
Adjustments for:			
Income tax recovery	6	**(1,200,000)**	--
Amortization	12,13	**952,178**	380,878
Gain on sale of capital assets		**(7,125)**	--
Share-based compensation	18	**462,314**	1,261,589
Change in fair value of biological assets	10	**4,646**	(764,021)
Non-cash listing costs		**--**	2,468,020
Change in non-cash working capital	22	**(1,598,108)**	(2,246,039)
		(988,134)	(5,443,017)
Cash provided by financing activities:			
Share capital issued, net of cash issuance costs	16	**10,314,727**	17,270,184
Share capital issued on warrants exercised	16	**6,065,144**	--
Advances from related parties	15	**1,139,788**	574,951
Repayment of amounts due to related parties	15	**(1,139,788)**	(2,487,011)
		16,379,871	15,358,124
Cash used in investing activities:			
Investment in capital assets	12	**(4,426,059)**	(2,404,846)
Investment in intangible assets, net of share capital issued	13	**(53,705)**	(107,995)
Proceeds from disposal of capital assets	12	**36,570**	--
Issuance of promissory notes receivable	11	**(200,000)**	(600,000)
Repayment of promissory notes receivable	11	**232,412**	--
Net cash acquired in reverse takeover		**--**	79,188
Long-term investments	14	**(1,560,200)**	--
		(5,970,982)	(3,033,653)
Increase in cash and cash equivalents		**9,420,755**	6,881,454
Cash and cash equivalents, beginning of year		**7,051,909**	170,455
Cash and cash equivalents, end of year		**$ 16,472,664**	$ 7,051,909

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

APHRIA INC.
Notes to the Consolidated Financial Statements
For the years ended May 31, 2016 and May 31, 2015

1. NATURE OF OPERATIONS

Aphria Inc. (the "Company" or "Aphria") was incorporated under the Business Corporations Act (Alberta) on June 22, 2011 as Black Sparrow Capital Corp. ("Black Sparrow") and was continued in Ontario on December 1, 2014.

Pure Natures Wellness Inc. doing business as Aphria ("PNW"), a wholly-owned subsidiary of the Company, is licensed to produce and sell medical marijuana under the provisions of the *Marihuana for Medical Purposes Regulations* ("MMPR"). 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 TSX Venture Exchange ("TSX-V").

On December 2, 2014, the Company closed its qualifying transaction with PNW. The Company was a capital pool company prior to the transaction. The transaction was accounted for as a reverse acquisition.

These consolidated financial statements were approved by the Company's Board of Directors on July 7, 2016.

2. BASIS OF PREPARATION

(a) Statement of compliance

The policies applied in this consolidated financial statements are based on 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 or 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.

Subsidiaries	Jurisdiction of incorporation
Pure Natures Wellness Inc. (d/b/a Aphria)	Ontario
CannWay Pharmaceuticals Ltd.	New Brunswick

Intragroup balances, and any unrealized gains and losses or income and expenses arising from gains 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.

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.

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. 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.

d. Biological assets

The Company's biological assets consist of medical cannabis plants. 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.

e. Capital assets

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

Amortization is calculated using the following terms and methods:

Production equipment	Straight-line	5-10 years
Office equipment	Straight-line	3-5 years
Leasehold improvements	Straight-line	over lease term
Construction in progress		Not amortized no term

APHRIA INC.
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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.

f. Intangible assets

Intangible assets are comprised of an e-commerce platform and a purchased private label brand. Both 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 estimated useful life of 10 years.

g. 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.

h. Impairment of non-financial assets

Long-term non-financial assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may exceed its recoverable amount. 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.

i. 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.

j. Earnings (loss) per share

Basic earnings (loss) 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.

k. 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.

l. 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 are recognized in the consolidated statements of income and comprehensive income as incurred.

m. Financial instruments

Financial assets are classified into one of four categories:

- fair value through profit or loss ("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.

