Setting the Standard.

aphria™

2018 Annual Report

Aphria is a worldwide leader in the production, distribution and supply of high-quality cannabis.

Our Mission:
Led by our passion for customers and consumers, Aphria's mission is to be the premier global cannabis company through an unrelenting commitment to our people, product quality and innovation.

Our Vision:
Aphria's vision is to be the best performing cannabis company globally, providing investors with access to the most accretive cannabis opportunities around the world.

WE HAVE A GOOD THING GROWING.


255,000 kg
combined annual production
One of the largest
fully-funded production capabilities
in the industry in early 2019

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With a strong foundation in place, Aphria is driving sustainable long-term shareholder value through a diversified approach to innovation, strategic partnerships and global expansion, while effectively mitigating risk in the rapidly evolving cannabis industry.

Vic Neufeld
Chief Executive Officer

A key pillar to success is not just to forecast the future, but to act now in anticipation. The Executive Team, together with amazing Board support, is executing on this fundamental tenet. In fiscal 2018, we embarked on numerous initiatives that set the standard in the cannabis industry and laid the foundation for our future success. We achieved record revenue and adjusted EBITDA and executed on our strategy to be the premier global cannabis company.

We completed the fully-funded Part III expansion on our Aphria One facility in Leamington, Ontario. The Part IV and V expansions, and joint venture of Aphria Diamond, will bring added technology and automation and accelerate our operations. I was also thrilled to announce our Extraction Centre of Excellence, which will produce world-class cannabis concentrates. Driven alongside our leading agricultural specialists and environmentally sustainable practices, we now expect to harvest 255,000 kgs annual production of quality industry-leading cannabis by January 2019, while maintaining our low-cost producer status.

Investments abroad in many countries where cannabis has been medically approved were well thought-out and strategically important. We are bringing our experience and established growing know-how to the most strategic opportunities in markets where cannabis is legal today. Through our Nuuvera acquisition and other investments, we are now recognized or licensed by health authorities in over 10 countries across five continents. This work was done well in advance of the expected "green rush", demonstrating our ability to forecast and act on what the future will bring. As cannabis is legalized around the world, the cost of entry in many of these markets will only rise for competitors.

We are increasingly bringing the Aphria quality story to other markets globally and leveraging new opportunities to create further shareholder value.

These results reflect the strength and discipline of our leadership team. This past year, we welcomed Jakob Ripshtein as Chief Commercial Officer and Dr. Christelle Gedeon as Chief Legal Counsel. Both have exceptional experience in regulated industries and affairs and add depth and leadership across the organization. As part of our regular review of governance practices, we also adopted a formal governance policy regarding investments and other opportunities. The requirement for good governance has never been more important as we achieve our corporate objectives.

Looking ahead, all eyes are on adult-use recreational cannabis legalization in Canada on October 17th – a day to remember and celebrate. Our Broken Coast and Aphria recreational brands, including Solei, will finally come to life. These brands, supported by strong marketing, the Great North Distributors brand activation teams and appropriate pricing, are poised to resonate with a wide variety of potential consumers, from the novice user to the enthusiast. We will be at the forefront as new products and intake forms get regulatory approvals. Through both in-house expertise and external alliances and joint ventures, we are bringing breakthrough innovation to the cannabis market and key drivers of growth.

As Aphria continues our path forward, we are committed to finding the best opportunities that set the industry standard and deliver long-term shareholder value. We are not only executing on our plan, but also creating a transformational future that separates us from the rest. With a global strategy in place, strong innovation and world-class talent, we will excel as a best-in-class industry leader. As always, thank you, our shareholders, for your continued support.

Experienced management team with proven track record

VIC NEUFELD
CHIEF EXECUTIVE OFFICER

- Former CEO of Jamieson Laboratories 1993-2014
- Grew market share from 7% to 27%
- Launched Jamieson in 44 countries

COLE CACCIAVILLANI
CO-FOUNDER & VP, GROWING OPERATIONS

- Greenhouse industry veteran and pioneer
- Touched 8.5M plants per year in greenhouse operations, commercialized for sale to big box retailers (e.g. Costco, Wal-Mart)

JOHN CERVINI
CO-FOUNDER & VP OF INFRASTRUCTURE

- Fourth generation greenhouse grower
- International growing expertise, managed 200 acres of greenhouse in Leamington, Mexico and California

GARY LEONG
CHIEF SCIENCE OFFICER

- Former CSO of Jamieson Laboratories
- Sitting member of the Board of Directors of the Natural Health Product Research Society

JAKOB RIPSHTEIN
CHIEF COMMERCIAL OFFICER

- Former CFO Diageo North America and President of Diageo Canada
- Managing commercial operations driving business of Diageo

CHRISTELLE GEDEON
CHIEF LEGAL OFFICER

- Former Partner at Fasken
- Expertise in regulated products under the Food and Drugs Act
- Ph.D. in Clinical Pharmacology and Toxicology

CARL MERTON
CHIEF FINANCIAL OFFICER

- 10+ years in capital markets
- Over $3B in M&A deals
- Over $650 M in capital raises

Aphria Inc.

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 year ended May 31, 2018. It is supplemental to, and should be read in conjunction with the Company's audited consolidated financial statements and the accompanying notes for the year ended May 31, 2018, as well as the financial statements and MD&A for the year ended May 31, 2017. The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

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.ca or through the SEDAR website at www.sedar.com.

In this MD&A, reference is made to gram equivalents, "all-in" cost of sales, cash costs to produce, gross profit before fair value adjustments (previously referred to as adjusted gross profit), adjusted gross margin, adjusted EBITDA, adjusted EBITDA from ACMPR operations, adjusted EBITDA from Aphria International, strategic investments, capital and intangible asset expenditures – wholly owned subs, and capital and intangible asset expenditures – majority owned subs which are not measures of financial performance under IFRS. The Company calculates each as follows:

- *"Gram equivalents" include both grams of dried cannabis as well as grams of cannabis oil as derived using the an 'equivalency factor' of 1 gram per 4.5 mL of cannabis oil, prior year 'equivalency factor' of 1 gram per 6 mL of cannabis oil. Management believes this measure provides useful information as a benchmark of the Company against its competitors.*
- *"All-in" cost of sales of dried cannabis per gram is equal to production costs less the costs of accessories less cannabis oil conversion costs ("cost of sales of dried cannabis") plus (minus) increase (decrease) in plant inventory divided by gram equivalents of cannabis sold in the quarter. This measure provides the cost per gram of dry cannabis and gram equivalent of oil sold before the packaging and post harvesting processing costs to create oil or other ancillary products.*
- *Cash costs to produce dried cannabis per gram is equal to cost of sales of dried cannabis less 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.*
- *Gross profit before fair value adjustments is equal to gross profit less the non-cash increase (plus the non-cash decrease) in the fair value adjustments on sale of inventory and on growth 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 gross profit before fair value adjustments 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.*
- *Adjusted EBITDA is net income (loss), plus (minus) income taxes (recovery) plus (minus) finance income, net, plus amortization, plus share-based compensation, plus (minus) non-cash fair value adjustments on sale of inventory and on growth of biological assets, plus impairment of intangible assets, plus transaction costs, plus (minus) loss (gain) on disposal of capital assets, plus (minus) loss (gain) on foreign exchange, plus (minus) loss (gain) on marketable securities, plus (minus) loss (gain) from equity investee, minus deferred gain recognized, plus (minus) loss (gain) on dilution of ownership in equity investee, plus (minus) unrealized loss (gain) on embedded derivatives, 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 exclusive of its equity investee.*
- *Adjusted EBITDA from ACMPR operations is calculated on based on the same approach outlined above for Adjusted EBITDA, based on the operations of the following entities in the Company's consolidated financial statements; Aphria Inc., Pure Natures Wellness Inc. (o/a Aphria), Cannan Growers Inc., Broken Coast Cannabis Ltd., and 1974568 Ontario Ltd. Management believes this measure provides useful information as it is a commonly used measure in the capital markets and it is a close proxy for repeatable cash generated from the Company's operations in the ACMPR regulated industry.*

- *Adjusted EBITDA from Aphria International is Adjusted EBITDA minus adjusted EBITDA from ACMPR operations. 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 the Company's international operations.*

- *Strategic investments are the total cash out flows used in investing activities relating to investment in long-term investments and equity investees as well as both notes and convertible notes advanced. Management believes this measure provides useful information as it helps provide an indication of the use of capital raised by the Company outside of its operating activities.*

- *Capital and intangible asset expenditures - wholly owned subs are all cash out flows used in investing activities relating to investment in capital assets and investment in intangible assets, net of shares issued for wholly owned subsidiaries. Management believes this measure provides useful information as it helps provide indication of the use of capital raised by the Company outside of its operating activities.*

- *Capital and intangible asset expenditures - majority owned subs are all cash out flows used in investing activities relating to investment in capital assets and investment in intangible assets, net of shares issued for majority owned subsidiaries. Management believes this measure provides useful information as it helps provide indication of the use of capital raised by the Company outside of its operating activities.*

These measures are not necessarily comparable to similarly titled measures used by other companies.

All amounts in this MD&A are expressed in thousands of Canadian dollars, except share and per share amounts, unless otherwise indicated.

This MD&A is prepared as of July 31, 2018.

Company Overview

Aphria Inc. ("**Aphria**"), a company amalgamated under the laws of the province of Ontario, is licensed to produce and sell medical cannabis under the provisions of the *Access to Cannabis for Medical Purposes Regulations* ("**ACMPR**"). Aphria received its licence to produce and sell medical cannabis on November 26, 2014, followed by its licence to sell cannabis extracts on August 18, 2016. Aphria'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 cannabis. 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.

Nuuvera Inc. ("**Aphria International**") is a subsidiary of the Company acquired in March 2018. Aphria International is an international organization with a focus on building a global cannabis brand, through its subsidiaries ARA – Avanti Rx Analytics Inc., Avalon Pharmaceuticals Inc., 2589671 Ontario Inc., 2586974 Ontario Inc., Nuuvera Israel Ltd., Nuuvera Deutschland GmbH, ASG Pharma Ltd. and FL-Group. Through these subsidiaries, Aphria International has operations in Canada, Germany, Italy, Malta and Lesotho.

Broken Coast Cannabis Ltd. ("**Broken Coast**"), a subsidiary of the Company acquired in February 2018, is licensed to produce and sell medical cannabis under the provisions of the ACMPR. Broken Coast's purpose-built, indoor cannabis production facility on Vancouver Island provides Aphria with 'B.C. Bud' and is a leading premium cannabis brand.

1974568 Ontario Ltd. ("**Aphria Diamond**") is a 51% majority owned subsidiary of the Company, incorporated in November 2017. This entity is the Company's venture with Double Diamond Farms ("**DD**"). Aphria Diamond has applied for a second site cultivation licence under the provisions of the ACMPR.

Throughout this MD&A, Aphria will refer to its original Leamington campus as "Aphria One".

The Company's majority and wholly-owned subsidiaries are as follows:

Subsidiaries	Jurisdiction of incorporation	Ownership interest
Pure Natures Wellness Inc. (o/a Aphria)	Ontario, Canada	100%
Aphria (Arizona) Inc.	Arizona, United States	100%
Cannan Growers Inc.	British Columbia, Canada	100%
Nuuvera Inc.	Ontario, Canada	100%
Nuuvera Holdings Ltd.	Ontario, Canada	100%
ARA – Avanti Rx Analytics Inc.	Ontario, Canada	100%
Avalon Pharmaceuticals Inc.	Ontario, Canada	100%
2589671 Ontario Inc.	Ontario, Canada	100%
2589674 Ontario Inc.	Ontario, Canada	100%
Nuuvera Israel Ltd.	Tel Aviv, Israel	100%
Nuuvera Deutschland GmbH	Hamburg, Germany	100%
FL-Group	Genoa, Italy	100%
Broken Coast Cannabis Ltd.	British Columbia, Canada	99.86%
Nuuvera Malta Ltd.	Valletta, Malta	90%
ASG Pharma Ltd.	Valletta, Malta	90%
1974568 Ontario Ltd.	Ontario, Canada	51%
CannInvest Africa Ltd.	South Africa	50%

Strategy and Outlook

Aphria, a leading global cannabis company, is setting the standard for the low-cost production of safe, clean and pure pharmaceutical grade cannabis at scale, grown in the most natural conditions possible. The Company, one of the first cannabis companies in Canada and the first Canadian cannabis company to fully embrace and grow exclusively in a greenhouse, has shown the ability to grow at scale and generate a profit from operations in a growing new industry. The Company continues to drive value for shareholders through its international expansion where Aphria is taking its experience and knowledge in the Canadian cannabis industry and applying it to newly federal legal markets. Aphria drives sustainable long-term shareholder value through a diversified approach to innovation, strategic partnerships and global expansion, with a presence in more than 10 countries across 5 continents.

ACMPR Operations

ACMPR Operations include the results of the parent Aphria Inc., Canadian subsidiaries which hold investments and have no other operations (Cannan Growers Inc.), companies which are applicants and are expected to become ACMPR licensed producers of medical cannabis (Aphria Diamond) and companies which actively produce and sell medical cannabis under the ACMPR license (Aphria and Broken Coast).

As a result of its cumulative net earnings to date exceeding its historical losses, Aphria reported retained earnings of $27,452 as at May 31, 2018. The Company remains as one of the first publicly-traded licensed producers to achieve this milestone. The Company also continues to report positive adjusted EBITDA from ACMPR operations, on a quarter by quarter basis. This marks the eleventh consecutive quarter where the Company has reported positive adjusted EBITDA from ACMPR Operations.

The Company expects a temporary decline in adjusted EBITDA from ACMPR operations in the next two quarters as a result of planned increases in expenditures for advertising, to the extent legally permitted, and marketing for the adult-use market and increased investments in human capital necessary for a company with the global production capabilities of Aphria. Further, the Company consciously limited its sales growth by limiting wholesale sales and accumulating inventory in preparation for adult-use in the short-term, as it continues its focus on the emerging adult-use market. Sales level are expected to increase in the second quarter of its 2019 fiscal year in preparation for retail adult-use sales, beginning October 17, 2018.

As the Company continues its planned expansions using the latest automation technologies, Aphria is committed to bringing breakthrough innovation to the global cannabis market.

Aphria One
The Company's original flagship greenhouse location continues with the planned expansions and represents over 90% of the Company's current production. This location serves as the basis on which the Company continues to innovate and develop techniques in cultivation, extraction and processing low-cost cannabis at scale. In early April 2018, the Company recorded its first harvest from product grown from its Part III expansion and product grown in its Part III expansion was available for sale in late May 2018.

The Company currently has 300,000 square feet of licensed production space at Aphria One capable of producing 30,000 kgs annually. The Company allocated a portion of its space from the Part III expansion to mother and vegetative plants which will be required for the Part IV and Part V expansions, effectively lowering Aphria One's functional capacity today to ensure an as efficient as possible running start to its Part IV growing operations. With the fully capitalized Part IV and Part V expansions, the Company will be poised to have over 1,000,000 sq. ft. of state-of-the-art greenhouse facility producing 110,000 kgs annually in January 2019.

The Company spent approximately $24.7 million on the Part III expansion, compared to the budgeted $24.5 million. The Company is currently on budget with its Part IV and Part V expansions with a total amount spent of approximately $102 million of the combined budgeted $147 million.

With the Part IV and Part V expansions, the Company will be positioned to be the first licensed producer to bring in this level of technology into the cultivation of cannabis within a greenhouse environment. This cutting-edge technology will automate the following functions of the plant growing cycle:

- Transplanting cuttings through various stages into the final pots for flowering;
- Aiding in evaluation of the health and quality of plants to ensure plants meet the Company's stringent quality standards throughout the many stages of the growing cycle;
- Monitoring and providing the necessary water and vital nutrients to the plants during the growing cycle; and
- Transporting plants through different areas in the greenhouse including to the processing room once harvested.

Once this innovative technology has been implemented, the only human interaction to occur will be at the initial phase of taking the cuttings and throughout the plants' growth cycle, to trim and prune the plants, which will occur in work bays outside of the greenhouse.

Additional state-of-the-art automation, already operational by the Company, is employed during the processing of the cannabis. The Company is bringing best-in-class innovative technologies to:

- Cutting the plants, and transferring them to be processed;
- Automating the de-budding and trimming of plants;
- Disposing of waste produced in the cutting, de-budding and trimming phased of production; and
- Distributing the buds into trays in a drying rack to evenly dry and cure the harvested product.

The automation of these above processes will further permit Aphria to not only preserve but enhance its industry leading low-cost production standard within the cannabis industry.

The Company is installing a power co-generation plant that utilizes natural gas to generate is own electricity and as a by-product of this process, hot and cold water and CO_2. This combined -cycle process will not only generate electricity to be used in the greenhouse to operate the lights and air conditioners, but also the hot and cold water produced will be employed to effectively control the temperature and humidity for the plants. The residual gas emissions created by this process will be directed through a catalytic converter to create CO_2 which will be used during the growing cycle of the plants. At the same time, the Company installed state-of-the-art power switching in all equipment allowing it to switch power between the electrical grid and the power co-generation equipment at a moment's notice to ensure it is constantly using the most cost effective energy available.

In addition, a system will be instituted that will recycle the water used for the irrigation of the plants. The 'used' water will be sterilized through a pasteurization process which will allow the Company to re-use the water to irrigate the plants thereby reducing the amount and cost of water usage.

Not only will Aphria be the first cannabis producer to bring this level of technology and generate its own electricity but also it will effectively make the Company's power co-generation project net carbon neutral.

Aphria Diamond

Through the 51% owned subsidiary, the Company has partnered with DD, a leader with multi-generational expertise in the commercial greenhouse industry. This partnership allows Aphria to gain access to a large talent base of growers and operators of greenhouses at scale, while also allowing the Company to significantly increase their production.

Bringing the knowledge and experience from the Company's current operations at Aphria One, the Company anticipates a quick ramp-up and transition for its Aphria Diamond site. As a result of Aphria Diamond, the Company will have access to a further 140,000 kgs annually upon completion of the retrofits in time for its first sale in January 2019.

The Company provided $10,200 of seed capital to go along with DD's $9,800. Aphria Diamond acquired 100 acres of land, including almost 32 acres of greenhouses for $42,389, and spent an additional $40,817 as at May 31, 2018 on the retrofit. The Company expects the project to cost an additional $40,000 to complete. All funds above the initial seed capital are currently being funded by the Company, and will be repaid in full by Aphria Diamond.

Aphria Diamond has purchased similar levels of automation, as described above in Aphria One, for its location.

All production from Aphria Diamond will be sold to Aphria at an agreed upon transfer price, allowing Aphria to recognize 100% of the remaining profit from any further processing into derivative, and 100% of the retail margin from branding on all product from Aphria Diamond.

Broken Coast

Broken Coast represents the Company's premium brand of indoor-grown high-margin, low-cost cannabis. Broken Coast provides the Company access to the quality associated with 'B.C. Bud' and access to an award winning genetic bank of cannabis, which can be produced at scale through the Company's Aphria One and Aphria Diamond facilities. Broken Coast will continue the development of new premium strains and continue to represent what is the highest level of premium cannabis grown through their state-of-the-art custom built indoor facilities.

In April 2018, Broken Coast received a license amendment from Health Canada on its Phase III expansion project, increasing capacity to 4,500 kgs annually. The Company spent approximately $67 as at May 31, 2018 on its Broken Coast Phase IV expansion. The Phase IV expansion will provide the Company with an additional 6,000 kgs annually.

Extraction Centre of Excellence

The Company also committed to spending an additional $55 million to build a state-of-the-art Extraction Centre of Excellence. This facility will provide the necessary production capacity to process over 200,000 kgs per year. Further, it will start with the Company's developed extraction technologies and build off of the latest extraction technologies and techniques, creating new and innovative product offerings for the adult-use market as they become allowable to sell in Canada. The facility will be equipped to conduct a wide range of cannabis extractions, including CO_2, butane, ethanol, and produce world-class cannabis concentrates, including fractionated distillates.

To this point in the development of the Canadian cannabis market, the sale of cannabis has been about the sale of cannabis as a product, in forms like flower or bud, shake or trim, and cannabis oil. The Company believes that as the global cannabis industry evolves, this focus on cannabis as a product will morph into cannabis as an ingredient. The Extraction Centre of Excellence is designed around demonstrating Aphria's leadership in the concept of cannabis as an ingredient.