APHRIA INC.
Notes to the Consolidated Financial Statements
For the years ended May 31, 2016 and May 31, 2015

(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 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. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

(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) Classification of financial instruments
Cash and cash equivalents – FVTPL
Accounts receivables – loans and receivables
Other receivables – loans and receivables
Promissory notes receivable – loans and receivables
Long-term investments – FVTPL
Accounts payable and accrued liabilities – other financial liabilities
Due to related parties – other financial liabilities

(viii) Determination on fair value of long-term investments
All long-term investments (other than 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 (depending upon the circumstances) be adjusted using one or more of the valuation indicators described below. These are included in Level 3 in Note 5. Warrants of private companies are carried at their intrinsic value.

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 investment 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.

n. 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.

APHRIA INC.
Notes to the Consolidated Financial Statements
For the years ended May 31, 2016 and May 31, 2015

Biological assets and inventory

Management is required to make a number of estimates in calculating the fair value 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.

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.

Estimated useful lives 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.

o. 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, 2016 and have not been applied in preparing these consolidated financial statements.

Amendments to IAS 16 - Property Plant and Equipment and IAS 41 - Agriculture - The amendments bring bearer plants, which are used solely to grow produce, into the scope of IAS 16 so that they are accounted for in the same way as property, plant and equipment. The amendments are effective for annual periods beginning on or after January 1, 2016, with earlier application being permitted.

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 and measurement of financial instruments.

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 is assessing the impact of these revised standards.

The Company has reclassified certain 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, 2016 management expects 100% of 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 will be amortized over 10 years on a straight line basis. Amortization began in January 2016.

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 during the year under General and administrative on the consolidated statements of income (loss) and comprehensive income (loss). Costs of issuing equity of $85,384 have been applied against the fair value of the equity issued at the time of the acquisition.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Financial instruments

The Company has classified its cash and cash equivalents and long-term investments as fair value through the consolidated statements of income (loss) and comprehensive income (loss), accounts receivable, other receivables and promissory notes receivable as loans and receivables, and accounts payable and accrued liabilities as other financial liabilities.

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

APHRIA INC.
Notes to the Consolidated Financial Statements
For the years ended May 31, 2016 and May 31, 2015

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	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**

	LEVEL 1	LEVEL 2	LEVEL 3	2016
Financial assets at FVTPL				
Cash	$ 7,051,909	$ --	$ --	$ 7,051,909
	$ 7,051,909	$ --	$ --	$ 7,051,909

Fair value versus carrying amounts

The fair value of financial instruments, together with the carrying amounts shown in the statement of financial position, is as follows:

AS AT MAY 31, 2016	FVTPL	LOANS AND RECEIVABLES	CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS				
Cash and cash equivalents	$ 16,472,664	$ --	$ 16,472,664	$ 16,472,664
Accounts receivable	--	1,778,679	1,778,679	1,778,679
Other receivables	--	126,652	126,952	126,952
Long-term investments	1,560,200	--	1,560,200	1,560,200
	$ 18,032,864	**$ 1,905,631**	**$ 19,938,495**	**$ 19,938,495**

AS AT MAY 31, 2016	FVTPL	LOANS AND RECEIVABLES	CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS				
Cash and cash equivalents	$ 7,051,909	$ --	$ 7,051,909	$ 7,051,909
Other receivables	--	759,528	759,528	759,528
	$ 7,051,909	$ 759,528	$ 7,811,437	$ 7,811,437

Financial risk management

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

(a) Credit risk

The maximum credit exposure at May 31, 2016 is the carrying amount of cash and cash equivalents, 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.

	TOTAL	0-30 DAYS	31-60 DAYS	60-90 DAYS	90+ DAYS
Trade receivables	**$ 1,778,679**	$ 976,404	$ 494,845	$ 120,195	$ 187,235
		55%	28%	7%	10%

(b) Liquidity risk

As at May 31, 2016, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one year. 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, 2016, management regards liquidity risk to be low.

(c) 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 the capital structure and makes adjustments to 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. As at May 31, 2016, the Company has not entered into any debt financing. 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 ended May 31, 2016. The Company considers its cash and cash equivalents as capital.