Canadian medical market brands

Since 2014, the Aphria brand has been a leading choice for patients seeking safe, clean, and pure pharmaceutical grade medical cannabis. Despite the launch of the adult-use market, the Company will continue to focus and invest in the Canadian medical market. This will be achieved through an unrelenting focus on product innovation, patient-centric service and a commitment to accountability.

The Company plans to continue offering 'B.C. Bud' as a medical product under both the Aphria and Broken Coast brands.

Canadian adult-use market brands

The Company continues to invest significant capital and resources to prepare for the launch of the adult-use market in Canada. These efforts are focused on brand development, product innovation, marketing, sales, education and research and will set the stage for the Company to be a sizeable player in the Canadian adult use market.

Aphria has been thoughtfully and diligently preparing for the adult-use market by thoroughly researching existing and emerging consumer segments and developing a portfolio of brands designed to specifically meet the needs of those segments across a range of brands, prices and products.

In April 2018, the Company unveiled the first of many brands that it intends to launch in Canada's new adult-use market. Solei Sungrown Cannabis ("**Solei**") brings simplicity to cannabis through a demystified experience. The brand enables current and novice users alike to enrich their cannabis journey, pairing an assortment of carefully curated strains and product formats with different experiences.

Additionally, the Company will offer its flagship premium-brand, Broken Coast, to adult-use consumers, a brand and product designed to meet the needs of Canada's most discerning cannabis consumer. Broken Coast craft cannabis is grown on the shores of the Salish Sea in small batches by choice, using single-strain rooms. All flower is hand-trimmed and slow-cured ensuring the optimal cannabis experience.

Over the course of the coming months, Aphria will be launching its additional suite of brands, offering Canadians a broad portfolio of brands designed to specifically meet the needs of each segment.

Product development
The Canadian government has committed to regulating the sale of cannabis infused products in 2019. Based on existing legal markets, cannabis infused products typically represent more than 50% of the total cannabis market. Aphria continues to commit significant resources to drive product innovation in anticipation of these new emerging categories. As a part of its ongoing R&D efforts, the Company is investing in the capability to not only extract to scale using different methods, but also in scaling the isolation of terpenes, cannabinoids and other cannabis compounds in order to develop consistent and unique formulations that can be used in our end-products. The Company's focus is on developing a suite of edibles, RDTs (ready-to-drink), concentrates, topicals and vapes. These new products will be available across a range of brands and will be available for sale once permitted by law.

Licences
The Company holds two ACMPR licences: Aphria One and Broken Coast. The Company also has submitted an application for a second site license for Aphria Diamond. Further, the Company maintains a Dealer Licence from Health Canada to export medical cannabis oil and resin to international markets.

The ACMPR licence provides the Company with the ability to cultivate, process and sell cannabis within Canada. The Dealer Licence provides the Company with the opportunity to possess, sell and transport medical cannabis oil and resin produced in Canada to other federally legal countries internationally. On October 17, 2018, the Dealer Licence will no longer be required, as all elements of the Dealer Licence will be covered through the Company's Cannabis Licence. The Company anticipates relinquishing its Dealer Licence as part of the transition to *The Cannabis Act*.

Distribution
The Company signed an exclusive distribution agreement with Great North Distributors Inc. ("**Great North Distributors**"), a wholly-owned Canadian subsidiary of Southern Glazer's Wine & Spirits ("**Southern Glazer's**"). This exclusive distribution agreement provides the Company with access to an experienced sales staff from a Company with over 100 years in the distribution business and one of the largest distributors of spirits and wine in North America. As part of the distribution agreement, Great North Distributors provides Aphria with a cannabis exclusivity from the Company's competitors, which restricts their ability to engage in cannabis distribution to Aphria and micro-cultivators.

The experience brought from this partnership will ensure Aphria's adult-use product offerings are on shelves, fully stocked, in the appropriate store and on the appropriate shelf location and that there is sufficient education surrounding Aphria's product offerings. The experience from Southern Glazer's sales staff with products, which are retailed largely through the same government bodies that will be responsible for retail cannabis, will provide unparalleled knowledge for the sales strategy used in the adult-use market.

The Company continues to sign supply agreements with provinces throughout Canada, showing the Company's commitment to becoming the leader in the upcoming adult-use market. The Company currently has agreements with the following provincial bodies: British Columbia, Alberta, Manitoba, Quebec, New Brunswick and the Yukon Territory

Based on the initial orders placed by the above provincial bodies, the Company secured orders for over 21,000 kgs. The Company believes these orders will serve as an entrance into a larger market, as the demand continues to grow for the Company's various brands and product offerings throughout all of Canada.

In addition to the above new distribution agreements for the adult-use market, the Company is expanding their distribution in the medical cannabis market with its five-year supply agreement with Shoppers Drug Mart.

Aphria International

The Company continues to focus on new and emerging federally legal cannabis markets, and continued growth for the Company and its shareholders. The Company's international strategy is focused on medical cannabis markets with rigorous regulatory rules, markets with limited license opportunities and stable economic environments.

Through the acquisition of Aphria International, and the conditional acquisition of LATAM Holdings Inc. subsequent to year-end, the Company secured access to key international markets, management team bench strength with a proven knowledge and high levels of executional success within the industries and jurisdictions in which they operate. The Company believes that with its significant experience in the highly regulated Canadian ACMPR market, it will be able to export its industry leading knowledge and practices to its global subsidiaries.

As part of its international strategy, the Company is developing regional hubs in Pan-Asia, the European Union, South America, North America, the Caribbean and Africa. These hubs will represent key countries for investment and will aid in the flow of cannabis goods across the globe. The Company chose Australia as its Pan-Asian hub and is currently exploring opportunities in New Zealand and Thailand. The Company chose Malta as its hub for the European Union and Colombia for South America, where it continues to pursue opportunities in Brazil, Peru, Chile and Argentina. The Company chose Jamaica as its hub for the Caribbean and Lesotho as its hub for Africa, where it continues to pursue opportunities in Swaziland and Zimbabwe.

The Company has international operations in Australia, Germany, Italy, Portugal, Malta, Lesotho, Columbia, Jamaica, Argentina and maintains an option for entry into Brazil. With these markets still in their infancy, and the regulatory environment around them still being formed, these countries are looking to Canada as a leader in developing the regulatory environment. The Company provides a unique opportunity to bring the experience from working within Canada during the development of the cannabis regulations, to provide this expertise and knowledge to develop these global cannabis markets.

Export facility from Canada
Through the acquisition of Aphria International, the Company acquired ARA - Avanti RX Analytics Inc. ("**Avanti**"), which currently holds four licences: (i) Dealer Licence; (ii) Establishment Licence; (iii) Site Licence; and, (iv) Medical Device Establishment Licence.

These licences allow the Company to possess and handle cannabis and cannabis derivative products and allow Avanti to engage in the possession, production, packaging, sale, transportation and delivery and testing of codeine, morphine, cocaine, cannabis and related cannabinoids. The Company is also able to complete testing/analysis of active pharmaceutical ingredients and pharmaceutical, and distribution of pharmaceuticals.

The Company is currently in process of securing Good Manufacturing Practice from the European Medicines Agency ("**EU-GMP**") certification on the Avanti lab, which will then be used as the Canadian staging site for international bound GMP certified products. The Company's EU-GMP certification will cover extraction, post processing, testing, packaging and shipping process.

Pan-Asia

Australia
The Australian market is very similar to the Canadian medical cannabis market three years ago. The Company has access to the Australian medical cannabis market through a 37.5% equity investment in Althea Company Pty Ltd., and a supply agreement with Althea until they are able to complete construction of their new facility and fulfill their own production requirements.

Althea currently holds a licence to cultivate and manufacture cannabis-derivative medications issued by the Office of Drug Control ("**ODC**"). Althea previously secured import permits from the ODC. Aphria secured the related export permit from Health Canada and Aphria shipped product to Althea in Australia. The products sold by Althea in Australia is co-branded with Aphria.

Aphria International also maintains relationships in Australia with two companies conducting medical cannabis clinically trials. Medlab Pty Ltd. is currently in Phase 2b of a clinical trial related to oncology pain using an Aphria proprietary blend of cannabis strains oil, subsequently converted in Australia into a nanocell mucosol spray. CannPal Pty Ltds, is currently in Phase 2a of a clinical trial related to animal pain in cats and dogs, using Aphria strains.

European Union

Germany

The German market is considered to be one of the most highly sought-after medical cannabis markets in the world. German law currently permits import of cannabis only. The German government recently re-launched its tender process to award licences for in-country cultivation. Aphria International through its German wholly-owned subsidiary Nuuvera Deutschland GmnbH ("**Deutschland**") participated in the previous tender process, which was stopped by the German courts on a technicality related to the bid rules, and will participate in the current tender process being launched by the German government. Germany currently allows cannabis and cannabis extracts in pharmacies, these cannabis-based products are also required by German law to be covered by insurance companies. This coverage provides a greater number of medical cannabis patients with access to the full use and benefits of these products.

The Company's approach in Germany is a three-pronged approach covering: demand; supply; and, distribution.

Demand

Through the acquisition of a 25.1% interest in Berlin-based Schöneberg Hospital, the Company has access to doctors and patients, to support the education of the benefits of medical cannabinoids. The Company also plans to build and operate pain treatment centers including the new possibilities of digital health care throughout Germany, which will further provide access to patients.

Supply

As previously discussed, the Company will, through imports and participation in the German tender process, supply products into the German market.

Distribution

Through the acquisition of Aphria International, the Company obtained a letter of intent to supply 1,200 kgs of cannabis products through CC Pharma GmbH, a leading distributor of pharmaceutical products. To secure a constant delivery of imported cannabis for German patients, the Company is building one of the biggest state-of-the-art GMP certified cannabis vaults in Bad Bramstedt, northern Germany with a storage capacity of 5,000 kgs.

Malta

Through majority-owned subsidiary ASG Pharma Ltd. ("**ASG**"), the Company received the first import licence for medical cannabis issued by the Malta Medicines Authority. The Company intends on using the Malta import license and facility to import cannabis resin and dried flower for processing, packaging and distribution of EU-GMP certified cannabis products throughout large parts of Europe.

This Malta facility will provide the Company with the ability to bring low-cost production of cannabis product from outside of Europe into an EU-GMP certified facility for further processing and distribution throughout Europe.

Italy

The Company's wholly owned subsidiary FL-Group is authorized for the distribution of pharmaceutical products, including cannabis-based and cannabinoids products in Italy to pharmacies, holding one of only seven cannabis import licenses in Italy. The FL-Group acts as the Company's distributor to the Italian cannabis market.

Spain

The Company previously announced a Letter of Intent to enter Spain as part of a joint venture with Medalchemy and Cafina for the cultivation and importation of medical cannabis in Spain. After further review of opportunities in Spain, the Company elected to not pursue its relationship with Medalchemy further, effectively exiting Spain for now and concentrating its efforts in Portugal.

Portugal

Identified as one of the primary areas for cultivation in the European Union, Aphria International is currently pursuing strategic partners to begin operations in Portugal.

Africa

Lesotho

The Company entered into a new venture in CannInvest Africa Ltd. ("**CannInvest**"), a South African corporation. Aphria's partner in CannInvest is the Verve Group of Companies, founded by Richard Davies, a South African with more than 20 years experience in phytoextraction of African medicinal plants. Through this transaction, the Company obtained a controlling interest in Verve Dynamics Inc. (PTY) Ltd. ("**Verve**"). Verve holds a licence in Lesotho for prohibited drug operations, which allows Verve to cultivate, manufacture, supply, distribute, store, export and import cannabis and cannabis resin for medical purposes or scientific use.

The Company also entered into a supply agreement with Verve, where Verve will supply cannabis THC and CBD extract from its planned EU-GMP certified facility. This is expected to provide the Company with access to low-cost GMP certified extract for distribution into South Africa and other federally legal markets, including the European Union.

South America

Colombia

The Company signed an exclusive supply agreement with Colcanna SAS ("**Colcanna**"), a Colombia-based pharmaceutical import and distribution company, which is licensed to import, sell and distribute medical cannabis, medical products and derivatives in Colombia. Under the terms of the agreement, Aphria will be the exclusive supplier of cannabis products to Colcanna for the Colombian market and Colcanna will purchase medical cannabis products from Aphria exclusively.

Argentina

In March 2018, the Company signed an exclusive supply agreement with ABP S.A. ("**ABP**"), an Argentina-based pharmaceutical import and distribution company, which is licensed to import CBD oil into Argentina for a clinical drug trial studying epilepsy in children. Under the terms of the agreement, Aphria is the exclusive supplier of cannabis oil to ABP for the Argentinian market and ABP will purchase medical cannabis products from Aphria exclusively.

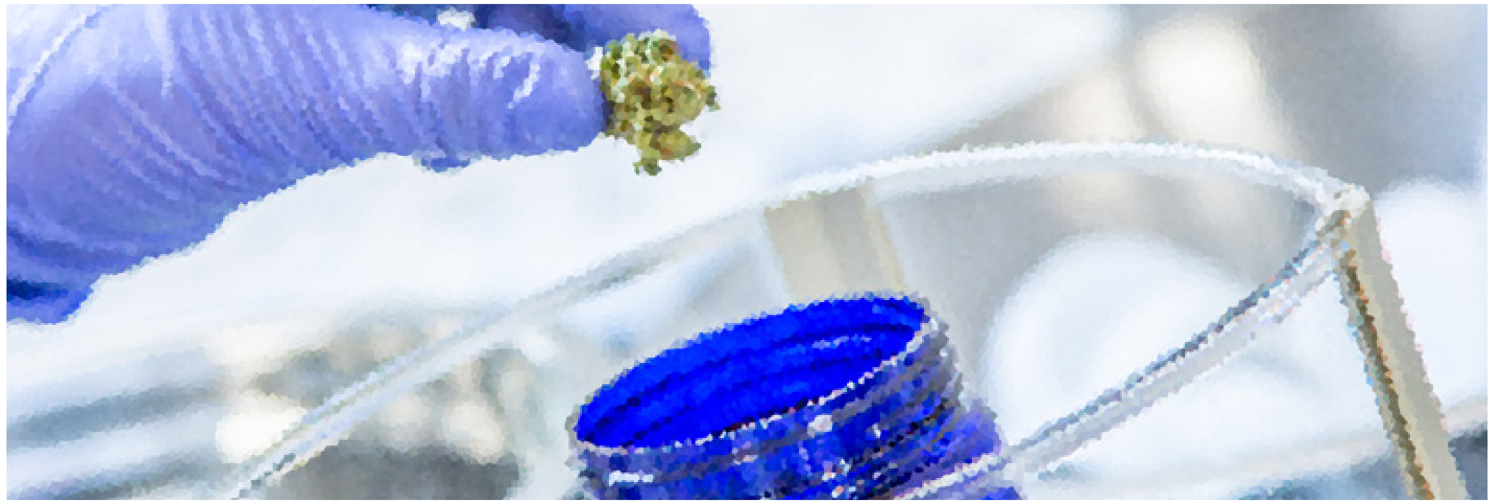
LATAM Holdings Inc.
Subsequent to year-end, the Company announced that it would acquire LATAM Holdings Inc. ("**LATAM**"). The acquisition of LATAM provides the Company with immediate access to the high profile, attractive countries in South America and the Caribbean, including Colombia, Argentina, Jamaica and potentially Brazil.

Colombia
The acquisition of LATAM, provides the Company with 90% ownership of Colcanna. This ownership provides the Company with the ability to further develop the global Aphria brand with Aphria branded products distributed to patients in Columbia. Upon Colcanna developing its 34 acres of land for the cultivation of cannabis, which is expected to provide 50,000 kgs annually, the Company will maintain the control of the cultivation and distribution of cannabis in Columbia. Until the emerging Colombian market demand grows to match the Company's Colombian production, the Company will be able to utilize its export licence to distribute the excess production globally.

Argentina
The acquisition of LATAM, provides the Company with sole ownership of APB, providing the Company with a significant first-mover advantage, as APB is the first company with an in-country medical cannabis research licence. The Company also continues to work with Hospital Garrahan, a leading pediatric hospital in Buenos Aires. The Company believes that, once the Argentinian government approves medical cannabis, in-country cultivation opportunities will be attractive.

Jamaica
The acquisition of LATAM provides the Company with a 49% ownership interest in Marigold Projects Jamaica Limited ("**Marigold**"), through multiple subsidiaries and a 95% royalty on profits through an Intellectual Property agreement. This acquisition will provide the Company with several key licences including a Tier 3 cultivation licence, a Tier 2 herb house licence, as well as licences for import, export and research purposes.

Brazil
Finally, the acquisition of LATAM provides the Company with an option to purchase 50.1% of a Brazilian entity for $24 million (USD), once it secures a medical cannabis licence from the Brazilian government and a right of first offer and refusal on another 20-39% of the Brazilian entity. This right of first refusal provides the Company with lower risk at a fixed price to enter into the Brazil market pending the Brazilian Company obtaining a licence.



Strategic Investments and Acquisitions

The Company continues to invest in companies, to advance its corporate strategic goals. These investments allow the Company access into ancillary markets within the cannabis industry, in which the Company is otherwise not active, lead to supply or purchasing agreements or other relationships furthering these corporate strategic goals.

Green Acre Capital Fund
Aphria agreed to invest $2,000 in Green Acre Capital Fund. ("**Green Acre**"), of which $1,600 had been invested by May 31, 2018. Green Acre is a private investment fund dedicated exclusively to the Canadian medical and recreational cannabis industry. The fund invests in sectors across the cannabis value chain including production, research, consumer products and retail.

This investment provides the Company a way of recognizing a share of the growth of the ancillary markets of the cannabis industry in which it is not currently active. The investment also serves to assist in identifying new technology and innovations, which the Company may participate in directly, or acquire. These opportunities are identified and analyzed by management of Green Acre, without any further costs to the Company. Subsequent to year-end, the Company committed to a $15,000 investment in Green Acre Capital Fund II to be launched before December 2018.

TS BrandCo Holdings Inc. and Hiku Brands Company Lts.
The Company entered into supply agreements and a subscription agreement for $1,000 with TS BrandCo Holdings Inc. ("**Tokyo Smoke**") in 2017. Subsequently, Tokyo Smoke merged with DOJA Cannabis Company Ltd., renaming the reporting issuer Hiku Brands Company Ltd. ("**Hiku**"). Upon the merger, the Company entered into a subscription agreement and supply agreement with Hiku. Hiku, through multiple brands, was focused on the retail and branding sides of the adult-use cannabis market. The supply agreement provided the Company with an exclusive right to sell Tokyo Smoke branded medical cannabis and contained a change of law provision designed to morph the exclusive medical cannabis supply agreement into an adult-use supply agreement.

Subsequent to year-end, all the issued and outstanding common shares of Hiku were acquired by a third party. The Company maintains the supply agreements identified previously.

Green Tank Holdings Corp.
The Company made a strategic investment in Green Tank Holdings Corp. ("**Green Tank**"). The Company made this investment to share in the ancillary market and profits from the sale of Green Tank's products within the upcoming adult-use cannabis market.

The Company also entered into a supply agreement to purchase Green Tank products.

Divesture of equity investment in passive US assets
During the year, the Company announced a divestiture process of its equity investment in Liberty Health Sciences Inc. ("**Liberty**") and of its wholly owned subsidiary Aphria (Arizona) Inc., which holds minority interests in Copperstate Farms, LLC ("**Copperstate**") and Copperstate Farms Investors, LLC ("**CSF**").

Subsequent to year-end, the Company fully divested of its holdings in Copperstate and CSF. The total cost of the investments in Copperstate and CSF is $11,162 and the investment was recorded in the Company's financial statements at its fair value of $20,000, resulting in a realized gain of $8,838 on the sale of the asset.

The Company also announced a staged sale of its Liberty investment based on the release of its Liberty shares from CSE mandated escrow provisions. At the end of the year, the Company sold over 26.7 million of its common shares of Liberty. Subsequent to year-end, the Company sold another 16.0 million of its Liberty shares; however, as part of the sale process, the Company negotiated a stand-still and option agreement with the purchaser that prevents the purchaser from disposing of the shares for 18 months, while at the same time granting the Company an option to acquire the shares back in the next 18 months should the US federal government amend its rules on cannabis and should the Toronto Stock Exchange approve the purchase.