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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	
	2016	2015
Loss before income taxes	$ 802,039	$ 6,543,444
Statutory rate	26.5%	26.5%
Expected income tax recovery at combined basic federal and provincial tax rate	(212,540)	(1,734,013)
Effect on income taxes of:		
Permanent differences	(101,560)	345,266
Business combination	1,200,000	--
Non-deductible transaction expenses	--	707,691
Utilization of tax attributes not previously recognized	(1,331,062)	--
Non-capital loss carryforwards acquired on reverse takeover	--	(39,980)
Tax assets not recognized	(754,838)	721,036
	$ (1,200,000)	$ --

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

	FOR THE TWELVE MONTHS ENDED MAY 31	
	2016	2015
Non-capital loss carry forward	$ 785,964	$ 4,088,398
Undepreciated capital cost in excess of net book value	183,157	393,558
Net book value in excess cumulative eligible capital	695,356	607,536
Deductible share issuance costs to be claimed	1,968,361	1,391,794

The following table summarizes the components of deferred tax:

	MAY 31, 2016	MAY 31, 2015
Deferred tax assets		
Non-capital loss carry forward	$ 1,171,189	$ 207,766
Undepreciated capital cost in excess of net book value	159,873	--
Deferred tax liablities		
Intangible assets in excess of tax costs	(1,124,528)	--
Biological assets and inventory in excess of tax costs	(206,534)	(207,766)
Net deferred tax assets and liabilities	$ --	$ --

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 liabilities during the year:

	MAY 31, 2016
Balance at beginning of year	
Recognized in net income	$ 1,200,000
Recognized in goodwill	(1,200,000)
Recognized in equity	--
Other	--
Balance at May 31, 2016	$ --

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	127,944
2034	3,487,455
2035	1,059,408
2036	507,850
	$ 5,258,643

7. REVERSE ACQUISITION

In December 2014, the Company completed its proposed transaction between Black Sparrow and PNW as previously disclosed in July 2014. 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 t he Company's legal subsidiary, PNW.

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8. OTHER RECEIVABLES

Other receivables are comprised of:

		MAY 31, 2016		MAY 31, 2015
HST (payable) receivable	**$**	**(35,909)**	$	657,041
Accrued interest receivable		**98,197**		58,965
Credit card receivable		**64,621**		30,634
Other		**43**		12,888
	$	**126,952**	$	759,528

9. INVENTORY

Inventory is comprised of:

		MAY 31, 2016		MAY 31, 2015
Harvested cannabis	**$**	**1,714,897**	$	1,655,259
Cannabis oil		**165,060**		--
Packaging and supplies		**208,893**		68,988
	$	**2,088,850**	$	1,724,247

10. BIOLOGICAL ASSETS

Biological assets, comprised entirely of live plants, are as follows:

		AMOUNT
Balance as at May 31, 2015	$	288,858
Increase in fair value less costs to sell due to biological transformation		5,255,279
Transferred to inventory upon harvest		(4,835,204)
Sale of biological assets		(10,936)
Balance as at May 31, 2016	**$**	**697,997**

The net effect of the fair value less cost to sell over and above historical cost was a decrease in non-cash value of inventory of $4,646 during the twelve months ended May 31, 2016 (2015 – increase of $784,021). In determining the fair value of biological assets, management is required to make a number of 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. These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future years.

The significant assumptions used in determining the fair value of medical cannabis plants are as follows:

- yield by plant; and,
- percentage of costs incurred for each stage of plant growth.

11. PROMISSORY NOTES RECEIVABLE

	MAY 31, 2015	ADDITIONS	PAYMENTS	MAY 31, 2016
Note receivable - $100,000, bearing interest at prime + 3%, one-year term, due in March 2017	$ 100,000	$ --	$ 6,961	**$ 93,039**
Note receivable - $500,000, bearing interest at 3%, repayable in 24 equal blended monthly instalments, due in May 2017	500,000	--	225,451	**274,549**
Note receivable - $100,000, non-interest bearing, one-year term, due in July 2016	--	100,000	--	**100,000**
Note receivable - $100,000, non-interest, one-year term, due in September 2016	--	100,000	--	**100,000**
	$ 600,000	$ 200,000	$ 232,412	**567,588**

Presented as:

	MAY 31, 2016	MAY 31, 2015
Current portion	**$ 567,588**	$ 346,255
Long-term portion	**--**	253,745
	$ 567,588	$ 600,000

12. CAPITAL ASSETS

	PRODUCTION EQUIPMENT	OFFICE EQUIPMENT	LEASEHOLD IMPROVEMENTS	CONSTRUCTION IN PROCESS	TOTAL CAPITAL ASSETS
Cost					
At May 31, 2014	$ 686,549	$ 32,002	$ 862,927	$ --	$ 1,581,478
Additions	539,818	191,642	1,368,685	304,701	2,404,846
At May 31, 2015	1,226,367	223,644	2,231,612	304,701	3,986,324
Additions	690,838	361,142	221,204	3,152,875	4,426,059
Transfer	1,033,433	--	2,359,337	(3,392,770)	--
Disposals	(35,896)	--	--	--	(35,896)
At May 31, 2016	**$ 2,914,742**	**$ 584,786**	**$ 4,812,153**	**$ 64,806**	**$ 8,376,487**
Accumulated amortization					
At May 31, 2014	$ 8,725	$ 1,241	$ 2,716	--	$ 12,682
Amortization	139,584	23,310	184,587	--	347,481
At May 31, 2015	148,309	24,551	187,303	--	360,163
Amortization	264,852	123,140	325,563	--	713,555
Disposals	(6,451)	--	--	--	(6,451)
At May 31, 2016	**$ 406,710**	**$ 147,691**	**$ 512,866**	**$ --**	**$ 1,067,267**
Net book value					
At May 31, 2015	$ 1,078,058	$ 199,093	$ 2,044,309	$ 304,701	$ 3,626,161
At May 31, 2016	**$ 2,508,032**	**$ 437,095**	**$ 4,299,287**	**$ 64,806**	**$ 7,309,220**

13. INTANGIBLE ASSETS

		OTHER INTANGIBLES		CANNWAY BRAND		TOTAL INTANGIBLE ASSETS
Cost						
At May 31, 2014	$	--	$	--	$	--
Additions		107,995		--		107,995
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**
Accumulated amortization						
At May 31, 2014	$	--	$	--	$	--
Amortization		33,397		--		33,397
At May 31, 2015		33,397		--		33,397
Amortization		54,123		184,500		238,623
At May 31, 2016	**$**	**87,520**	**$**	**184,500**	**$**	**272,020**
Net book value						
At May 31, 2015	$	74,598	$	--	$	74,598
At May 31, 2016	**$**	**74,180**	**$**	**4,243,500**	**$**	**4,317,680**

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14. LONG-TERM INVESTMENTS

		MAY 31, 2016		MAY 31, 2015
Ample Organics Inc.	$	50,000	$	--
Cannabis Royalties & Holdings Corp.		1,510,200		--
	$	**1,560,200**	$	--

In May 2016, the Company signed a subscription agreement for the acquisition of 1,500,000 common shares and 750,000 common share purchase warrants of Cannabis Royalties & Holdings Corp, collectively representing 10.51% of the outstanding common shares. The investment is considered a Level 3 financial instrument because the shares of Cannabis Royalties & Holdings Corp. are not quoted on a public market. At year-end, the Company has concluded that the fair value and carrying value of the investment are equal as the most recent financing of Cannabis Royaltiies & Holding Corp. was on May 18, 2016 and as at May 31, 2016 represents the best proxy for fair value.

In December, 2015, the Company signed an letter of intent to invest $187,500 in exchange for 3,750,000 common shares of Ample Organics Inc. The Company has paid a deposit of $50,000 on the equity investment, the subscription agreement has not yet been executed, the parties remain in negoiatations. The investment is considered a Level 3 finanical instrument because the shares of Ample Organics Inc. are not quoted on a public market.

15. 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, 2016 was $nil (May 31, 2015 - $nil). These parties are related as they are corporations that are controlled by certain officers and directors of the Company.

		AMOUNT
Balance as at May 31, 2015	$	--
Related party charges in year		1,139,788
Payments to related parties in year		(1,139,788)
Balance as at May 31, 2016	**$**	**--**

During the twelve months ended May 31, 2016, related party corporations charged or incurred expenditures on behalf of the Company (including rent) totalling $1,139,788 (2015 - $574,951). Included in this amount was rent of $193,593 charged during the twelve months ended May 31, 2016 (2015 - $105,935).