The Company recognized a gain from the sale of the Liberty shares of $26,347 during the year. Based on the closing share price of Liberty as at May 31, 2018, the Liberty shares held by Aphria have a fair value, net of the 18% discount, of $57,178, which is $49,009 higher than the carrying value recorded in assets held for sale net of the derivative liability.

Equity Financing Activities

As the Company continues its facility expansions and developing the adult-use market, the Company required additional funds to support both Canadian and international activities. During the year, the Company completed two equity financings. Under the equity financings, the Company raised net proceeds of almost $200,000. Subsequent to year-end, the Company closed an additional bought deal financing for net proceeds of over $245,000.

The $445,000 of net proceeds raised over the past twelve months provides the Company with sufficient capital to fund its current international activities from the development stage through to production where they are expected to generate cash independently. There are also sufficient funds to complete the existing expansion of the ACMPR operations including capital investments for the build out of the Company's Aphria One, Aphria Diamond and Broken Coast facilities.

Investor Highlights

	YE - 2018	Q4 - 2018	Q3 - 2018
Revenue	$ 36,917	$ 12,026	$ 10,267
Kilograms equivalents sold	4,829.7	1,312.6	1,428.1
Production costs	$ 8,692	$ 2,245	$ 2,355
Cash cost to produce dried cannabis / gram[1]	$ 1.08	$ 0.95	$ 0.96
"All-in" cost of sales of dried cannabis / gram[1]	$ 1.72	$ 1.60	$ 1.56
Adjusted gross margin[1]	75.6%	78.7%	77.1%
Adjusted EBITDA from ACMPR operations[1]	$ 8,419	$ 2,227	$ 2,940
Cash and cash equivalents & marketable securities	$ 104,799	$ 104,799	$ 173,683
Working capital	$ 150,758	$ 150,758	$ 234,589
Capital and intangible asset expenditures - wholly owned subsidiaries[1]	$ 133,492	$ 39,042	$ 35,427
Capital and intangible asset expenditures - majority owned subsidiaries[1]	$ 83,207	$ 24,052	$ 59,155
Strategic investments[1]	$ 65,693	$ 5,946	$ 34,016

[1] – Non-GAAP measure

- On June 21, 2018, Bill C-45, the Cannabis Act, reached Royal Assent, and is expected to come into force October 17, 2018
- Current production capacity increased to 34,500 kgs (annualized) in April 2018 after Health Canada approval of Broken Coast's Phase III expansion
- Mid-term capacity upgrade to 255,000 kgs (annualized) production capability expected by November 2018, with a further 5,000 kgs (annualized) within one year thereafter
- First full quarter of inventory build for adult-use market in Canada and International opportunities
- Acquired Nuuvera Inc. and launch of Aphria International
- Completed first shipment of medical cannabis to Australia-based partner Althea Company Pty Ltd. ("Althea")
- Signed an exclusive supply agreement with Columbia-based cannabis company Colcanna SAS
- Signed an exclusive supply agreement with Argentinian based pharmaceutical import and distribution company ABP
- Acquired 25.1% interest in Berlin-based Schöneberg Hospital
- Formed landmark venture with South African Verve Group of Companies
- Launched the Company's first adult-use brand, Solei Sungrown Cannabis
- Signed an exclusive distribution agreement with a wholly-owned subsidiary of Southern Glazer's Wine & Spirits
- Eleven consecutive quarters of positive adjusted EBITDA from ACMPR operations
- Bought deal closed subsequent to year-end for net proceeds of over $245,000
- Expanded executive team with appointment of Chief Commercial Officer, Chief Legal Officer and Vice President of Sales
- Strong executive team
  - 20+ years of Pharmaceutical experience
  - 35+ years of potted plant greenhouse growing experience
  - 30+ years of vegetable greenhouse growing experience
  - 10+ years of tobacco sales and marketing experience
  - 30+ years of spirit sales and marketing experience

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 Aphria One and ninth week of growth for Broken Coast. 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 Company increases the carrying value of the harvested produce to its full fair value less costs to sell.

As at May 31, 2018, the Company's harvested cannabis and cannabis oil, as detailed in Note 6, and biological assets, as detailed in Note 7 of its financial statements, are as follows:

	May 31, 2018	February 28, 2018
Harvested cannabis - at cost	$ 4,111	$ 2,367
Harvested cannabis - fair value increment	8,220	4,149
Harvested cannabis trim - at cost	810	506
Harvested cannabis trim - fair value increment	1,467	775
Cannabis oil - at cost	2,660	1,591
Cannabis oil - fair value increment	3,918	1,668
Biological assets - at cost	3,708	1,916
Biological assets - fair value increment	3,623	1,185
Cannabis products - at fair value	$ 28,517	$ 14,157

In an effort to increase transparency, Aphria One's biological assets are carried at cost plus fair value increments of $0.64, $1.28, $1.92 and $2.56 per gram for weeks 13, 14, 15 and 16, respectively. Broken Coast's biological assets are carried at cost plus fair value increments of $0.72, $1.44, $2.16 and $2.89 per gram for weeks 10, 11, 12 and 13 respectively. Harvested cannabis, harvested cannabis trim and cannabis oil are carried at fair values of $3.75 per gram, $3.00 per gram and $0.84 per mL, respectively for greenhouse produced cannabis. Harvested cannabis, harvested cannabis trim and cannabis oil are carried at fair values of $4.25 per gram, $3.50 per gram and $1.19 per mL, respectively for indoor produced cannabis. The increase in the fair value of the oil per mL is due to the Company changing its oil production process, where previously oil was made on an equivalency factor of 1 gram per 6mL of oil, to 1 gram per 4.5 mL of oil. The individual components of fair values are as follows:

	May 31, 2018	February 28, 2018
Harvested cannabis - at cost - per gram	$ 1.28	$ 1.36
Harvested cannabis - fair value increment - per gram	$ 2.55	$ 2.39
Harvested cannabis trim - at cost - per gram	$ 1.15	$ 1.19
Harvested cannabis trim - fair value increment - per gram	$ 2.09	$ 1.81
Cannabis oil - at cost - per mL	$ 0.34	$ 0.31
Cannabis oil - fair value increment - per mL	$ 0.51	$ 0.33

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:

	Year ended	Three months ended	
	May 31, 2018	May 31, 2018	February 28, 2018
Production costs	$ 8,692	$ 2,245	$ 2,355
Add (less):			
Cost of accessories	$ (236)	$ (67)	$ (71)
Cannabis oil conversion costs	$ (241)	$ (84)	$ (62)
Increase in plant inventory	$ 100	$ --	$ --
Adjusted "All-in" cost of sales of dried cannabis	$ 8,315	$ 2,094	$ 2,222
Gram equivalents sold during the quarter	4,829,621	1,312,571	1,428,097
"All-in" cost of sales of dried cannabis per gram	$ 1.72	$ 1.60	$ 1.56

[1] *In prior quarters the Company recorded adjustments to "All-in" cost of sales of dried cannabis per gram, for increases in plant inventory. This adjustment was made as a result of the Company using a standard cost method and allocating additional costs to plant inventory, when as part of a planned expansion, there was a significant increase in the number of plants, while the incremental costs with the new capacity have not materialized. The increase in number of plants before the corresponding increase in costs, led to the Company allocating more costs than incurred to date, to biological assets resulting in over absorbed overhead. 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. This adjustment is subjective, and requires management to make significant assumptions as to whether the increase in cost included in biological assets, is a result of improved operations, a result of an expansion or a result of other factors.*

Calculation of cash costs to produce dried cannabis per gram

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

	Year ended	Three months ended	
	May 31, 2018	May 31, 2018	February 28, 2018
Adjusted "All-in" cost of sales of dried cannabis	$ 8,315	$ 2,094	$ 2,222
Less:			
Amortization	$ (1,715)	$ (353)	$ (473)
Packaging costs	$ (1,369)	$ (493)	$ (373)
Cash costs to produce dried cannabis	$ 5,231	$ 1,248	$ 1,376
Gram equivalents sold during the quarter	4,829,621	1,312,571	1,428,097
Cash costs to produce per gram	$ 1.08	$ 0.95	$ 0.96

Results of Operations

Revenue

Revenue for the three months ended May 31, 2018 was $12,026 versus $5,718 in the same period of the prior year and $10,267 in the third quarter of fiscal 2018, representing an increase of 110.3% from the prior year and a 17.1% increase from the prior quarter.

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

- Acquisition of Broken Coast, which provided an additional 309,844 gram equivalents sold in the quarter;
- Continued patient onboarding, including sales of 172,227 gram equivalents to patients on-boarded in the quarter;
- Continued growth of sales to existing patients, including sales of 798,048 gram equivalents to patients on-boarded prior to the quarter; and,
- Increased average retail selling price (excluding wholesale) during the quarter from $8.30 to $9.25. The increase in average retail selling price is due to a full quarter of Broken Coast sales which had an average selling price of over $10.

These factors were partially offset by:

- A minor decrease in the percentage of cannabis oil sold for retail sales, from 33.1% to 29.2%; and,
- A decrease in wholesale orders to other Licensed Producers during the quarter from 445,206 gram equivalents to 32,452 gram equivalents as a result of the Company's shift to focus on building inventory for the adult-use market.

Revenue for the year ended May 31, 2018 was $36,917 versus $20,438 in the same period of the prior year, representing a 80.6% increase.

The increase in revenue for the year, as compared to the prior year, is consistent with the Company's increase in patients and the acquisition of Broken Coast.

Gross profit and gross margin

The gross profit for the three months ended May 31, 2018 was $18,212, compared to $5,825 in the same quarter in the prior year and $8,570 in the previous quarter. The increase in gross profit from the prior year is consistent with the much larger patient base over the prior year, the acquisition of Broken Coast, and the increase in the net fair value adjustment for biological assets.

The gross profit for the year ended May 31, 2018 was $40,887, compared to $17,297 in the prior year. The increase in gross profit from the prior year is consistent with the Company's much larger patient base over the prior year, the acquisition of Broken Coast, and the increase in the net fair value adjustments for biological assets as a result of the Company's increased production levels.

	Year ended	Three months ended	
	May 31, 2018	**May 31, 2018**	February 28, 2018
Revenue	$ 36,917	$ 12,026	$ 10,267
Production costs	8,692	2,245	2,355
Other costs of sales	313	313	--
Gross profit before fair value adjustments	27,912	9,468	7,912
Fair value adjustment on sale of inventory	10,327	3,077	3,443
Fair value adjustment on growth of biological assets	(23,302)	(11,821)	(4,101)
	(12,975)	(8,744)	(658)
Gross profit	$ 40,887	$ 18,212	$ 8,570
Gross margin	110.8%	151.4%	83.5%

Cost of sales currently consist of three main categories: (i) production costs (formerly defined as cost of goods sold) and, (ii) fair value adjustment on sale of inventory and (iii) fair value adjustment on growth of biological assets:

(i) Production costs include all direct and indirect costs of production, related to the medical cannabis sold. This includes costs relating to growing, cultivation and harvesting costs, stringent quality assurance and quality control, cannabis oil processing costs, as well as packaging, labelling and amortization of production equipment and greenhouse infrastructure utilized in the production of medical cannabis. All medical cannabis shipped and sold by Aphria has been grown and produced by the Company.

(ii) Fair value adjustment on sale of inventory 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 effect of the non-cash fair value adjustment of inventory sold in the period.

(iii) Fair value adjustment on growth of 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 effect of the non-cash fair value adjustment of biological assets (medical cannabis) produced in the period. In an effort to increase transparency, inventory of harvested cannabis (Note 6 – Consolidated financial statements for the year ended May 31, 2018) consists of harvested cannabis, harvested cannabis trim and cannabis oil, of which harvested cannabis is carried at a value of $3.75 and $4.25 per gram, harvested cannabis trim is carried at $3.00 and $3.50 per gram and cannabis oil is carried at $0.84 and $1.19 per mL (4.5mL of cannabis oil is equivalent to 1 gram of dried product).

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 gross profit before fair value adjustments and adjusted gross margin provides a better representation of performance by excluding non-cash fair value metrics required by IFRS.

Gross profit before fair value adjustments 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 gross profit before fair value adjustments and adjusted gross margin as compared to IFRS for the three months ended May 31, 2018:

	Three months ended May 31, 2018 (IFRS)	Adjustments	**Three months ended May 31, 2018 (Adjusted)**
Revenue	$ 12,026	$ --	$ 12,026
Production costs	2,245	--	2,245
Other costs of sales	313	--	313
Fair value adjustment on sale of inventory	3,077	(3,077)	--
Fair value adjustment on biological assets	(11,821)	11,821	--
	(6,186)	8,744	2,558
Gross profit	$ 18,212	$ (8,744)	$ 9,468
Gross margin	151.4%		78.7%

The following is the Company's gross profit before fair value adjustments and adjusted gross margin as compared to IFRS for the year ended May 31, 2018:

	Year ended May 31, 2018 (IFRS)	Adjustments	**Year ended May 31, 2018 (Adjusted)**
Revenue	$ 36,917	$ --	$ 36,917
Production costs	8,692	--	8,692
Other costs of sales	313	--	313
Fair value adjustment on sale of inventory	10,327	(10,327)	--
Fair value adjustment on biological assets	(23,302)	23,302	--
	(3,970)	12,975	9,005
Gross profit	$ 40,887	$ (12,975)	$ 27,912
Gross margin	110.8%		75.6%

Selling, general and administrative costs

	Three months ended May 31,		Year ended May 31,	
	2018	2017	**2018**	2017
General and administrative	$ 7,399	$ 1,263	$ 13,901	$ 4,678
Share-based compensation	7,206	688	17,874	2,399
Selling, marketing and promotion	4,115	1,610	11,873	6,664
Amortization	2,715	241	3,985	956
Research and development	210	58	490	492
Impairment of intangible asset	--	--	--	3,500
Transaction costs	939	--	5,192	--
	$ 22,584	$ 3,860	$ 53,315	$ 18,689

Selling, general and administrative expenses are comprised of general and administrative, share-based compensation, selling, marketing and promotion, amortization, research and development, impairment of intangible asset and transaction costs. These costs increased by $18,724 to $22,584 from $3,860 in the same quarter in the prior year and increased $34,626 to $53,315 from $18,689 in the prior year.

General and administrative costs

	Three months ended May 31,		Year ended May 31,	
	2018	2017	**2018**	2017
Executive compensation	$ 567	$ 209	$ 1,794	$ 829
Consulting fees	944	88	1,154	220
Office and general	1,807	230	3,562	1,336
Professional fees	1,589	217	2,951	608
Salaries and wages	1,919	353	3,295	1,142
Travel and accomondation	372	144	889	464
Rent	201	22	256	79
	$ 7,399	$ 1,263	$ 13,901	$ 4,678

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

- Executive compensation increased as a result of the increase in executive headcount over the same period in the prior year;
- Salaries and wages, office and general, and travel and accommodation as a result of increased headcount and other activity within the business over the same period in the prior year;
- Professional fees, predominantly comprised of legal costs associated with various negotiations and reviews of current and potential business relationships necessary to sustain the growth of the Company, including recurring costs related to our listing on the TSX.

Share-based compensation

The Company recognized share-based compensation expense of $7,206 for the three months ended May 31, 2018 compared to $688 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 a result of an increase in deferred share units ("**DSUs**"), stock options vesting, as well as an increase in stock price used in the valuation of DSUs and options issued in the current period. The Company issued 32,000 DSUs and 1,470,000 stock options in the current period compared, to 16,000 DSUs and 140,000 stock options in the same period of the prior year. Of the stock options granted in the quarter, 156,665 vested in the quarter.

For the year ended May 31, 2018, the Company incurred share-based compensation of $17,874 as opposed to $2,399 for the prior year. The increase in share-based compensation is a result of an increase in DSUs issued, stock options vesting, as well as an increase in stock price used in the valuation of options issued in the current year. The Company issued 263,000 DSUs and 5,123,000 stock options in the current year compared to 32,000 DSUs and 2,253,000 stock options in the prior year. Of the stock options granted in the year, 1,018,621 vested in the year. The Company also rescinded 515,000 stock options which were issued during the year, the fair value of the options rescinded was $5,256, of which $1,906 was included in share-based compensation prior to the options being rescinded.

Selling, marketing and promotion costs

For the three months ended May 31, 2018, the Company incurred selling, marketing and promotion costs of $4,115, or 34.2% of revenue versus $1,610 or 28.2% of revenue in the comparable prior period. These costs relate to patient acquisition and ongoing patient maintenance, the Company's call center operations, shipping costs, marketing department, as well as the development of promotional and information materials. Patient acquisition and ongoing patient maintenance costs include payments to individual clinics to perform medical studies as well as reimbursement of operating costs incurred by clinics on the Company's behalf. The increase in selling, marketing and promotion cost is correlated with the increase in patient and sales volumes over the comparable period. During the quarter, the Company also increased marketing costs related to the upcoming adult-use market.

For the year ended May 31, 2018, the Company incurred selling marketing and promotion costs of $11,873 or 32.2% of revenue, as opposed to $6,664 or 32.6% of revenue in the prior year. The increase in costs in the year is consistent with the increase in the three-month period.

Amortization

The Company incurred non-production related amortization charges of $2,715 for the three months ended May 31, 2018 compared to $241 for the same period in the prior year. The increase in amortization charges are a result of the capital expenditures made during the prior fiscal year, which assets the Company transferred into use during the current fiscal year.

The Company incurred non-production related amortization charges of $3,985 for the year ended May 31, 2018 compared to $956 for the prior year. The increase for the year is consistent with the increase for the three-month period.

Research and development

Research and development costs of $210 were expensed during the three months ended May 31, 2018 compared to $58 in same period last year. These relate to costs associated with the development of new cannabis products.

For the year ended May 31, 2018, the Company incurred research and development costs of $490 as opposed to $492 in the prior year.

Transaction costs

Transaction costs of $939 were expensed during the three months ended May 31, 2018 compared to $nil in same period last year. These relate to costs associated with the acquisition of Aphria International.

For the year ended May 31, 2018, the Company incurred transaction costs of $5,192 as opposed to $nil in the prior year. $1,643 relates to the acquisition of Broken Coast, $3,439 relates to the acquisition of Aphria International, and the remaining transaction costs relate to other transactions which have been abandoned, or were still under consideration at year-end.

Non-operating items

	Three months ended May 31,		Year ended May 31,	
	2018	2017	**2018**	2017
Consulting revenue	$ 555	$ 295	$ 1,244	$ 512
Foreign exchange gain	55	418	124	483
(Loss) gain on marketable securities	38	195	(2,155)	209
(Loss) gain on sale of capital assets	--	--	(191)	11
Gain on dilution of ownership in equity investee	--	--	7,535	--
(Loss) gain from equity investees	(14)	210	(9,295)	210
Gain on sale of equity investee	--	--	26,347	--
Deferred gain recognized	604	--	1,304	--
Finance income, net	1,479	30	5,012	728
Unrealized gain on embedded derivatives	3,559	--	4,135	--
(Loss) gain on long-term investments	(13,026)	(5,572)	26,675	3,571
Unrealized gain (loss) on derivative liability	4,399	--	(12,451)	--
	$ (2,351)	$ (4,424)	$ 48,284	$ 5,724

During the quarter ended May 31, 2018, the Company recognized a loss on long-term investment of $(13,026). This loss relates to largely to unrealized losses of $(4,482) on Hiku and $(9,075) on Scythian Biosciences Inc. During the year-ended May 31, 2018, the Company recognized a gain on long-term investments of $26,675. This gain relates largely to a $14,187 realized gain on Nuuvera Inc., and an unrealized gain of $8,817 on Copperstate and CSF. The Company also recognized an unrealized gain (loss) on derivative liability for the quarter and the year ended May 31, 2018 as a result of the 18% discount on market price of Liberty, based on Liberty's 10-day volume weighted trading price in the Obligation Agreement. Based on its closing share price of $0.87 as at May 31, 2018, the LHS shares held by Aphria have a fair value, net of the 18% discount, of $57,178, which is $49,009 higher than the carrying value recorded in assets held for sale net of the derivative liability.

Net income

The Company recorded a net loss for the three months ended May 31, 2018 of $(4,992) or $(0.04) per share as opposed to net loss of $(2,593) or $(0.02) per share in the prior year.

The Company recorded net income for the year ended May 31, 2018 of $29,448 or $0.18 per share as opposed to net income of $4,198 or $0.04 per share in the same period of the prior year.

Adjusted EBITDA

Adjusted 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 adjusted EBITDA from operations as net income (loss), plus (minus) income taxes (recovery), plus (minus) finance income, net, plus amortization, plus share-based compensation, plus (minus) non-cash fair value adjustments on sale of inventory and on growth of biological assets, plus impairment of intangible assets, plus transaction costs, plus (minus) loss (gain) on disposal of capital assets, plus (minus) loss (gain) on foreign exchange, plus (minus) loss (gain) on marketable securities, plus (minus) loss (gain) from equity investee, minus deferred gain recognized, plus (minus) loss (gain) on dilution of ownership in equity investee, plus (minus) unrealized loss (gain) on embedded derivatives, plus (minus) loss (gain) on long-term investments and certain one-time non-operating expenses, as determined by management, all as follows:

	Three months ended May 31,		Year ended May 31,	
	2018	2017	**2018**	2017
Net (loss) income	$ (4,992)	$ (2,593)	$ 29,448	$ 4,198
Income taxes (recovery)	(1,731)	134	6,408	134
Finance income, net	(1,479)	(30)	(5,012)	(728)
Amortization	3,809	509	6,678	1,942
Share-based compensation	7,206	688	17,874	2,399
Fair value adjustment on growth of biological assets	(11,821)	(808)	(23,302)	(5,005)
Fair value adjustment on sale of inventory	3,077	(115)	10,327	3,561
Impairment of intangible asset	--	--	--	3,500
Transaction costs	939	--	5,192	--
Loss (gain) on sale of capital assets	--	--	191	(11)
Foreign exchange loss (gain)	(55)	(418)	(124)	(483)
Loss (gain) on marketable securities	(38)	(195)	2,155	(209)
Loss (gain) from equity investees	14	(210)	9,295	(210)
Deferred gain recognized	(604)	--	(1,304)	--
Gain on dilution of ownership in equity investee	--	--	(7,535)	--
Unrealized gain on embedded derivatives	(3,559)	--	(4,135)	--
Unrealized (gain) loss on derivative liability	(4,399)	--	12,451	--
Loss (gain) on long-term investments	13,026	5,572	(26,675)	(3,571)
Gain on sale of equity investee	--	--	(26,347)	--
Adjusted EBITDA from Aphria International	2,834	--	2,834	--
Adjusted EBITDA from ACMPR operations	$ 2,227	$ 2,534	$ 8,419	$ 5,517

	Three months ended May 31,		Year ended May 31,	
	2018	2017	**2018**	2017
Adjusted EBITDA from ACMPR operations	$ 2,227	$ 2,534	$ 8,419	$ 5,517
Adjusted EBITDA from Aphria International	(2,834)	--	(2,834)	--
Adjusted EBITDA	$ (607)	$ 2,534	$ 5,585	$ 5,517

Last year, the Company reported adjusted EBITDA of $2,827 for the three months ended May 31, 2017 and $6,083 for the year ended May 31, 2017. In the current year, the company has re-assessed the definition of adjusted EBITDA, particularly as it relates to presenting a repeatable proxy for cash. As a result, the Company removed the following from EBITDA adjustments from the current periods but also removed from the prior periods for comparison purposes:

(i) allowance for bad debts as although this is a non-cash item the Company believes it represents an estimate on future cash flows in the amount of $(84) for the three months ended May 31, 2017 and $61 for the year ended May 31, 2017;

(ii) EBITDA loss from equity accounted investees in the amount of $(44) for the three months ended May 31, 2017 and $(44) for the year ended May 31, 2017

(iii) amortization of certain non-capital assets in the amount of $3 for the three months ended May 31, 2017 and $66 for the year ended May 31, 2017.

The Company also added an EBITDA adjustment for foreign exchange of $(418) for the three months ended May 31, 2017 and $(483) for the year ended May 31, 2017.

Liquidity and Capital Resources

Cash flow generated from (used in) operations for the year decreased by $10,974 from cash flow generated from operations of $5,325 in the prior year to cash flow used in operations of $(5,649) in the current year. The decrease in cash flow generated from operations is primarily a result of:

- Increase in non-cash working capital of $10,411, comprised primarily of increased HST receivable, inventory and other current assets offset by increased accounts payable and accrued liabilities and income taxes payable.

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, 2018, Aphria maintained $59,737 of cash and cash equivalents on hand plus $45,062 in liquid marketable securities, compared to $79,910 in cash and cash equivalents plus $87,347 marketable securities at May 31, 2017. Liquid sources of cash decreased $62,458 in the year.

Working capital provides funds for the Company to meet its operational and capital requirements. As at May 31, 2018, the Company maintained working capital of $150,758. 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 12 months.

Capital and intangible asset expenditures

For the year ended May 31, 2018, the Company invested $133,492 in capital and intangible assets through wholly owned subsidiaries, exclusive of business acquisitions, of which $1,961 are considered maintenance CAPEX and the remaining $131,531 growth CAPEX, related to Broken Coast Phase IV expansion and Aphria One's Part III and Part IV expansions.

For the year ended May 31, 2018, the Company invested $83,207 in capital and intangible assets through majority owned subsidiaries, exclusive of business acquisitions, of which $nil are considered maintenance CAPEX and the remaining $83,207 growth CAPEX, related to Aphria Diamond land and building acquisition and retrofits.

In addition, the Company paid non-cash consideration of $214,168 for the Broken Coast acquisition in the year, of which $105,807 has been allocated to capital and intangible assets. The Company also acquired Aphria International for total consideration of $507,281, of which $140,043 has been allocated to capital and intangible assets.

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 investee, Liberty Health Sciences Inc.

During the previous fiscal 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 5 year periods. As disclosed previously, the Company has agreed to contribute an additional $400 to Green Acre. The Company has lease commitments until September 2019 and August 2020 for the use of two 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	$ 30,360	$ 30,360	$ --	$ --	$ --
Investment commitment	400	400	--	--	--
Operating leases	125	125	--	--	--
Motor vehicle leases	54	29	25	--	--
Long-term debt	30,548	2,140	4,589	23,819	--
Total	$ 61,487	$ 33,054	$ 4,614	$ 23,819	$ --

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 period.

Share capital

Aphria has the following securities issued and outstanding, as at July 31, 2018:

	Presently outstanding	Exercisable	Exercisable & in-the-money	Fully diluted
Common stock	232,372,569	--	--	232,372,569
Warrants	2,823,138	2,843,138	1,497,272	1,497,272
Stock options	8,839,060	4,836,920	4,251,090	4,251,090
Fully diluted				238,120,931

**Based on closing price on July 31, 2018*

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 2018, ended May 31, 2018. 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 2018 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/17	Nov/17	Feb/18	May/18
Revenue	$ 6,120	$ 8,504	$ 10,267	$ 12,026
Net income (loss)	15,041	6,455	12,944	(4,992)
Earnings (loss) per share - basic	0.11	0.05	0.08	(0.06)
Earnings (loss) per share - fully diluted	0.10	0.04	0.08	(0.04)
	Aug/16	Nov/16	Feb/17	May/17
Revenue	$ 4,375	$ 5,226	$ 5,119	$ 5,718
Net income (loss)	895	945	4,950	(2,592)
Earnings (loss) per share - basic	0.01	0.01	0.04	(0.02)
Earnings (loss) per share - fully diluted	0.01	0.01	0.04	(0.02)

Related Party balances and Transactions

The Company funds a small portion of the Canadian operating costs of Liberty, for which Liberty reimburses the Company quarterly. Additionally, the Company purchases certain electrical generation equipment and pays rent to a company owned by a director. The balance owing from related parties as at May 31, 2018 was $nil (May 31, 2017 - $464). 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 year ended May 31, 2018, related party corporations charged or incurred expenditures on behalf of the Company (including rent) totaling $276 (2017 - $350). Included in this amount was rent of $45 charged during the year ended May 31, 2018 (2017 - $49).

Issuers with U.S. Cannabis-Related Activities

On February 8, 2018, the Canadian Securities Administrators revised their previously released Staff Notice 51-352 Issuers with U.S. Marijuana Related Activities (the "**Staff Notice**") which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis related activities in the U.S. as permitted within a particular state's regulatory framework. All issuers with U.S. cannabis related activities are expected to clearly and prominently disclose certain prescribed information in MD&A filings and other required disclosure documents.

On October 16, 2017, the TSX provided clarity regarding the application of Sections 306 (Minimum Listing Requirements) and 325 (Management) and Part VII (Halting of Trading, Suspension and Delisting of Securities) of the TSX Company Manual (collectively, the "**Requirements**") to applicants and TSX listed issuers with business activities in the cannabis sector. In TSX Staff Notice 2017-0009, the TSX notes that issuers with ongoing business activities that violate U.S. federal law regarding cannabis are not in compliance with the Requirements. These business activities may include (i) direct or indirect ownership of, or investment in, entities engaging in activities related to the cultivation, distribution or possession of cannabis in the U.S., (ii) commercial interests or arrangements with such entities, (iii) providing services or products specifically targeted to such entities, or (iv) commercial interests or arrangements with entities engaging in providing services or products to U.S. cannabis companies. The TSX reminded issuers that, among other things, should the TSX find that a listed issuer is engaging in activities contrary to the Requirements, the TSX has the discretion to initiate a delisting review.

As a result of the Company's investments in certain U.S. entities (as described herein), Aphria is properly subject to the Staff Notice and accordingly provides the following disclosure:

Nature of U.S. Investments:

Liberty Health Sciences Inc. (Florida)

In May 2017, Aphria invested $25 million into DFMMJ Investments, Ltd. ("**DFMMJ**"), which acquired all or substantially all of the assets of Chestnut Hill Tree Farm LLC, ("**Chestnut**") through its subsidiary DFMMJ Investments, LLC, and subsequently amalgamated into a subsidiary of SecureCom Mobile Inc. ("**SecureCom**"), a public company listed on the Canadian Securities Exchange, as part of a business combination. The funds, when combined with an additional $35 million raised in a brokered private placement led by Clarus, were invested and used in an entity renamed Liberty Health Sciences Inc. On July 20, 2017, DFMMJ completed its business combination with SecureCom through a reverse takeover acquisition. Upon the completion of the transaction, Liberty consolidated its issued and outstanding common shares and other securities on the basis of three pre-consolidation common shares held for one post consolidation common share. As a result of the three for one exchange and at the time of the completion of the reverse takeover, Aphria held 106,864,102 common shares of Liberty, a reporting issuer on the Canadian Securities Exchange, representing a 37.6% ownership.

Liberty, through its subsidiary, is licensed to produce and sell medical cannabis in the State of Florida through the Florida Department of Health, Office of Compassionate Use under the provisions of the Compassionate Medical Cannabis Act of 2014. The Company agreed to license its intellectual property in registered marks Aphria, Solei and an unnamed brand to Liberty, in exchange for a 3% perpetual royalty on all sales of cannabis and related products. The licensing of brand names does not require regulatory approval in the State of Florida.

On February 5, 2018, Aphria announced that it entered into a purchase and sale agreement to sell 26,716,025 shares representing all its shares in Liberty that were not otherwise subject to the escrow requirements of the CSE to the Purchasers. Following this transaction, Aphria retained an ownership position of 28.1% of the issued and outstanding shares of Liberty subject, however, to a binding and reciprocal put/call obligation for the Remaining Shares, which are currently subject to the CSE escrow requirements. Pursuant to the agreement, as each new tranche of Remaining Shares is released from escrow (such final escrow release scheduled to occur in July, 2020), Aphria has granted to each of the Purchasers a call option to purchase the Remaining Shares, and each of the Purchasers has granted to Aphria a put option to sell the Remaining Shares, at a pre-determined valuation.

On July 23, 2018, Aphria announced that it had entered into an amended purchase and sale agreement related to the July 26, 2018 tranche of Liberty shares when they left escrow. The amended purchase and sale agreement, including Aphria agreeing to hold a 30-day promissory note for payment of the shares, Aphria paying $480,000 and the purchasers agreeing to an 18-month stand still on selling the shares and agreeing to grant Aphria an 18-month option to repurchase the shares, exercisable at $1.00 per share, subject to certain conditions.

In the event that the relevant provisions of the TSX Company Manual related to issuers with cannabis assets in the United States are revoked, amended or superseded or any other policies, positions, guidelines, directives, rules or regulations of the TSX are implemented such that Aphria would be permitted to hold, directly or indirectly, cannabis related assets or other investments in the United States (including the Remaining Shares), then the aforementioned put/call obligation shall forthwith be terminated, upon payment by Aphria to the Purchasers of an agreed termination fee.

Non-Material Investees: CannaRoyalty Corp. and MassRoots Inc.

CannaRoyalty is a diversified operator in the regulated cannabis industry with a focus on building and supporting a diversified portfolio of branded cannabis consumer products. It holds investments in Arizona, California, Colorado, Florida, Oregon and Washington. Aphria holds 750,000 of the issued and outstanding common shares of CannaRoyalty.

MassRoots is an internet based advertising platform that connects patients with medical cannabis in Canada and the United States. Aphria holds 500,000 common shares of MassRoots. To Aphria's knowledge, MassRoots is not involved in the cultivation of cannabis.

Enforcement of U.S. Federal Laws

Unlike in Canada, which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical cannabis under the ACMPR, in the United States, cannabis is largely regulated at the state level. To the Company's knowledge, there are to date a total of 29 states, plus the District of Columbia, Puerto Rico and Guam that have legalized cannabis in some form. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a Schedule I controlled substance under the CSA and as such, violates federal law in the United States.

As a result of the conflicting views between state legislatures and the United States federal government regarding cannabis, investments in cannabis 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 cannabis as a controlled substance at the federal level in the United States, several US states have enacted laws relating to cannabis for medical purposes.

The Cole Memorandum outlined certain priorities for the Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, 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 cannabis. States where medical cannabis had been legalized were not characterized as a high priority. In March 2017, 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, on January 4, 2018, Attorney General Jeff Sessions issued a memorandum (the "**Sessions Memorandum")** that rescinded the Cole Memorandum. The Sessions Memorandum rescinded previous nationwide guidance specific to the prosecutorial authority of United States Attorneys relative to cannabis enforcement on the basis that they are unnecessary, given the well established principles governing federal prosecution that are already in place. Those principals are included in chapter 9.27.000 of the United States Attorneys' Manual and require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.

As a result of the Sessions Memorandum, federal prosecutors will now be free to utilize their prosecutorial discretion to decide whether to prosecute marijuana activities despite the existence of state level laws that may be inconsistent with federal prohibitions. No direction was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how actively federal prosecutors will be in relation to such activities. Furthermore, the Sessions Memorandum did not discuss the treatment of medical cannabis by federal prosecutors. Medical cannabis is currently protected against enforcement by enacted legislation from United States Congress in the form of the Rohrabacher Blumenauer Amendment (also described as the Rohrabacher Leahy Amendment, each as defined herein) which similarly prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding. See "*U.S. Enforcement Proceedings*". Due to the ambiguity of the Sessions Memorandum in relation to medical cannabis, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, and also divert 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.

Additionally, under U.S. federal law it may potentially be a violation of federal money laundering statutes for financial institutions to accept any proceeds from cannabis sales or any other Schedule I narcotics. Canadian banks are similarly reluctant to transact with cannabis companies, due to the uncertain legal and regulatory framework characterizing the industry at present. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy. Despite these laws, in February 2014, the Financial Crimes Enforcement Network ("**FCEN**") of the Treasury Department issued a memorandum (the "FCEN Memo") providing instructions to banks seeking to provide services to cannabis related businesses. The FCEN Memo states that in some circumstances, it is permissible for banks to provide services to cannabis 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 cannabis related violations of the CSA. It is unclear at this time whether the current administration will follow the guidelines of the FCEN Memo.

Since the issuance of the Sessions memorandum on January 4, 2018, no public comments have been made by United States attorneys in Florida regarding the enforcement of federal law related to cannabis. This includes Mr. Christopher Canova, U.S. Attorney for the Northern District of Florida, Mr. Benjamin Greenberg, U.S. Attorney for the Southern District of Florida and Mr. Chapa Lopez, U.S. Attorney for the Middle District of Florida.

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 cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis 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 cannabis, 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.

Further, 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 cannabis 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.

U.S. Enforcement Proceedings

The United States Congress has passed appropriations bills each of the last three years that included the Rohrabacher Amendment Title: H.R.2578 — Commerce, Justice, Science, and Related Agencies Appropriations Act, 2016 (the "**Rohrabacher Blumenauer Amendment**"), which by its terms does not appropriate any federal funds to the U.S. Department of Justice for the prosecution of medical cannabis offenses of individuals who are in compliance with state medical cannabis laws. Subsequent to the issuance of the Sessions Memorandum on January 4, 2018, the United States Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher Blumenauer Amendment language (referred to in 2018 as the "**Rohrabacher Leahy Amendment**") and continued the protections for the medical cannabis marketplace and its lawful participants from interference by the Department of Justice up and through the 2018 appropriations deadline of September 30, 2018. 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. If Congress restores funding, the United States 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.

Ability to Access Public and Private Capital

The Company has historically, and continues to have, robust access to both public and private capital in Canada in order to support its continuing operations. This is evidenced by the Company's consistent ability to access public capital on separate occasions. The Company has had cannabis related activities in the U.S. since 2015. As disclosed earlier in August of this year, the Company's Common Shares have traded on the TSX and previously the TSX Venture Exchange for almost three years during which time the Company has raised over $625 million from investors by way of seven offerings by short form prospectus. In addition to certain Canadian Schedule 1 banks accepting deposits from entities positioned in the legal medical cannabis sectors, there are also a number of credit unions that have historically provided, and continue to provide, debt financings in this space. More particularly, the Company itself has previously closed a suite of financings with one of the largest credit unions in Ontario in amounts totaling approximately $35,000,000 and at interest rates below 4%. The Company has never needed to access public equity capital in the United States. All capital requirements have been adequately met in Canada and the Company expects that to continue.

In respect of Liberty, the Company has limited means to cause this investment to access capital as they each have their own boards and management that make such decisions largely independent of the Company. Liberty has been successful in raising private capital with and without the participation of the Company. Liberty also undertook private placements. We are not aware of any inability of Liberty to continue as a going concern, irrespective of their ability to access public equity capital.

Regulation of Medical Cannabis in Florida

Liberty is licensed to produce and sell medical cannabis in the State of Florida through the Florida Department of Health, Office of Medical Marijuana Use under the provisions of the Senate Bill 8A, Fla. Stat. 386.981 et seq. The Florida Department of Health issued the license (the "Liberty License") to Chestnut on November 23, 2015 and Liberty acquired the rights to the Liberty License on May 23, 2017 via the exclusive management agreement entered into between Liberty and Chestnut. On September 28, 2017, the Florida Department of Health, Office of Medical Marijuana Use, approved the transfer of the Liberty License to DFMMJ, the wholly owned subsidiary of Liberty, which now solely owns and is entitled to utilize the License in Florida.

The Liberty License permits the sale of low THC cannabis (now grandfathered to produce and sell high THC cannabis) and medical cannabis to treat a number of medical conditions in the State of Florida which are delineated in Florida Statutes section 386.981. Under the terms of the Liberty License, Liberty is permitted to sell medical cannabis only to qualified medical patients that are registered with the state. Only certified physicians who have successfully completed a medical cannabis educational program can register patients and their medical cannabis orders on the Florida Office of Compassionate Use Registry. Liberty maintains an open and collaborative relationship with the Florida Department of Health and Liberty's operations are in full compliance with all laws and regulations.

Under the Liberty License, Liberty can operate up to 25 dispensaries statewide. Currently, the dispensaries can be in any geographic location within the state as long as the local municipality's zoning regulations authorize such a use and/or the proposed site is zoned for a pharmacy use and is not within 500 feet of a church or school. In the State of Florida, only cannabis that is grown in the state can be sold in the state. As Florida is a vertically integrated system, Liberty (and other licensees) is required to cultivate, harvest, process and sell/dispense/deliver its own medical cannabis products. The state also allows Liberty to make a wholesale purchase of medical cannabis from, or a distribution of medical cannabis to, another licensed dispensing organization within the state. At the present time, Liberty's principal products include cannabis oil in capsule, oral solution, sublingual solution, and vaporizer forms due to regulatory restrictions on the sale of dry flower in the state.