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Key management personnel compensation was comprised of:

	MAY 31, 2016	MAY 31, 2015
Salaries	$ 752,337	$ 418,077
Short-term employment benefits (included in office and general)	31,846	--
Share-based compensation	247,574	864,270
	$ 1,031,757	$ 1,282,347

Directors of the Company control 31.0% of the voting shares of the Company.

16. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares. As at May 31, 2016, the Company has issued 70,053,933 shares.

COMMON SHARES		NUMBER OF SHARES	AMOUNT
Balance at May 31, 2014		26,666,667	$ 2,500
Private placement, net of issuance costs	(a)	10,346,253	5,535,748
Conversion of due to related parties	(b)	1,666,667	1,000,000
Subscription receipts, net of issuance costs	(c)	11,500,000	11,177,847
Shares retained by Black Sparrow shareholders	(d)	2,300,000	2,530,000
Balance at May 31, 2015		52,479,587	$ 20,246,095
Bought deal, net of issuance costs	(e)	8,846,370	10,136,277
Cannway Pharmaceuticals Ltd. purchase	(f)	3,600,000	4,342,616
Warrants exercised	(g)	5,127,976	6,191,892
Balance at May 31, 2016		**70,053,933**	**$ 40,916,880**

a) In June 2014, the Company completed a private placement for 10,346,253 units for gross proceeds of $6,207,752. Each unit consists of a common share and one half of one common share purchase warrant. Each whole common share purchase warrant is exercisable for one common share at $1.20 per share for a period of 24 months expiring in June 2016. The full proceeds were allocated to share capital.

   Cash share issuance costs of $455,743 were paid and 618,333 compensation warrants were issued. Each compensation warrant is exercisable for one common share at an exercise price of $0.60 per share for a period of 5 years expiring in June 2019. The compensation warrants were valued at $216,261 and have been recorded in equity under Warrants.

b) An additional $1,000,000 of amounts due to related parties was settled with shares of the Company, at a price of $0.60 per share, for a total of 1,666,667 shares issued.

c) The Company completed a private placement raising aggregate gross proceeds of $12,650,000 through the sale of 11,500,000 subscription receipts (“Subscription Receipt”) at $1.10 per Subscription Receipt. Each Subscription Receipt was converted into one common share and one warrant of the Company. Each warrant is exercisable for one common share at a price of $1.50 for a period of 5 years expiring in December 2019.

   The Agents were paid, along with their reasonable expenses, a cash commission equal to seven percent (7%) of the gross proceeds raised in the private placement, excluding the proceeds raised in connection with the sale of Subscription Receipts to certain purchasers introduced to the Agents by Aphria for a total of $964,001. In addition, the Agents received 802,268 compensation options (“Compensation Options”) entitling them to subscribe for Subscription Shares and Subscription Warrants. Each Compensation Option shall be exercisable at a price of $1.10 for a period of 24 months expiring in December 2016. The Compensation Options were valued at $340,328 and have been recorded in equity under Warrants. Additional costs of $167,824 were incurred for legal and other share issuance costs. In April 2016 all of the Compensation Options were exercised, resulting in the issuance of 802,268 warrants with an exercise price of $1.50 expiring in December 2019, these warrants were valued at $213,580 and have been recorded in equity under Warrants.

d) As part of the reverse acquisition, 2,300,000 common shares were retained by Black Sparrow shareholders. These shares were valued at $1.10 for a total of $2,530,000.

e) In December 2015, the Company closed a bought deal financing in which it issued 8,846,370 units at $1.30 per unit for a total financing raise of $11,500,282. Each unit contained one common share and a half warrant at an exercise price of $1.75. The Company incurred cash issuance costs of $1,100,171 and issued 530,782 broker warrants at an exercise price of $1.30 for a period of 24 months expiring in December 2017. Each broker warrant entitles them to subscribe for one unit, these broker warrants were valued at $263,834 and have been recorded in equity under Warrants.

f) In January 2016, Aphria acquired 100% of Cannway Pharmaceuticals Ltd. in exchange for 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 cost of issuing equity of $85,384 has been applied against the fair value of the equity issued at the time of the acquisition.

g) Throughout the year, 4,325,708 warrants with an exercise price of $1.20 were exercised for 4,325,708 common shares.