Regulatory Framework

The State of Florida Statutes 381.986(8)(a) provides a regulatory framework that requires licensed producers, which are statutorily defined as "Medical Marijuana Treatment Centers" ("MMTC"), to both cultivate, process and dispense medical cannabis in a vertically integrated marketplace.

Licensing Requirements

Licenses issued by the Department of Health, Office of Medical Marijuana Use (the "Department") may be renewed biennially so long as the licensee meets requirements of the law and pays a renewal fee. License holders can only own one license and MMTC's can operate up to a maximum of 25 dispensaries throughout the State of Florida.

Applicants must demonstrate (and licensed MMTC's must maintain) that: (i) they have been registered to do business in the State of Florida for the previous five years, (ii) they possess a valid certificate of registration issued by the Florida Department of Agriculture, (iii) they have the technical and technological ability to cultivate and produce cannabis, including, but not limited to, low THC cannabis, (iv) they have the ability to secure the premises, resources, and personnel necessary to operate as an MMTC, (v) they have the ability to maintain accountability of all raw materials, finished products, and any by products to prevent diversion or unlawful access to or possession of these substances, (vi) they have an infrastructure reasonably located to dispense cannabis to registered qualified patients statewide or regionally as determined by the Department, (vii) they have the financial ability to maintain operations for the duration of the 2 year approval cycle, including the provision of certified financial statements to the department, (viii) all owners, officers, board members and managers have passed a Level II background screening, inclusive of fingerprinting, and ensure that a medical director is employed to supervise the activities of the MMTC, and (ix) they have a diversity plan and veterans plan accompanied by a contractual process for establishing business relationships with veterans and minority contractors and/or employees.

Upon approval of the application by the Department, the applicant must post a performance bond of up to US$5 million, which may be reduced by meeting certain criteria.

Dispensary Requirements

An MMTC may not dispense more than a 70 day supply of cannabis. The MMTC employee who dispenses the cannabis must enter into the registry his or her name or unique employee identifier. The MMTC must verify that: (i) the qualified patient and the caregiver, if applicable, each has an active registration in the registry and active and valid medical cannabis use registry identification card, (ii) the amount and type of cannabis dispensed matches the physician certification in the registry for the qualified patient, and (iii) the physician certification has not already been filled. An MMTC may not dispense to a qualified patient younger than 18 years of age, only to such patient's caregiver. An MMTC may not dispense or sell any other type of cannabis, alcohol, or illicit drug related product, except a cannabis delivery device as specified in the physician certification. An MMTC must, upon dispensing, record in the registry: (i) the date, time, quantity and form of cannabis dispensed, (ii) the type of cannabis delivery device dispensed, and (iii) the name and registry identification number of the qualified patient or caregiver to whom the cannabis delivery device was dispensed. An MMTC must ensure that patient records are not visible to anyone other than the patient, caregiver, and MMTC employees.

Security Requirements for Cultivation, Processing and Dispensing Facilities

With respect to security requirements for cultivation, processing and dispensing facilities, an MMTC must maintain a fully operational alarm system that secures all entry points and perimeter windows, and is equipped with motion detectors, pressure switches, and duress, panic and hold-up alarms. The MMTC must also have a 24-hour video surveillance system with specified features. MMTCs must retain video surveillance recordings for at least 45 days, or longer upon the request of law enforcement. An MMTC's outdoor premises must have sufficient lighting from dusk until dawn.

An MMTC's dispensing facilities must include a waiting area with sufficient space and seating to accommodate qualified patients and caregivers and at least one private consultation area and such facilities may not display products or dispense cannabis or cannabis delivery devices in the waiting area and may not dispense cannabis from its premises between the hours of 9:00 p.m. and 7:00 a.m. but may perform all other operations and deliver cannabis to qualified patients 24-hours a day.

Transportation and Storage Requirements

Cannabis must be stored in a secured, locked room or a vault. An MMTC must have at least two employees, or two employees of a security agency, on the premises at all times where cultivation, processing, or storing of cannabis occurs. MMTC employees must wear an identification badge and visitors must wear a visitor pass at all times on the premises. An MMTC must report to law enforcement within 24 hours after the MMTC is notified of or becomes aware of the theft, diversion or loss of cannabis. A cannabis transportation manifest must be maintained in any vehicle transporting cannabis or a cannabis delivery device. The manifest must be generated from the MMTC's seed to sale tracking system and must include the: (i) departure date and time, (ii) name, address, and license number of the originating MMTC, (iii) name and address of the recipient, (iv) quantity and form of any cannabis or cannabis delivery device being transported, (v) arrival date and time, (vi) delivery vehicle make and model and license plate number; and (vii) name and signature of the MMTC employees delivering the product. Further, a copy of the transportation manifest must be provided to each individual, MMTC that receives a delivery. MMTCs must retain copies of all cannabis transportation manifests for at least three years. Cannabis and cannabis delivery devices must be locked in a separate compartment or container within the vehicle and employees transporting cannabis or cannabis delivery devices must have their employee identification on them at all times. Lastly, at least two people must be in a vehicle transporting cannabis or cannabis delivery devices, and at least one person must remain in the vehicle while the cannabis or cannabis delivery device is being delivered.

Department Inspections

The Department shall conduct announced or unannounced inspections of MMTCs to determine compliance with the laws and rules. The Department shall inspect an MMTC upon receiving a complaint or notice that the MMTC has dispensed cannabis containing mold, bacteria, or other contaminants that may cause an adverse effect to humans or the environment. The Department shall conduct at least a biennial inspection of each MMTC to evaluate the MMTC's records, personnel, equipment, security, sanitation practices, and quality assurance practices.

Compliance of U.S. Investments

Liberty is in compliance with applicable licensing requirements and the regulatory framework enacted by the State of Florida, including but not limited to the FCEN Memo. Liberty maintains a banking relationship in Florida, with a certain bank that is in full compliance with the Treasury Department's federal rules and regulations as they pertain to a state approved cannabis business. More specifically, and as further detailed above, Liberty is licensed to operate as a "medical cannabis treatment center" under applicable Florida law pursuant to the terms of the Liberty License issued by the Florida Department of Health, Office of Compassionate Use under the provisions of the Compassionate Medical Cannabis Act of 2014. The Liberty License grants Liberty the authority to possess, cultivate, process, dispense and sell medical cannabis in the State of Florida. Liberty has not experienced any non compliance nor has been subject to any notices of violation by the Florida Department of Health, Office of Medical Marijuana Use.

The Company understands that Liberty has implemented measures designed to ensure compliance with applicable U.S. state laws on an ongoing basis, including:

- weekly correspondence and updates with advisors;
- development of standard operating procedures;
- appropriate employee training for all standard operating procedures; and
- subscription to monitoring programs with large banks to monitor and ensure compliance with the FinCEN Memo.

The Company confirms that the U.S. cannabis related activities of Liberty, and to the best of the Company's knowledge, each Non Material Investee are conducted in a manner consistent with the U.S. federal enforcement priorities articulated in the Cole Memorandum and to the best of the Company's knowledge each of the Non-Material Investees are in compliance with licensing requirements and applicable state regulatory frameworks.

Potential impact of risk in holding U.S. investments

The Company currently holds one U.S. cannabis investment plus the Non-Material Investments, being its interest in Liberty.

The Company's net assets invested in Liberty are $8,169, as at May 31, 2018. These net assets are comprised of assets held for sale of $20,620 offset by a derivative liability of $12,451. The Company's entire net assets invested in Liberty are at risk and, in the event of a full loss, the Company would record a loss of $8,169 in its profit and loss statement. For the year ended May 31, 2018, the Company recognized a net gain of $12,150 from all profit and loss activities associated with Liberty. The net gain is comprised of a gain on dilution of ownership in equity investee of $7,535, gain on sale of equity investee of $26,347, offset by loss from equity investee of $9,281 and an unrealized loss on derivative liability of $12,451.

Industry Trends and Risks

The Company's overall performance and results of operations are subject to a number of risks and uncertainties, of which the below are considered to be the Company's principal risks. For a more detailed and complete discussion of economic, industry and risk factors of the Company, please see our Annual Report, each in respect of the year ended May 31, 2017 and in our Short Form Prospectus, dated June 22, 2018, December 22, 2017, November 1, 2017, May 3, 2017 and February 17, 2017.

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 the Company 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 experience 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.

Reliance on Veterans Affairs Canada (“VAC”) medical cannabis reimbursement policies

As the Company has previously disclosed, VAC reimburses certain medical cannabis purchases for eligible retired Canadian Armed Forces veterans. The current reimbursement policy includes a three gram per day limit, subject to certain exceptions, and an $8.50 per gram price cap. The Company maintains a number of veterans as part of its overall medical patient list, although as discussed in the Company’s previous continuous disclosure, veteran sales have decreased over the prior quarter. As the Company grows larger and, more particularly, when adult use of cannabis is implemented by the Canadian Federal Government, the Company anticipates that veteran patients will become less and less material to its overall sales as a relative percentage. However, should VAC further amend its reimbursement policies prior to the introduction of adult use of cannabis, the Company may be materially adversely affected.

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**”). The Company’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 Company’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 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.

Environmental Regulations and Risks

The Company’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 the Company’s operations. Government approvals and permits are currently, and may in the future be required in connection with the Company’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, the Company’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 the Company’s ability to continue producing medical marijuana, its business, financial condition and prospects.

Regulatory Compliance

The commercial medical cannabis industry is a new industry in Canada and the Company anticipates that once in force, the Cannabis Act and its regulations will subject the Company to a new regulatory regime governed by new regulations, guidelines and policies relating to the manufacture, processing, import, export, management, packaging/labelling, advertising, sale, transportation, storage and disposal of cannabis but also laws and regulations relating to drugs containing cannabis, amended security measures and outdoor cultivation. While, to the knowledge of management, the Company is currently in compliance with the current regulatory regime and is on track to transition its licences under the Cannabis Act, any changes to such laws, regulations, guidelines and policies may have a material adverse effect on its business, financial condition and results of operations.

Changes in Laws, Regulations and Guidelines

On December 20, 2017, the Prime Minister communicated that the Canadian Federal Government intends to legalize cannabis in the summer of 2018, despite previous reports of a July 1, 2018 deadline. On June 7, 2018, Bill C45 passed the third reading in the Senate with a number of amendments to the language of the Cannabis Act. On June 20, 2018, Prime Minister Trudeau announced that marijuana would be legal by October 17, 2018. On June 21, 2018, the Government of Canada announced that Bill C-45 received Royal Assent. The Bill-C-45 will come into force on October 17, 2018. On July 11, 2018, the regulations made pursuant to the Cannabis Act were published. The regulations under the Cannabis Act contemplate the various licences including cultivation, processing, analytical testing, sale (including medical sales), analytical testing and scientific research. The regulations introduced the nursery and made outdoor cultivation permissible. Finally, the requirements for packaging and labelling of products for both medical and non-medical consumption were explicitly set forth. The impact of changes in the regulatory enforcement by Health Canada under the Cannabis Act and its regulations, particularly in respect of product packaging, labelling, marketing, advertising and promotions and product approvals and its impact on the Company's business are unknown at this time.

In addition, when the Cannabis Act comes into effect, there is no guarantee that provincial legislation regulating the distribution and sale of cannabis for adult use purposes will be enacted according to the terms announced by such provinces, or at all, or that any such legislation, if enacted, will create the opportunities for growth anticipated by the Company. For example, the Provinces of Ontario (Canada's most populous province), Québec and New Brunswick have announced sales and distribution models that would create government-controlled monopolies over the legal retail and distribution of cannabis for adult use purposes in such provinces, which could limit the Company's opportunities in those provinces.

Reliance on Third Party Suppliers, Manufacturers and Contractors

The Company intends to maintain a full supply chain for the provision of products and services to the regulated cannabis industry. Due to the novel regulatory landscape for regulating cannabis in Canada and the variability surrounding the regulation of cannabis in the United States, the Company's third party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Company's operations. Loss of these suppliers, manufacturers and contractors may have a material adverse effect on the Company's business and operational results.

Risks Inherent in an Agricultural Business

Aphria's business involves the growing of medical cannabis, 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.

Third Party Transportation

In order for customers of Aphria to receive their product, Aphria must rely on third party mail and courier 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 and/or rising costs associated with these 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.

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.

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.

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.

Insurance coverage

The Company has insurance to protect its assets, operations, directors and employees. The Company is currently pursuing additional insurance coverage over its crop, product liability claims and for business interruption. While the Company believes the insurance coverage addresses all material risks to which it is exposed and is adequate and customary in the 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 the Company is exposed to. In addition, no assurance can be given that such insurance will be adequate to cover our 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, the business, results of operations and financial condition could be materially adversely affected.

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 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.

Negative Consumer Perception

The Company believes the 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 or recreational 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.

Risk Factors Related to International Activities

Expansion into Foreign Jurisdictions

The Company's expansion into jurisdictions outside of Canada is subject to risks. In addition, in jurisdictions outside of Canada, there can be no assurance that any market for the Company's products will develop. The Company may face new or unexpected risks or significantly increase its exposure to one or more existing risk factors, including economic instability, changes in laws and regulations, and the effects of competition. These factors may limit the Company's ability to successfully expand its operations into such jurisdictions and may have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's Operations in Emerging Markets are Subject to Political and Other Risks Associated with Operating in a Foreign Jurisdiction

The Company has operations in various emerging markets and may have operations in additional emerging markets in the future. Such operations expose the Company to the socioeconomic conditions as well as the laws governing the cannabis industry in such countries. Inherent risks with conducting foreign operations include, but are not limited to: high rates of inflation; extreme fluctuations in currency exchange rates, military repression; war or civil war; social and labour unrest; organized crime; hostage taking; terrorism; violent crime; expropriation and nationalization; renegotiation or nullification of existing licenses, approvals, permits and contracts; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political norms, banking and currency controls and governmental regulations that favour or require the Company to award contracts in, employ citizens of, or purchase supplies from, the jurisdiction.

Governments in certain foreign jurisdictions intervene in their economies, sometimes frequently, and occasionally make significant changes in policies and regulations. Changes, if any, in marijuana industry or investment policies or shifts in political attitude in the countries in which the Company operates may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, importation of product and supplies, income and other taxes, royalties, the repatriation of profits, expropriation of property, foreign investment, maintenance of concessions, licenses, approvals and permits, environmental matters, land use, land claims of local people, water use and workplace safety. Failure to comply strictly with applicable laws, regulations and local practices could result in loss, reduction or expropriation of licenses, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

The Company continues to monitor developments and policies in the emerging markets in which it operates and assess the impact thereof to its operations; however such developments cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability.

Corruption and Fraud in Certain Emerging Markets Relating to Ownership of Real Property May Adversely Affect the Company's Business

There are uncertainties, corruption and fraud relating to title ownership of real property in certain emerging markets in which the Company operates or may operate. Property disputes over title ownership are frequent in emerging markets, and, as a result, there is a risk that errors, fraud or challenges could adversely affect the Company's ability to operate in such jurisdictions.

Inflation in Emerging Markets, Along with Governmental Measures to Combat Inflation, may have a Significant Negative Effect on Local Economies and also on the Company's Financial Condition and Results of Operations

In the past, high levels of inflation have adversely affected emerging economies and financial markets, and the ability of government to create conditions that stimulate or maintain economic growth. Moreover, governmental measures to curb inflation and speculation about possible future governmental measures have contributed to the negative economic impact of inflation and have created general economic uncertainty. The emerging markets in which the Company operates or may operate may experience high levels of inflation in the future. Inflationary pressures may weaken investor confidence in such countries and lead to further government intervention in the economy. If countries in which the Company operates experience high levels of inflation in the future and/or price controls are imposed, the Company may not be able to adjust the rates the Company charges the Company's customers to fully offset the impact of inflation on the Company's cost structures, which could adversely affect the Company's results of operations or financial condition.

The Company's Operations may be Impaired as a Result of Restrictions on the Acquisition or Use of Properties by Foreign Investors or Local Companies under Foreign Control

Non-resident individuals and non-domiciled foreign legal entities may be subject to restrictions on the acquisition or lease of properties in certain emerging markets. Limitations also apply to legal entities domiciled in such countries which are controlled by foreign investors, such as the entities through which the Company operates in certain countries. Accordingly, the Company's current and future operations may be impaired as a result of such restrictions on the acquisition or use of property, and the Company's ownership or access rights in respect of any property it owns or leases in such jurisdictions may be subject to legal challenges, all of which could result in a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company May Expand into Other Geographic Areas, which could Increase the Company's Operational, Regulatory and Other Risks

In addition to the jurisdictions described elsewhere in this MD&A, the Company may in the future expand into other geographic areas, which could increase the Company's operational, regulatory, compliance, reputational and foreign exchange rate risks. The failure of the Company's operating infrastructure to support such expansion could result in operational failures and regulatory fines or sanctions. Future international expansion could require the Company to incur a number of up-front expenses, including those associated with obtaining regulatory approvals, as well as additional ongoing expenses, including those associated with infrastructure, staff and regulatory compliance. The Company may not be able to successfully identify suitable acquisition and expansion opportunities or integrate such operations successfully with the Company's existing operations.

The Company may be Responsible for Corruption and Anti-bribery Law Violations

The Company's business is subject to Canadian laws which generally prohibit companies and employees from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. In addition, the Company is subject to the anti-bribery laws of any other countries in which it conducts business now or in the future. The Company's employees or other agents may, without its knowledge and despite its efforts, engage in prohibited conduct under the Company's policies and procedures an d anti-bribery laws for which the Company may be held responsible. The Company's policies mandate compliance with these anti-corruption and anti-bribery laws. However, there can be no assurance that the Company's internal control policies and procedures will always protect it from recklessness, fraudulent behaviour, dishonesty or other inappropriate acts committed by its affiliates, employees, contractors or agents. If the Company's employees or other agents are found to have engaged in such practices, the Company could suffer severe penalties and other consequences that may have a material adverse effect on its business, financial condition and results of operations.

Risk Factors Related to the United States

Aphria is indirectly involved (through investments in third-party corporate entities in Canada) in the cannabis industry in the United States where local state law permits such activities, as well the medical cannabis industry in Canada. Although Aphria has publicly announced its intention to divest itself of its material U.S. assets and equity interests, such divestitures are not yet complete. Accordingly, until such time as the Company has divested itself of all U.S. assets and equity interests, the Board has undertaken to consider, evaluate, assess and provide additional disclosure on any risks there may be to investors as a result of such current investments in entities involved with medical cannabis in the United States, including Liberty.

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.

In light of recent announcements, the TSX may initiate delisting reviews for companies with U.S. assets more expeditiously than it would have previously, in the absence of such announcements

On October 16, 2017, the TSX provided clarity regarding the application of the Requirements to applicants and TSX-listed issuers in the cannabis sector. In TSX Staff Notice 2017-0009, the TSX notes that issuers with ongoing business activities that violate U.S. federal law regarding cannabis are not in compliance with the Requirements. These business activities may include (i) direct or indirect ownership of, or investment in, entities engaging in activities related to the cultivation, distribution or possession of cannabis in the U.S., (ii) commercial interests or arrangements with such entities, (iii) providing services or products specifically targeted to such entities, or (iv) commercial interests or arrangements with entities engaging in providing services or products to U.S. cannabis companies. The TSX reminded issuers that, among other things, should the TSX find that a listed issuer is engaging in activities contrary to the Requirements, the TSX has the discretion to initiate a delisting review. In order to comply with the Requirements, the Company may be required to effect one or more reorganizations, restructurings, transactions or series of transactions, which may include a divesture of U.S. cannabis assets.

While cannabis is legal in many U.S. 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 cannabis under the ACMPR, investors are cautioned that in the United States, cannabis is largely regulated at the state level. To the Company's knowledge, there are to date a total of 29 states, plus the District of Columbia, Puerto Rico and Guam that have legalized cannabis in some form, including Florida as noted above in connection with the legacy investment in Liberty. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the CSA and as such, violates 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 cannabis offenses of individuals who are in compliance with state medical cannabis 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.

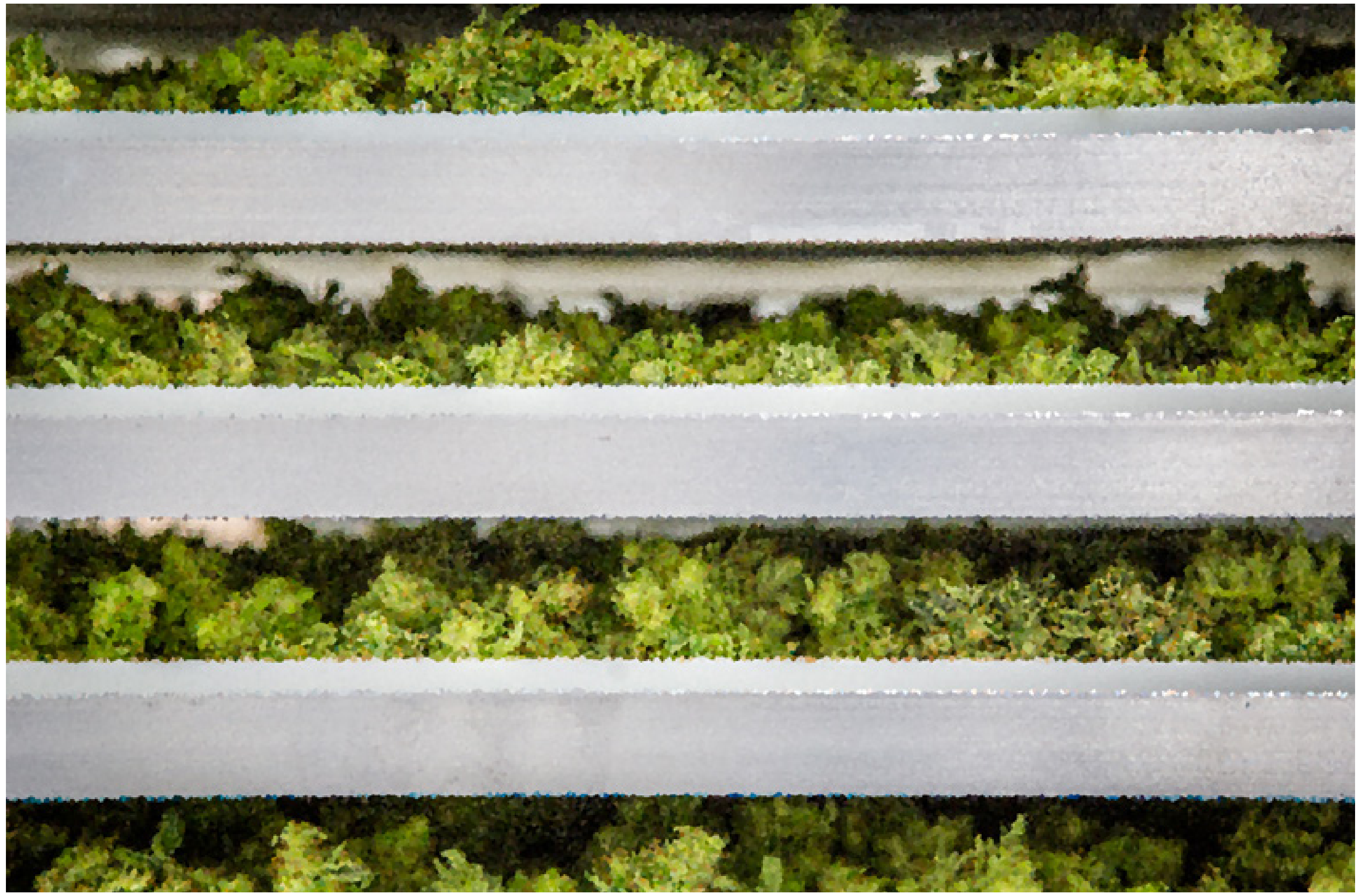
Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement 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 cannabis 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.

This MD&A involves an entity that derives a portion of its revenues from the cannabis industry in certain states of the United States, which industry is illegal under United States federal law. While the Company's business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law. The enforcement of relevant laws is a significant risk.

The approach to the enforcement of cannabis 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 cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in the Cole Memorandum addressed to all United States district attorneys acknowledging that notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several U.S. states have enacted laws relating to cannabis for medical purposes.

The Cole Memorandum outlined certain priorities for the Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, 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 cannabis. States where medical cannabis had been legalized were not characterized as a high priority. In March 2017, 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, on January 4, 2018, Attorney General Jeff Sessions issued the Sessions Memorandum, which rescinded the Cole Memorandum. The Sessions Memorandum rescinded previous nationwide guidance specific to the prosecutorial authority of United States Attorneys relative to cannabis enforcement on the basis that they are unnecessary, given the well-established principles governing federal prosecution that are already in place. Those principals are included in chapter 9.27.000 of the United States Attorneys' Manual and require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.

As a result of the Sessions Memorandum, federal prosecutors will now be free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws that may be inconsistent with federal prohibitions. No direction was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how actively federal prosecutors will be in relation to such activities. Furthermore, the Sessions Memorandum did not discuss the treatment of medical cannabis by federal prosecutors.

Medical cannabis is currently protected against enforcement by enacted legislation from United States Congress in the form of the Rohrabacher-Blumenauer Amendment (as defined herein) which similarly prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding. Subsequent to the issuance of the Sessions Memorandum on January 4, 2018, the United States Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Blumenauer Amendment language (referred to in 2018 as the Rohrabacher-Leahy Amendment) and continued the protections for the medical cannabis marketplace and its lawful participants from interference by the Department of Justice up and through the 2018 appropriations deadline of September 30, 2018. See "U.S. Enforcement Proceedings". Due to the ambiguity of the Sessions Memorandum in relation to medical cannabis, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis 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. In the extreme case, such proceedings could ultimately involve the prosecution of key executives of the Company or the seizure of corporate assets; however as of the date hereof, the Company believes and has obtained legal advice in respect thereof that proceedings of this nature are remote.

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 cannabis-related businesses. The FCEN Memo states that in some circumstances, it is permissible for banks to provide services to cannabis 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 cannabis-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, 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, effect 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 legacy investments 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.

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, in addition to those described herein.

Given the heightened risk profile associated with cannabis in the United States, CDS may implement procedures or protocols that would prohibit or significantly curtail the ability of CDS to settle trades for cannabis companies that have cannabis businesses or assets in the United States. Although the TMX MOU has confirmed that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares through the facilities of a stock exchange. While there can be no assurance that this would occur, and while it would be subject to regulatory approval, a third party has publicly expressed interest in providing clearing services should CDS decide not to do so.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018, the Canadian Securities Administrators revised their previously released CSA Staff Notice 51-352 Issuers with U.S. Marijuana Related Activities (the "Staff Notice") setting out their disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. The Staff Notice confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. The Staff Notice includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. The Company views the Staff Notice favourably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulator of existing operations and strategic business plan as well as the Company's ability to pursue further investment and opportunities in the United States.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis 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 cannabis, 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.

Although Aphria has publicly announced its intention to divest itself of its material U.S. assets and equity interests, such divestitures are not yet complete and remain subject to the risk that they will not be completed in a timely manner, if at all

Following the exercise of the rights of first refusal by the existing investors of Copperstate, the full divesture of CSF and Copperstate has been completed subsequent to yea-end. In addition, Aphria has entered into agreements to sell its remaining interest of the issued and outstanding shares of Liberty, subject to the satisfaction of various escrow and related timing requirements of the CSE. Until such time as the divestitures are in fact complete, intervening events and other execution risks may delay the effective closing of the transactions. In the event that the Company is not successful in divesting itself of its U.S. assets, it will continue to be subject to the heightened regulatory scrutiny and other risks described herein.

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, 2018, 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 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) were 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 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.

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, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Subsequent Events

Subsequent to year-end, the Company completed the forming of CannInvest, with the South African Verve Group of Companies. Through the combination of a share-for-share swap and cash payment of $4.05 million, the Company obtained a 50% ownership in CannInvest which in turn acquired a 60% interest in Verve, a licensed producer of medical cannabis extracts in Lesotho.

Subsequent to year-end, the Company closed a bought deal and issued 21,835,510 common shares for gross proceeds of $258,751.

Subsequent to year-end, the Company's Malta based subsidiary, ASG, received the first import license for medical cannabis issued by the Malta Medicines Authority. The license will allow ASG to import medical cannabis for analytical testing and research and is an important step that will enable ASG to become a cornerstone in testing, research and development of medical cannabis in Europe.

Subsequent to year-end, the Company announced the proposed acquisition of industry-leading companies in Colombia, Argentina, Jamaica and a right of first offer and refusal in respect of Brazil through a definitive share purchase agreement acquiring LATAM. The Company expects to issue 15,678,310 shares, and assume $1,000 of existing debt in connection with the proposed acquisition.

Subsequent to year-end, Aphria Inc. amalgamated with its previously wholly-owned subsidiary, Pure Natures Wellness Inc., pursuant to a short form, vertical amalgamation. The resulting entity retained the name "Aphria Inc."

Subsequent to year-end, the Company amended its Obligation Agreement, where the Company will accept a 30-day promissory note to settle the next tranche of Liberty shares owned by the Company that became freely trading on July 26, 2018. The Company also paid $480 to enter into a standstill agreement, whereby the purchaser of the Liberty shares will not sell the newly acquired shares for 18 months from the date of purchase. The purchaser also granted the Company an option to buy back the shares at $1.00 per share, subject to certain downside risk protection which results in the purchaser sharing a portion of the difference between the share price on the day the option is exercised and the exercise price, provided the share price exceeds $1.25.

Subsequent to year-end, the Company committed to a $15,000 investment in Green Acre Capital Fund II to be launched before December 2018.

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 process 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 cannabis and cannabis-related offenses in the United States.*

Beyond the Standard.

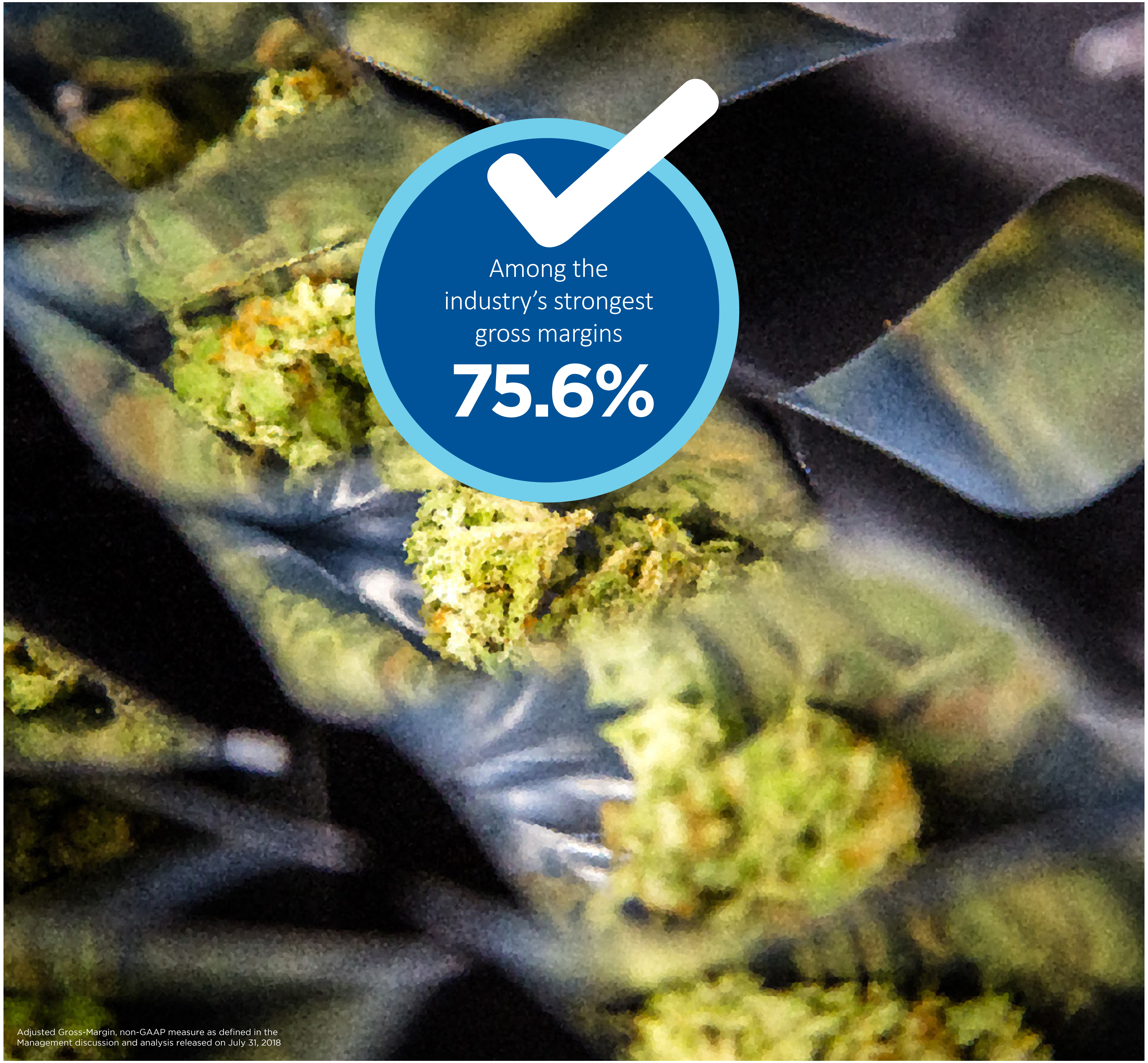
aphria™

2018 Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2018 AND MAY 31, 2017

(Expressed in Canadian Dollars, unless otherwise noted)

Contents



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 31, 2018

Consecutive quarters of positive EBITDA from ACMPR operations*:

11

*As defined in the Management discussion and analysis released on July 31, 2018

July 31, 2018

Independent Auditor's Report

pwc

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, 2018 and May 31, 2017 and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years 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 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 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 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. and its subsidiaries as at May 31, 2018 and May 31, 2017 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

	Note	May 31, 2018	May 31, 2017
Assets			
Current assets			
Cash and cash equivalents		$ 59,737	$ 79,910
Marketable securities	4	45,062	87,347
Accounts receivable		3,386	826
Other current assets	5	14,384	5,571
Inventory	6	22,150	3,887
Biological assets	7	7,331	1,408
Due from related parties	8	--	464
Assets held for sale	13	40,620	--
Current portion of convertible notes receivable	12	1,942	--
		194,612	179,413
Capital assets	9	303,151	72,455
Intangible assets	10	226,444	1,891
Convertible notes receivable	12	16,129	1,534
Interest in equity investees	13	4,966	28,376
Long-term investments	14	46,028	27,788
Deferred tax asset	15	--	3,315
Goodwill	11	522,762	1,200
		$ 1,314,092	$ 315,972
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 31,517	$ 5,874
Income taxes payable	15	3,584	--
Deferred revenue		2,607	2,800
Current portion of promissory note payable	17	610	878
Current portion of long-term debt	18	2,140	765
Current portion of derivative liability	13	3,396	--
		43,854	10,317
Long-term liabilities			
Promissory note payable	17	--	366
Long-term debt	18	28,337	31,420
Derivative liability	13	9,055	--
Deferred tax liability	15	59,253	--
		140,499	42,103
Shareholders' equity			
Share capital	19	1,113,981	274,317
Warrants	20	1,375	445
Share-based payment reserve		22,006	3,230
Accumulated other comprehensive loss		(801)	--
Non-controlling interest	22	9,580	--
Retained earnings (deficit)		27,452	(4,123)
		1,173,593	273,869
		$ 1,314,092	$ 315,972

Nature of operations (Note 1)
Commitments (Note 30)
Subsequent events (Note 31)

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

(In thousands of Canadian dollars, except share and per share amounts)

	Note	For the year ended May 31, 2018	2017
Revenue		$ 36,917	$ 20,438
Production costs	6	8,692	4,585
Other costs of sales		313	--
Gross profit before fair value adjustments		27,912	15,853
Fair value adjustment on sale of inventory	6	10,327	3,561
Fair value adjustment on growth of biological assets	7	(23,302)	(5,005)
Gross profit		40,887	17,297
Operating expenses:			
General and administrative	23	13,901	4,678
Share-based compensation	24	17,874	2,399
Selling, marketing and promotion		11,873	6,664
Amortization		3,985	956
Research and development		490	492
Impairment of intangible asset		--	3,500
Transaction costs		5,192	--
		53,315	18,689
		(12,428)	(1,392)
Non-operating items:			
Consulting revenue	17	1,244	512
Foreign exchange gain		124	483
(Loss) gain on marketable securities	4	(2,155)	209
(Loss) gain on sale of capital assets	9	(191)	11
Gain on dilution of ownership in equity investee	13	7,535	--
(Loss) gain from equity investees	13	(9,295)	210
Gain on sale of equity investee	13	26,347	--
Deferred gain recognized		1,304	--
Finance income, net	25	5,012	728
Unrealized gain on embedded derivatives	12	4,135	--
Gain on long-term investments	26	26,675	3,571
Unrealized loss on derivative liability	13	(12,451)	--
		48,284	5,724
Income before income taxes		35,856	4,332
Income taxes	15	6,408	134
Net income		29,448	4,198
Other comprehensive loss			
Other comprehensive loss from equity investee	13	(801)	--
Net comprehensive income		$ 28,647	$ 4,198
Total comprehensive income is attributable to:			
Owners of Aphria Inc.		28,867	4,198
Non-controlling interest	22	(220)	--
		$ 28,647	$ 4,198
Weighted average number of common shares - basic		161,026,463	104,341,319
Weighted average number of common shares - diluted		165,914,000	111,427,893
Earnings per share - basic	27	$ 0.18	$ 0.04
Earnings per share - diluted	27	$ 0.18	$ 0.04

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

Consolidated Statements of Changes in Equity

(In thousands of Canadian dollars, except share amounts)

	Number of common shares	Share capital (Note 19)	Warrants (Note 20)	Share-based payment reserve	Accumulated other comprehensive loss	Non-controlling interest (Note 22)	Retained earnings (deficit)	Total
Balance at May 31, 2016	70,053,933	$ 40,917	$ 694	$ 1,724	$ --	$ --	$ (8,321)	$ 35,014
Share issuance - August 2016 bought deal	17,250,000	31,959	--	--	--	--	--	31,959
Share issuance - November 2016 bought deal	10,062,500	37,263	--	--	--	--	--	37,263
Share issuance - February 2017 bought deal	11,500,000	53,869	--	--	--	--	--	53,869
Share issuance - May 2017 bought deal	13,269,252	81,323	--	--	--	--	--	81,323
Income tax recovery on share issuance costs	--	3,448	--	--	--	--	--	3,448
Share issuance - warrants exercised	15,251,165	23,647	(608)	--	--	--	--	23,039
Share issuance - options exercised	1,053,095	1,534	--	(558)	--	--	--	976
Share issuance - intangible asset acquisition	38,759	100	359	--	--	--	--	459
Share-based payments	100,000	257	--	2,064	--	--	--	2,321
Shares held in escrow for services not yet earned	50,000	--	--	--	--	--	--	--
Net comprehensive income for the year	--	--	--	--	--	--	4,198	4,198
Balance at May 31, 2017	138,628,704	$ 274,317	$ 445	$ 3,230	$ --	$ --	$ (4,123)	$ 273,869

	Number of common shares	Share capital (Note 19)	Warrants (Note 20)	Share-based payment reserve	Accumulated other comprehensive loss	Non-controlling interest (Note 22)	Retained earnings (deficit)	Total
Balance at May 31, 2017	138,628,704	$ 274,317	$ 445	$ 3,230	$ --	$ --	$ (4,123)	$ 273,869
Share issuance - November 2017 bought deal	12,689,675	86,661	--	--	--	--	--	86,661
Share issuance - January 2018 bought deal	8,363,651	109,000	--	--	--	--	--	109,000
Share issuance - Broken Coast acquisition	14,373,675	214,168	--	--	--	--	--	214,168
Share issuance - Nuuvera acquisition	31,226,910	411,258	1,015	12,133	--	--	--	424,406
Share issuance - warrants exercised	2,388,636	3,767	(85)	--	--	--	--	3,682
Share issuance - options exercised	2,493,623	11,559	--	(7,230)	--	--	--	4,329
Share issuance - deferred share units	5,050	62	--	--	--	--	--	62
Income tax recovery on share issuance costs	--	3,002	--	--	--	--	--	3,002
Share-based payments	--	--	--	15,780	--	--	--	15,780
Shares held in escrow earned in exchange for services	--	187	--	--	--	--	--	187
Share-based payments rescinded	--	--	--	(1,907)	--	--	1,907	--
Non-controlling interest	--	--	--	--	--	9,800	--	9,800
Net comprehensive income for the year	--	--	--	--	(801)	(220)	29,668	28,647
Balance at May 31, 2018	210,169,924	$ 1,113,981	$ 1,375	$ 22,006	$ (801)	$ 9,580	$ 27,452	$ 1,173,593