17. WARRANTS

The warrant details of the Company are as follows:

TYPE OF WARRANT	EXPIRY DATE	NUMBER OF WARRANTS	WEIGHTED AVERAGE PRICE	AMOUNT
Warrant	June 3, 2016	847,419	$ 1.20	$ --
Compensation warrant / option	June 3, 2019	618,333	$ 0.60	216,261
Warrant	December 2, 2019	11,500,000	$ 1.50	--
Warrant	December 2, 2019	802,268	$ 1.50	213,580
Warrant	December 11, 2018	4,423,185	$ 1.75	--
Compensation warrant / option	December 11, 2017	530,782	$ 1.30	263,834
Balance at May 31, 2016		**18,721,987**	**$ 1.51**	**$693,675**

	MAY 31, 2016		MAY 31, 2015	
	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of the year	18,093,728	$ 1.37	--	--
Expired during the year	--	--	--	--
Exercised during the year	(5,127,976)	1.18	--	--
Issued during the year	5,756,235	1.67	18,093,728	1.37
Outstanding, end of year	**18,721,987**	**$ 1.51**	**18,093,728**	**$ 1.37**

During the year, 4,325,708 warrants with an exercise price of $1.20 expiring June 3, 2016 were exercised.

During the year, 802,268 compensation warrants with an exercise price of $1.10 expiring December 2, 2016 were exercised for $882,495. In connection with the transaction, the Company issued 802,268 warrants exercisable at $1.50 expiring on December 2, 2019.

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18. SHARE-BASED PAYMENT RESERVE

Share based payment reserve is comprised of:

	MAY 31, 2016	MAY 31, 2015
Balance, beginning of year	$ 1,261,589	$ --
Amounts charged to share-based payment reserve in respect of stock based compensation	462,314	1,261,589
Balance, end of year	**$ 1,723,903**	$ 1,261,589

19. 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 $462,314 during the year ended May 31, 2016 (2015 - $1,261,589). The total fair value of options granted during the year was $320,500 (2015 - $1,877,736).

	MAY 31, 2016		MAY 31, 2015	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of the year	4,520,000	$ 0.81	--	--
Expired during the year	--	--	--	--
Issued during the year	565,000	1.13	4,520,000	$ 0.81
Cancelled during the year	(110,000)	1.08	--	--
Outstanding, end of year	4,975,000	$ 0.84	4,520,000	$ 0.81
Exercisable, end of year	**3,906,454**	**$ 0.76**	**2,962,640**	**$ 0.66**

The option details of the Company are as follows:

EXPIRY DATE	EXERCISE PRICE	NUMBER OF OPTIONS	VESTED AND EXERCISABLE
November 2017	$ 1.10	480,000	325,000
December 2017	$ 1.10	940,000	213,120
March 2018	$ 0.90	205,000	195,000
April 2018	$ 1.18	155,000	5,000
August 2018	$ 0.93	10,000	10,000
October 2018	$ 1.17	20,000	6,667
November 2018	$ 1.49	20,000	20,000
December 2018	$ 1.30	195,000	195,000
April 2019	$ 1.67	50,000	36,667
June 2019	$ 0.60	2,600,000	2,600,000
August 2019	$ 1.10	50,000	50,000
September 2020	$ 0.85	200,000	200,000
November 2020	$ 1.19	50,000	50,000
Balance at May 31, 2016	**$ 0.84**	**4,975,000**	**3,906,454**

In August 2015, the Company issued 30,000 stock options at an exercise price of $0.93 per share, exercisable for 3 years. The options vest 1/3 immediately, 1/3 on the first anniversary of grant, and 1/3 on the second anniversary.

In September 2015, the Company issued 200,000 stock options at an exercise price of $0.85 per share, exercisable for 5 years. The options vested fully in December 2015.

In October 2015, the Company issued 20,000 stock options at an exercise price of $1.17 per share, exercisable for 3 years. The options vest 1/3 immediately, 1/3 on the first anniversary of grant, and 1/3 on the second anniversary.