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

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

	Note	For the year ended May 31, 2018	2017
Cash generated from (used in) operating activities:			
Net income for the year		$ 29,448	$ 4,198
Adjustments for:			
Future income taxes	15	3,658	134
Fair value adjustment on sale of inventory	6	10,327	3,561
Fair value adjustment on growth of biological assets	7	(23,302)	(5,005)
Loss (gain) on marketable securities	4	2,155	(209)
Unrealized foreign exchange gain	12	(94)	--
Amortization	9,10	6,678	1,942
Loss (gain) on sale of capital assets	9	191	(11)
Impairment of intangible asset	10	--	3,500
Accretion interest on convertible note receivable	12	(1,808)	(34)
Unrealized gain on embedded derivatives	12	(4,135)	--
Gain on dilution of ownership in equity investee	13	(7,535)	--
Loss (gain) from equity investees	13	9,295	(210)
Gain on sale of equity investee	13	(26,347)	--
Deferred gain on recognized		(1,304)	--
Consulting revenue	17	(1,244)	(512)
Other non-cash items		(63)	71
Share-based compensation	24	17,874	2,399
Gain on long-term investments	26	(26,675)	(3,571)
Unrealized loss on derivative liability	13	12,451	--
Transaction costs		5,192	--
Change in non-cash working capital	28	(10,411)	(928)
		(5,649)	5,325
Cash provided by financing activities:			
Share capital issued, net of cash issuance costs		195,661	204,408
Share capital issued on warrants and options exercised		8,011	24,014
Proceeds from non-controlling interest		9,800	--
Advances from related parties	8	11,386	388
Repayment of amounts due to related parties	8	(10,890)	(852)
Proceeds from long-term debt	18	--	32,825
Repayment of long-term debt	18	(7,622)	(644)
		206,346	260,139
Cash used in investing activities:			
Investment in marketable securities	4	(7,365)	(109,269)
Proceeds from disposal of marketable securities	4	47,495	22,131
Investment in capital and intangible assets, net of shares issued	9,10	(216,699)	(67,722)
Proceeds from disposal of capital assets	9	431	33
Convertible notes advances	12	(14,001)	(1,500)
Repayment of convertible notes receivable		640	--
Repayment of promissory notes receivable		--	568
Investment in long-term investments and equity investees		(51,692)	(53,464)
Proceeds from disposal of long-term investments and equity investees		43,077	7,196
Net cash paid on business acquisitions	11	(22,756)	--
		(220,870)	(202,027)
Net (decrease) increase in cash and cash equivalents		(20,173)	63,437
Cash and cash equivalents, beginning of year		79,910	16,473
Cash and cash equivalents, end of year		$ 59,737	$ $79,910

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 cannabis under the provisions of the *Access to Cannabis for Medical Purposes Regulations* ("ACMPR"). In February 2018, the Company acquired Broken Coast Cannabis Ltd. ("Broken Coast") (Note 11). Broken Coast is licensed to produce and sell medical cannabis under the provision of the *Access to Cannabis for Medical Purposes Regulations* ("ACMPR"). In March 2018, the Company acquired Nuuvera Inc. ("Nuuvera") (Note 11), Nuuvera is an international organization with a focus on building a global cannabis brand, with operations in Germany, Italy, Spain, Malta, and Lesotho.

1974568 Ontario Ltd. ("Aphria Diamond") is a 51% majority owned subsidiary of the Company, incorporated in November 2017. This entity is the Company's venture with Double Diamond Farms. Aphria Diamond has applied for its cultivation licence under the provisions of the ACMPR.

The registered office of the Company 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 31, 2018.

2. Basis of Preparation

(a) Statement of compliance

The policies applied in these 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 consolidated 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) Foreign currency translation

All figures presented in the consolidated financial statements are reflected in Canadian dollars, which is the functional currency of the Company and all of its subsidiaries.

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 are translated to Canadian dollars at the foreign exchange rate applicable at the statement of financial position date. Realized and unrealized exchange gains and losses are recognized through profit and loss.

The assets and liabilities of foreign operations, including marketable securities, long-term investments and promissory notes 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 recognized in other comprehensive income and accumulated in equity.

(e) 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.

Subsidiaries	Jurisdiction of incorporation	Ownership interest
Pure Natures Wellness Inc. (o/a Aphria)	Ontario, Canada	100%
Aphria (Arizona) Inc.	Arizona, United States	100%
Cannan Growers Inc.	British Columbia, Canada	100%
Nuuvera Inc.	Ontario, Canada	100%
Nuuvera Holdings Ltd.	Ontario, Canada	100%
ARA – Avanti Rx Analytics Inc.	Ontario, Canada	100%
Avalon Pharmaceuticals Inc.	Ontario, Canada	100%
2589671 Ontario Inc.	Ontario, Canada	100%
2589674 Ontario Inc.	Ontario, Canada	100%
Nuuvera Israel Ltd.	Tel Aviv, Israel	100%
Nuuvera Deutschland GmbH	Hamburg, Germany	100%
FL-Group	Genoa, Italy	100%
Broken Coast Cannabis Ltd.	British Columbia, Canada	99.86%
Nuuvera Malta Ltd.	Valletta, Malta	90%
ASG Pharma Ltd.	Valletta, Malta	90%
1974568 Ontario Ltd.	Ontario, Canada	51%

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.

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.

(f) Amalgamation

Effective June 1, 2017, CannWay Pharmaceuticals Ltd. ("CannWay"), a wholly-owned subsidiary of the Company, was amalgamated with Pure Natures Wellness Inc. (o/a Aphria). The Company has historically presented all balances and activities of CannWay as a fully consolidated entity for financial statement presentation purposes. As of the date of amalgamation, CannWay did not have any assets or outstanding liabilities. There are no material changes to be considered prospectively or to the comparative consolidated statements as a result of the amalgamation.

(g) Interest in equity investees

The Company's interest in equity investees is comprised of its interest in Liberty Health Sciences Inc. ("Liberty") and Althea Company Pty Ltd. ("Althea"). During the year, the Company entered into an agreement which has changed the classification of its investment in Liberty from equity investee to assets held for sale (Note 13).

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 investees until the date on which significant influence ceases.

If the Company's share of losses in an equity 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 investments is tested for impairment in accordance with the policy described in Note 3(j).

(In thousands of Canadian dollars, except share and per share amounts)

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 recognizes 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 and are subject to insignificant risk of changes in value.

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. The Company capitalizes all related direct and indirect costs of production to the biological assets to fair value less costs to sell at each reporting date. At the point of harvest, the biological assets are transferred to inventory at their fair value less costs to sell.

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. Assets held for sale
Assets and liabilities held for disposal are no longer depreciated and are presented separately in the statement of financial position at the lower of their carrying amount and fair value less costs to sell. An asset is regarded as held for sale if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use. For this to be the case, the asset must be available for immediate sale and its sale must be highly probable.

g. 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:

Asset type	Amortization method	Amortization term
Land	Not amortized	No term
Production facility	Straight-line	20 years
Equipment	Straight-line	3 – 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.

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

Amortization is calculated using the following terms and methods:

Asset type	Amortization method	Amortization term
Customer relationships	Straight-line	3 years
Corporate website	Straight-line	2 years
Licences, permits & applications	Straight-line	90 months – indefinite
Non-compete agreements	Straight-line	Over term of non-compete
Tokyo Smoke licensing agreement	Straight-line	5 years
Intellectual property, trademarks & brands	Straight-line	15 months – 20 years

The estimated success of applications, useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Following initial recognition, intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses.

i. 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.

j. 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.

k. 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.

l. 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.

m. 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.

n. 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.

o. 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

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. The Company has convertible loans receivables whereby balances can be converted into equity and a share purchase agreement resulting in an obligation to sell shares at an 18% discount on the market price, based on a 10 day volume weighted trading price (Note 13).

(viii) Classification of financial instruments

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

(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 is adjusted using one or more of the valuation indicators described below. Warrants of private companies are carried at their intrinsic value.

p. 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.

Long-term investments

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 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.

Business combinations
Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. In determining the allocation of the purchase price in a business combination, including any acquisition-related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

The Company measures all assets acquired and liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acquiree are measured on the basis of the non-controlling interests' proportionate share of this equity in the acquiree's identifiable net assets. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess of the aggregate of (a) the consideration transferred to obtain control, the amount of any non-controlling interest in the acquire over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

q. New standards and interpretations issued but not yet adopted

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 is assessing the impact of the standard on its convertible notes receivable and its investments where it holds less than significant influence. The Company is currently completing its assessment of the impact of this new standard.

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 period 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, with a focus on consulting contracts and royalty fees.

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 financial position, consolidated statements of income and comprehensive income, and consolidated statements of cash flows to improve clarity.

4. Marketable securities

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

	S&P rating at purchase	Interest rate	Maturity date	**May 31, 2018**	May 31, 2017
Fixed Income:					
Molson Coors Brewing Company	BBB-	3.950%	10/06/17	$ --	$ 1,116
Ford Motor Credit Co. LLC	BBB	3.320%	12/19/17	--	1,988
Goldman Sachs & Co. LLC	A+	3.375%	2/01/18	--	5,078
The Manufacturer's Life Insurance Company	AA-	2.819%	2/26/18	--	1,472
Canadian Western Bank	A-	2.531%	3/22/18	--	3,039
Ford Motor Credit Co. LLC	BBB	3.700%	8/02/18	1,015	1,037
Sobeys Inc.	BB+	3.520%	8/08/18	3,040	3,078
Royal Bank of Canada	AA-	2.770%	12/11/18	--	5,180
Canadian Western Bank	A-	3.077%	1/14/19	1,528	1,535
Sun Life Financial Inc.	A	2.770%	5/13/19	3,018	3,064
Ford Motor Credit Co. LLC	BBB	3.140%	6/14/19	5,101	5,207
Canadian Natural Resources Ltd.	BBB+	3.050%	6/19/19	--	2,054
Canadian Western Bank	A-	3.463%	12/17/19	1,025	1,028
Laurentian Bank of Canada	BBB	2.500%	1/23/20	3,003	6,099
Enercare Solutions Inc.	BBB	4.600%	2/03/20	3,974	4,008
Enbridge Inc.	BBB+	4.530%	3/09/20	5,203	5,395
Central 1 Credit Union	A	1.870%	3/16/20	--	5,020
Choice Properties REIT	BBB	3.600%	4/20/20	5,091	5,237
Penske Truck Leasing Co., L.P.	BBB	2.950%	6/12/20	--	5,145
Westcoast Energy Inc.	BBB+	4.570%	7/02/20	5,293	5,430
Bank of Montreal (USD)	A+	1.400%	4/10/18	--	4,052
Citigroup Inc. (USD)	BBB+	2.050%	12/17/18	3,914	4,081
Royal Bank of Canada (USD)	AA-	1.625%	4/15/19	3,857	4,040
Wells Fargo & Company (USD)	A	2.150%	1/30/20	--	3,964
				$ 45,062	$ 87,347

The cost of marketable securities as at May 31, 2018 was $45,863 (May 31, 2017 – $87,138). During the year ended May 31, 2018, the company divested of certain marketable securities for proceeds of $47,495 (2017 - $22,131), resulting in a (loss) gain on disposal of $(608) (2017 - $35), and re-invested $7,365 (2017 - $109,269). During the year ended May 31, 2018, the Company recognized a (loss) gain of $(2,155) (2017 - $209) on its marketable securities portfolio, of which $(1,547) (2017 - $174) represented unrealized fair value adjustments.

5. Other current assets

Other current assets are comprised of:

	May 31, 2018	May 31, 2017
HST receivable	$ 10,840	$ 3,675
Accrued interest	831	701
Credit card receivable	170	103
Prepaid assets	1,720	1,060
Other	823	32
	$ 14,384	$ 5,571

6. Inventory

Inventory is comprised of:

	Capitalized cost	**Fair value adjustment**	**May 31, 2018**	May 31, 2017
Harvested cannabis	$ 4,111	$ 8,220	$ 12,331	$ 2,507
Harvested cannabis trim	810	1,467	2,277	421
Cannabis oil	2,660	3,918	6,578	682
Packaging and supplies	964	--	964	277
	$ 8,545	$ 13,605	$ 22,150	$ 3,887

During the year ended May 31, 2018, the Company recorded $8,313 (2017 - $4,585) of production costs. Included in production costs for the year ended May 31, 2018 is $241 of cannabis oil conversion costs (2017 - $99), $236 related to the cost of accessories (2017 - $58), and amortization of $1,715 (2017 - $986). The Company also included $978 of amortization which remains in inventory for the year ended May 31, 2018 related to capital assets utilized in production. During the year ended May 31, 2018, the Company expensed $10,327 (2017 –$3,561) of fair value adjustments on the growth its biological assets included in inventory sold.

The Company holds 3,221.3 kilograms of harvested cannabis (May 31, 2017 – 668.5 kgs), 702.0 kilograms of harvested cannabis trim (May 31, 2017 – 140.1 kgs) and 7,724.7 litres of cannabis oils or 1,716.6 kilograms equivalent (May 31, 2017 – 1,091.3 litres or 181.9 kilograms equivalent) at May 31, 2018.

(In thousands of Canadian dollars, except share and per share amounts)

7. Biological assets

Biological assets are comprised of:

		Amount
Balance as at May 31, 2016	$	698
Changes in fair value less costs to sell due to biological transformation		5,005
Production costs capitalized		4,188
Transferred to inventory upon harvest		(8,483)
Balance as at May 31, 2017	$	1,408
Changes in fair value less costs to sell due to biological transformation		23,302
Purchased as part of business acquisition		826
Production costs capitalized		12,143
Transferred to inventory upon harvest		(30,348)
Balance at May 31, 2018	$	7,331

The Company values medical cannabis plants at cost, which approximates fair value from the date of initial clipping from mother plants until half way through the flowering cycle of the plants. Measurement of the biological transformation of the plant at fair value less costs to sell begins in the fourth week prior to harvest and is recognized evenly until the point of harvest. The number of weeks in the growing cycle is between twelve and sixteen weeks from propagation to harvest. The Company has determined the fair value less costs to sell of harvested cannabis and harvested cannabis trim to be $3.75 and $3.00 per gram respectively, upon harvest for greenhouse produced cannabis and $4.25 and $3.50 per gram respectively, upon harvest for indoor produced cannabis.

The effect of the fair value less cost to sell over and above historical cost was an increase in non-cash value of biological assets and inventory of $23,302 during the year ended May 31, 2018 (2017 – $5,005).

The fair value of biological assets is determined using a valuation model to estimate expected harvest yield per plant applied to the estimated price per gram less processing and selling costs. Only when there is a material change from the expected fair value used for cannabis does the Company make any adjustments to the fair value used. During the year, there was no material change to these inputs and therefore there has been no change in the determined fair value per plant.

In determining the fair value of biological assets, management has made the following estimates in this valuation model:

- The harvest yield is between 40 grams and 80 grams per plant;
- The selling price is between $2.50 and $10.00 per gram;
- Processing costs include drying and curing, testing, post-harvest overhead allocation, packaging and labelling costs between $0.30 and $0.80 per gram;
- Selling costs include shipping, order fulfilment, patient acquisition and patient maintenance costs between $0.00 and $3.00 per gram;

Sales price used in the valuation of biological assets is based on the average selling price of all cannabis products and can vary based on different strains being grown as well as the proportion of sales derived from wholesale compared to retail. Selling costs vary depending on methods of selling and are considered based on the expected method of selling and the determined additional costs which would be incurred. Expected yields for the cannabis plant is also subject to a variety of factors, such as strains being grown, length of growing cycle, and space allocated for growing. Management reviews all significant inputs based on historical information obtained as well as based on planned production schedules.

Management has quantified the sensitivity of the inputs and determined the following:

- Selling price per gram – a decrease in the average selling price per gram by 5% would result in the biological asset value decreasing by $267 (2017 - $25) and inventory decreasing by $1,040 (2017 - $180)
- Harvest yield per plant – a decrease in the harvest yield per plant of 5% would result in the biological asset value decreasing by $179 (2017 - $15)

These inputs are level 3 on the fair value hierarchy, and are subject to volatility in market prices and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

8. Related party transactions

The Company funds a small portion of the Canadian operating costs of Liberty, for which Liberty reimburses the Company quarterly. Additionally, the Company purchases certain electrical generation equipment and pays rent to a company owned by a director. The balance owing from related parties as at May 31, 2018 was $nil (May 31, 2017 - $464). These parties are related as they are corporations that are controlled by certain officers and directors of the Company.

During the year ended May 31, 2018, related party corporations charged or incurred expenditures on behalf of the Company (including rent) totaling $276 (2017 - $388). Included in this amount was rent of $45 charged during the year ended May 31, 2018 (2017 - $49).

The Company funded the start-up costs and operations of Liberty Health Sciences Inc., a related party through an equity investment.

		Amount
Balance due to (from) related parties as at May 31, 2017	$	(464)
Related party charges in the year		276
Payments to related parties in the year		(276)
Non-cash payments made on behalf of related parties in the year		(32)
Payments made on behalf of related parties in the year		(10,614)
Repayments made by related parties in the year		11,110
Balance at May 31, 2018	$	--

During the year ended May 31, 2018, the Company entered into a definitive agreement with respect to the sale of Aphria's subsidiary Aphria (Arizona) Inc., its sole holdings being the minority interests in Copperstate and CSF, to Liberty for a purchase price of $20,000 (Note 14). Subsequent to entering into this definitive agreement, the existing investors in Copperstate and CSF exercised their right of first refusal to purchase the minority interests on the same terms. Subsequent to year-end, this transaction closed.

During the year ended May 31, 2018, the Company purchased capital assets for $995 from a company controlled by a director. During the prior 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 $6,100. The purchase price was allocated as follows: (i) $1,300 to land; (ii) $3,550 to greenhouse infrastructure; and, (iii) $1,250 to licences, permits & applications – intangible assets.

(In thousands of Canadian dollars, except share and per share amounts)

Key management personnel compensation for the year ended May 31, 2018 and 2017 was comprised of:

	For the year ended May 31, 2018	2017
Salaries	$ 1,699	$ 829
Short-term employment benefits (included in office and general)	70	84
Share-based compensation	3,235	594
	$ 5,004	$ 1,507

Directors and officers of the Company control 8.5% or 17,902,125 of the voting shares of the Company.

9. Capital assets

	Land	Production Facility	Equipment	Leasehold improvements	Construction in process	Total capital assets
Cost						
At May 31, 2016	$ --	$ --	$ 3,499	$ 4,812	$ 65	$ 8,376
Additions	10,725	4,018	1,700	16	49,958	66,417
Transfers	104	12,152	174	(4,566)	(7,864)	--
Disposals	--	--	(33)	--	--	(33)
At May 31, 2017	10,829	16,170	5,340	262	42,159	74,760
Business acquisitions	854	6,992	2,860	1,388	5,947	18,041
Additions	12,716	47,149	4,759	15	151,899	216,538
Transfers	105	29,338	2,990	--	(32,433)	--
Disposals	--	(207)	--	--	(415)	(622)
At May 31, 2018	$ 24,504	$ 99,442	$ 15,949	$ 1,665	$ 167,157	$ 308,717
Accumulated depreciation						
At May 31, 2016	$ --	$ --	$ 554	$ 513	$ --	$ 1,067
Amortization	--	458	717	74	--	1,249
Transfers	--	525	--	(525)	--	--
Disposals	--	--	(11)	--	--	(11)
At May 31, 2017	--	983	1,260	62	--	2,305
Amortization	--	1,517	1,697	47	--	3,261
At May 31, 2018	$ --	$ 2,500	$ 2,957	$ 109	$ --	$ 5,566
Net book value						
At May 31, 2016	$ --	$ --	$ 2,945	$ 4,299	$ 65	$ 7,309
At May 31, 2017	$ 10,829	$ 15,187	$ 4,080	$ 200	$ 42,159	$ 72,455
At May 31, 2018	$ 24,504	$ 96,942	$ 12,992	$ 1,556	$ 167,157	$ 303,151

During the year ended May 31, 2018, the Company sold assets that were not yet in use prior to disposal with a cost of $622 (2017 - $33) and a net book value of $622 (2017 - $22), for proceeds of $431 (2017 - $33), resulting in a loss (gain) on sale of capital assets of $191 (2017 - $(11)).