In November 2015, the Company issued 50,000 stock options at an exercise price of $1.19 per share, exercisable for 5 years. The options vested immediately upon grant.

In November 2015, the Company issued 20,000 stock options at an exercise price of $1.49 per share, exercisable for 3 years. The options vested fully in November 2015.

In December 2015, the Company issued 195,000 stock options at an exercise price of $1.30 per share, exercisable for 3 years. The options vested fully in December 2015.

In April 2016, the Company issued 50,000 stock options at an exercise price of $1.67 per share, exercisable for 3 years. 20,000 options vest 1/3 immediately, 1/3 on the first anniversary of grant, and 1/3 on the second anniversary. The remaining 30,000 options vested immediately upon grant.

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The Company used the Black Scholes option pricing model to determine the fair value of options granted using the following assumptions: 0.64% risk-free rate; expected life of 3 & 5 years; volatility of 70% based on comparable companies; forfeiture rate of nil; dividend yield of nil; and, exercise price of the respective options.

20. GENERAL AND ADMINISTRATIVE EXPENSES

	FOR THE TWELVE MONTHS ENDED MAY 31	
	2016	**2015**
Executive compensation	**$ 752,337**	$ 679,692
Consulting fees	**39,723**	390,893
Office and general	**591,555**	380,063
Professional fees	**359,580**	259,488
Salaries and wages	**394,627**	162,235
Travel and accommodation	**242,237**	147,136
Rent	**45,064**	62,910
	$ 2,425,123	$ 2,082,417

21. EARNINGS (LOSS) PER SHARE

The calculation of earnings (loss) per share at May 31, 2016 was based on the net income attributable to common shareholders of $397,961 (2015: $6,543,444) and a weighted average number of common shares outstanding of 58,442,827 calculated as follows:

	2016	**2015**
Earnings (loss) per share:		
Net income (loss)	**$ 397,961**	$ (6,543,444)
Average number of common shares outstanding during the year	**58,442,827**	45,386,330
Earnings (loss) per share	**$ 0.01**	**$ (0.14)**

The outstanding ‘in-the-money’ options and warrants do not cause any dilution of earnings (loss) per share.

22. SUPPLEMENTAL CASH FLOW INFORMATION

Net change in non-cash working is comprised of:

	2016	2015
Accounts receivable	$ (1,778,679)	$ --
Other receivables	632,576	(743,170)
Inventory	(369,249)	(960,226)
Biological assets	(409,139)	(288,858)
Prepaids	7,114	(167,270)
Accounts payable and other accrued liabilities	319,269	(86,515)
	$ (1,598,108)	$ (2,246,039)

23. COMMITMENTS

The Company has a lease commitment until December 31, 2018 for the rental of greenhouse and office space from a related party. The Company has an option to extend this lease for two additional 5 year periods. The Company has a lease commitment until March 2019 for the rental of a motor vehicle in the amount of $20,228 annually. Minimum payments payable over the next five years are as follows:

FISCAL YEAR ENDING MAY 31,	
2017	$ 253,069
2018	253,069
2019	152,681
	$ 658,819

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24. SUBSEQUENT EVENTS

Subsequent to the year end, the Company's purchase agreement with Cacciavillani and F.M. Farms Ltd. (o/a CF Greenhouses) closed on June 30, 2016. As part of the transaction the Company acquired 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 greenhouse was $6.1 million and is considered a non-arm's length transaction because the vendor is a director and officer of the Company. $3.25 million of the purchase price was paid in cash on closing, on June 30, 2016, 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 million, subject to annual inflationary adjustments equal to the increases in the Consumer Price Index, which put option can only be exercised on upon certain operating metrics being achieved.

Subsequent to year end, shareholders of the Company exercised 797,414 warrants which were expiring June 3, 2016, through a number of individual transactions. As part of those transactions, the Company received $956,897 in cash.

Subsequent to year end, the Company granted 278,000 stock options to director, officers, employees and consultants of the Company. The stock options were granted for a 5-year term and vest one-third immediately, one-third on the first anniversary of the grant date and one-third on the second anniversary of the grant date. The stock options are exercisable at $1.40.