10. Intangible assets

	Customer relationships	Corporate website	Licences, permits & applications	Non-compete agreements	Tokyo Smoke licensing agreement	Intellectual property, trademarks & brands	Total intangible assets
Cost							
At May 31, 2016	$ --	$ 162	$ --	$ --	$ --	$ 4,428	$ 4,590
Additions	--	56	1,250	--	459	--	1,765
At May 31, 2017	--	218	1,250	--	459	4,428	6,355
Business acquisitions	11,730	39	137,920	1,930	--	76,190	227,809
Additions	--	152	--	--	--	9	161
At May 31, 2018	$ 11,730	$ 409	$ 139,170	$ 1,930	$ 459	$ 80,627	$ 234,325
Accumulated depreciation							
At May 31, 2016	$ --	$ 88	$ --	$ --	$ --	$ 184	$ 272
Amortization	--	68	153	--	57	414	692
Impairment	--	--	--	--	--	3,500	3,500
At May 31, 2017	--	156	153	--	57	4,098	4,464
Amortization	1,274	100	124	314	92	1,513	3,417
At May 31, 2018	$ 1,274	$ 256	$ 277	$ 314	$ 149	$ 5,611	$ 7,881
Net book value							
At May 31, 2016	$ --	$ 74	$ --	$ --	$ --	$ 4,244	$ 4,318
At May 31, 2017	$ --	$ 62	$ 1,097	$ --	$ 402	$ 330	$ 1,891
At May 31, 2018	$ 10,456	$ 153	$ 138,893	$ 1,616	$ 310	$ 75,016	$ 226,444

11. Business Acquisitions

Acquisition of Broken Coast Cannabis Ltd.

On February 13, 2018, the Company entered into a share purchase agreement to purchase all of the shares of Cannan Growers Inc. ("Cannan"), a holding company owning shares of Broken Coast Cannabis Ltd. ("Broken Coast"), and to acquire the remaining shares, for a combined total of 99.86%, of the issued and outstanding shares of Broken Coast. The combined purchase price was $214,168 satisfied through the issuance of an aggregate 14,373,675 common shares. The share purchase agreement entitled the Company to control Broken Coast effective on February 1, 2018, which became the effective acquisition date.

The Company is in the process of determining the fair value of the net assets acquired and, as a result, the fair value of the net assets acquired may be subject to adjustments pending completion of final valuations and post closing adjustments.

(In thousands of Canadian dollars, except share and per share amounts)

The table below summarizes the preliminary estimated fair value of the assets acquired and the liabilities assumed at the acquisition date:

	Note	Number of shares	Share price	Amount
Consideration paid				
Shares issued	(i)	14,373,675	$ 14.90	$ 214,168
Total consideration paid				$ 214,168
Net assets acquired				
Current assets				
Cash and cash equivalents				2,007
Accounts receivable				299
Other current assets				43
Inventory				2,572
Biological assets				826
Long-term assets				
Capital assets				13,298
Customer relationships				11,730
Corporate website				39
Licences, permits & applications				6,320
Non-competition agreements				1,930
Intellectual property, trademarks & brands				72,490
Goodwill				145,794
Total assets				257,348
Current liabilities				
Accounts payable and accrued liabilities				10,455
Income taxes payable				922
Long-term liabilities				
Deferred tax liability				25,889
Long-term debt				5,914
Total liabilities				43,180
Total net assets acquired				$ 214,168

(i) Share price based on the price of the shares on February 1, 2018.

The amount of net income and comprehensive income of Broken Coast since the acquisition date included in these consolidated financial statements was $1,837. Net income and comprehensive net income for the Company would have been higher by approximately $2,268 if the acquisition had taken place on June 1, 2017. In connection with this transaction, the Company expensed transaction costs to date of $1,643.

Acquisition of Nuuvera Corp.

On March 23, 2018, the Company completed the previously announced definitive arrangement agreement (the "Arrangement Agreement") pursuant to which the Company acquired, by way of a court-approved plan of arrangement, under the Business Corporations Act (Ontario) (the "Transaction"), 100% of the issued and outstanding common shares (on a fully diluted basis) of Nuuvera for a total consideration of $0.62 in cash plus 0.3546 of an Aphria share for each Nuuvera share held. All of Nuuvera's outstanding options were exchanged for an equivalent option granted pursuant to Aphria's stock option plan (each, a "Replacement Option") to purchase from Aphria the number of common shares (rounded to the nearest whole share) equal to: (i) the exchange ratio multiplied by (ii) the number of Nuuvera shares subject to such Nuuvera Option. Each such Replacement Option shall provide for an exercise price per common share (rounded to the nearest whole cent) equal to: (i) the exercise price per Nuuvera share purchasable pursuant to such Nuuvera Option; divided by (ii) the exchange ratio.

The Company is in the process of assessing the fair value of the net assets acquired and, as a result, the fair value of the net assets acquired may be subject to adjustments pending completion of final valuations and post closing adjustments. The table below summarizes the preliminary estimated fair value of the assets acquired and the liabilities assumed at the acquisition date:

	Note	Number of shares	Share price	Amount
Consideration paid				
Cash				$ 54,604
Shares issued	(i)	31,226,910	$ 13.17	411,258
Warrants outstanding	(ii)	1,345,866		1,015
Replacement options issued	(ii)	1,280,330		12,133
				479,010
Fair value of previously held investment				
Shares held by Aphria	(i)	1,878,738	$ 14.92	28,028
Warrants held by Aphria	(ii)	322,365		243
				28,271
Total fair value of consideration				$ 507,281
Net assets acquired				
Current assets				
Cash and cash equivalents				35,033
Accounts receivable				464
Other current assets				1,142
Inventory				401
Long-term assets				
Capital assets				4,743
Intellectual property, trademarks & brands				3,700
Licences, permits & applications				131,600
Goodwilll				375,768
Total assets				552,851
Current liabilities				
Accounts payable and accrued liabilities				9,547
Long-term liabilities				
Deferred tax liability				36,023
Total liabilities				45,570
Total net assets acquired				$ 507,281

(i) Share price based on the price of the shares on March 23, 2018; shares held by Aphria include the cash consideration paid.

(ii) Options and warrants are valued using the Black-Scholes option pricing model using the following assumptions: the risk-free rate of 2.19%; expected life of 1- 10 years; volatility of 30% based on volatility used for similar instruments on the open market; forfeiture rate of nil; dividend yield of nil; and the exercise price of $2.52 - $20.30.

(In thousands of Canadian dollars, except share and per share amounts)

The amount of net loss and comprehensive loss of Nuuvera since the acquisition date included in these consolidated financial statements was $3,677. Net income and comprehensive net income for the Company would have been lower by approximately $19,611 if the acquisition had taken place on June 1, 2017. In connection with this transaction, the Company expensed transaction costs to date of $3,439.

Included in goodwill is $1,200 from the acquisition of CannWay, $145,794 from the acquisition of Broken Coast and $375,768 from the acquisition of Nuuvera.

12. Convertible notes receivable

	Notes recievable		Embedded derivatives	
	May 31, 2018	May 31, 2017	**May 31, 2018**	May 31, 2017
CannaRoyalty Corp.	$ --	$ 1,361	$ --	$ 173
Copperstate Farms Investors, LLC	1,942	--	--	--
HydRx Farms Ltd. (d/b/a Scientus Pharma)	8,719	--	7,410	--
	10,661	1,361	7,410	173
Deduct - current portion	(1,942)	--	--	--
	$ 8,719	$ 1,361	$ 7,410	$ 173

CannaRoyalty Corp.

During the year, the Company's note receivable from CannaRoyalty Corp. ("CR") increased by $139 representing the recognition of accretion interest on the note and the embedded derivative increased by $1,175, representing the change in fair value of the conversion feature on the note. Prior to year-end, the Company converted the notes, and transferred $1,500 from notes receivable and $1,348 from embedded derivatives to long-term investments (Note 14).

Copperstate Farms Investors, LLC

On August 31, 2017, the Company lent Copperstate Farms Investors, LLC ("CSF") $2,000 USD ($2,501 CAD) in exchange for a senior secured convertible loan. The convertible debenture bears interest at 9%, was originally due on May 15, 2018 ("Maturity Date"). The loan was pre-payable at any time by CSF, however no principal payments were due prior to the Maturity Date. If at least $500 USD of the outstanding loan balance was not repaid by February 28, 2018, then an automatic conversion would be triggered for $500 USD plus any accrued but unpaid interest, net of any repayments towards the principal, of the loan balance at $500 USD per unit of CSF. If the outstanding loan balance was not repaid before the Maturity Date, an automatic conversion would be triggered for the remaining loan balance at $500 USD per unit of CSF. The convertible loan was secured by a first charge on CSF's greenhouse assets and real property located in Snowflake, Arizona. Since the option to settle payments in membership units was solely at the discretion of CSF, no embedded derivative was recognized. Prior to February 28, 2018, the Company received $500 USD as a partial repayment of the convertible note receivable.

On May 15, 2018, the Company entered into an amendment agreement with CSF which extended the maturity date and automatic conversion date to June 30, 2018, which was subsequently extended into July. As at May 31, 2018, the convertible note receivable totalled $1,500 USD ($1,942 CAD). Subsequent to year-end, this note was paid in full.

HydRx Farms Ltd. (d/b/a Scientus Pharma)

On August 14, 2017, Aphria lent $11,500 to Scientus Pharma ("SP") as a convertible debenture. The convertible debenture bears interest at 8%, paid semi-annually, matures in two years and includes the right to convert the debenture into common shares of SP at $2.75 per common share at any time before maturity. SP maintains the option of forced conversion of the convertible debenture if the common shares of SP trade on a stock exchange at a value of $3.02 or more for 30 consecutive days.

The option to settle payments in common shares represents an embedded derivative in the form of a call option to the Company. The fair value of the derivative asset related to the convertible note is $7,410 at May 31, 2018.

During the year, the Company's note receivable from SP increased by $1,669 representing the recognition of accretion interest on the note and the embedded derivative increased by $2,960, representing the change in fair value of the conversion feature on the note.

As at May 31, 2018, the convertible note receivable totalled $16,129.

During the year, the Company lent a total of $14,001 in convertible notes, recognized total accretion interest revenue of $1,808, and recorded an unrealized gain on embedded derivatives of $4,135.

The fair value for the embedded derivatives was determined using the Black-Scholes option pricing model using the following assumptions: the risk-free rate of 0.85-1.15%; expected life of the convertible note; volatility of 70% based on comparable companies; forfeiture rate of nil; dividend yield of nil; and, the exercise price of the respective conversion feature.

13. Interest in equity investees

	May 31, 2018	May 31, 2017
Associated company		
Liberty Health Sciences Inc.	$ --	$ 28,376
Althea Company Pty Ltd.	4,966	--
	$ 4,966	$ 28,376

Liberty Health Sciences Inc.

	May 31, 2018	May 31, 2017
Reconciliation to carrying amount:		
Opening balance	$ 28,376	$ --
Investment	--	28,166
Transfer of fair value of SecureCom shares on reverse take-over	1,664	--
Gain on account of dilution of ownership	7,535	--
Share of reported net (loss) income	(9,281)	210
Share of reported comprehensive loss	(801)	--
Equity investee sold	(6,873)	--
Transfer to assets available for sale	(20,620)	--
Closing balance	$ --	$ 28,376

(In thousands of Canadian dollars, except share and per share amounts)

During the year ended May 31, 2018, the Company entered into a share purchase agreement (the "Transaction") to sell 26,716,025 common shares of Liberty in exchange for $33,395. The 26,716,025 common shares sold represented all the Company's shares in Liberty that were not subject to Canadian Securities Exchange ("CSE") escrow requirements at the time of the Transaction. The Transaction also included a call/put obligation ("Obligation Agreement") for the 80,148,077 remaining shares in Liberty held by the Company, which are currently subject to the CSE mandatory escrow requirements. As each new tranche of shares becomes freely trading, the Obligation Agreement results in the buyers acquiring the newly freely trading shares at an 18% discount to the market price of Liberty, based on Liberty's 10 day volume weighted trading price.

The Transaction includes an opt-out for Aphria's benefit, in the event that the Toronto Stock Exchange amends their regulations such that it permits investments by Canadian companies in U.S. based cannabis businesses, and in such instance the Obligation Agreement would be automatically terminated. In exchange for the opt-out, the Company agrees to pay the buyers a $2,500 termination fee.

Based on the terms of the Obligation Agreement, the Company determined that the remaining shares held in Liberty meet the requirements under IFRS 5 and have been reclassified as held for sale. The Company has ceased accounting for the investment as an equity investment as of November 30, 2017 and transferred the carrying value $20,620 to assets held for sale. Also included in assets held for sale is $20,000 of long-term investments (Note 14). The Company recorded a derivative liability, and unrealized loss on derivative liability of $12,451 as a result of the 18% discount to the market price of Liberty, based on Liberty's 10 day volume weighted trading price in the Obligation Agreement.

Based on its closing share price of $0.87 as at May 31, 2018, the Liberty shares held by Aphria have a fair value net of the 18% discount, of $57,178, which is $49,009 higher than the carrying value recorded in assets held for sale net of the derivative liability.

The Company used a Monte-Carlo simulation to estimate the fair value of the derivative liability, using the following assumptions: risk-free rate of 1%; expected life of 0.4 – 2.4 years; volatility of 60% based on comparable companies; forfeiture rate of 0%; and, dividend yield of nil.

Prior to completion of the Transaction and reclassification of the investment to assets held for sale, Liberty reported a net loss $24,671 and a net comprehensive loss of $(26,798) for the period from May 1, 2017 to November 30, 2017. In accordance with the equity method, Aphria recorded a loss of $9,281 and an other comprehensive loss of $801 for the year ended May 31, 2018, from its investee relative to its ownership of the outstanding common shares at the time. The Company also recorded a gain on dilution of ownership in equity investee of $7,535 for the year ended May 31, 2018. No further loss from equity investee or gain on dilution of ownership in equity investee has been recorded in the year due to the reclassification of the investment from equity investment to asset held for sale.

Althea Company Pty Ltd. ("Althea")

In February 2018, the Company entered into a subscription agreement with Althea for the purchase of 2,500 common shares for a total cost of $2,500 AUD ($2,483 CAD) (Note 14). On March 21, 2018 the Company acquired an additional 2,000 common shares for $2,500 AUD ($2,497 CAD). As a result of this transaction, the Company's interest in Althea grew to 37.5%. Upon obtaining 37.5% interest in Althea, the Company determined they had significant influence, and transferred $5,000 AUD ($4,980 CAD) from long-term investments to equity accounted investee (Note 14).

The following table summarizes, in aggregate, the financial information of the Company's associate as included in their own financial statements.

	May 31, 2018	May 31, 2017
Current assets	$ 3,857	$ --
Non-current assets	3	--
Current liabilities	14	--
Non-current liabilities	--	--
Net assets	$ 3,874	$ --

For the period from March 21, 2018 to March 31, 2018 the investee, Althea, reported a net loss of $41 AUD on its financial statements. In accordance with the equity method, the Company recorded a loss of $14, for the year ended May 31, 2018, from its investee relative to its ownership of the outstanding common shares at the time.

	May 31, 2018	May 31, 2017
Reconciliation to carrying amount:		
Opening balance	$ --	$ --
Transfer from long-term investments	2,483	--
Cash contributions, net of share issuance costs	2,497	--
Share of reported net (loss) income	(14)	--
Closing balance	$ 4,966	$ --

(In thousands of Canadian dollars, except share and per share amounts)

14. Long-term investments

	Cost May 31, 2017	Fair value May 31, 2017	Investment	Divesture/ Transfer	Subtotal May 31, 2018	Change in fair value	Fair value May 31, 2018
Level 1 on fair value hierarchy							
CannaRoyalty Corp.	$ 1,380	$ 1,793	$ 2,848	$ (1,793)	$ 2,848	$ 917	$ 3,765
Kalytera Therapeutics, Inc.	3,014	1,111	--	(1,111)	--	--	--
MassRoots, Inc.	508	562	--	(232)	330	(166)	164
SecureCom Mobile Inc.	520	1,664	--	(1,664)	--	--	--
Tetra Bio-Pharma Inc.	2,300	9,500	--	--	9,500	(2,700)	6,800
Canabo Medical Inc.	1,160	316	--	(316)	--	--	--
Hiku Brands Company Ltd.	--	--	8,775	1,000	9,775	3,783	13,558
Nuuvera Inc.	--	--	8,423	(8,423)	--	--	--
Scythian Biosciences Corp.	--	--	9,349	--	9,349	(746)	8,603
National Access Cannabis	--	--	1,093	--	1,093	(383)	710
	8,882	14,946	30,488	(12,539)	32,895	705	33,600
Level 2 on fair value hierarchy							
Hiku Brands Company Ltd.	--	--	2,336	--	2,336	(430)	1,906
Nuuvera Inc.	--	--	1,627	(1,627)	--	--	--
Scythian Biosciences Corp.	--	--	3,153	--	3,153	(2,492)	661
	--	--	7,116	(1,627)	5,489	(2,922)	2,567
Level 3 on fair value hierarchy							
Copperstate Farms, LLC	1,755	1,755	--	--	1,755	3,545	5,300
Copperstate Farms Investors, LLC	7,539	7,560	1,868	--	9,428	5,272	14,700
Resolve Digital Health Inc.	718	1,000	--	--	1,000	2,300	3,300
Resolve Digital Health Inc.	282	242	--	--	242	1,674	1,916
Green Acre Capital Fund	300	285	1,300	--	1,585	457	2,042
Scythian Biosciences Inc.	2,000	2,000	--	(2,000)	--	--	--
TS BrandCo Holdings Inc.	--	--	1,000	(1,000)	--	--	--
Nuuvera Inc.	--	--	6,979	(6,979)	--	--	--
Green Tank Holdings Corp.	--	--	650	--	650	(3)	647
Althea Company Pty Ltd.	--	--	2,483	(2,483)	--	--	--
IBBZ Krankenhaus GmbH	--	--	1,956	--	1,956	--	1,956
	12,594	12,842	16,236	(12,462)	16,616	13,245	29,861
	21,476	27,788	53,840	(26,628)	55,000	11,028	66,028
Deduct - assets held for sale							(20,000)
	$ 21,476	$ 27,788	$ 53,840	$ (26,628)	$ 55,000	$ 11,028	$ 46,028

The fair value attached to warrants in both Level 2 and Level 3 were determined using the Black-Scholes option pricing model using the following assumptions: risk-free rate of 0.75-1.70% on the date of grant; expected life of 1 and 2 years; volatility of 70% based on comparable companies; forfeiture rate of 0%; dividend yield of nil; and, the exercise price of the respective warrant.

CannaRoyalty Corp. ("CR")

During the year, the Company converted its convertible debt into 750,000 shares of CR, and transferred $2,850 from convertible notes receivable (Note 12). In addition, the Company sold 1,100,000 common shares in CR (Note 26). As at May 31, 2018, the Company holds 750,000 common shares at a cost of $1,500, with a fair value of $3,765.

Kalytera Therapeutics, Inc.

During the year ended May 31, 2018, the Company sold its 6,172,000 common shares in Kalytera Therapeutics, Inc. (Note 26).

MassRoots, Inc.

During the year ended May 31, 2018, the Company sold 350,000 common shares in MassRoots, Inc. (Note 26). The Company holds 500,000 common shares at a cost of $251 USD ($304 CAD), with a fair value of $127 USD ($164 CAD) as at May 31, 2018.

SecureCom Mobile Inc. ("SecureCom")

In July 2017, SecureCom amalgamated with DFMMJ and was re-named Liberty. As a result, the Company transferred the fair value of its investment in SecureCom into its investment in Liberty recognized as Interest in equity investees (Note 13).

Tetra Bio-Pharma Inc.

The Company owns 10,000,000 common shares at a cost of $2,300, with a fair value of $6,800 as at May 31, 2018.

Canabo Medical Inc.

During the year ended May 31, 2018, the Company sold its 800,000 common shares in Canabo Medical Inc. (Note 26).

Hiku Brands Company Ltd (formerly TS BrandCo Holdings Inc.)

In June 2017, the Company entered into a subscription agreement with TS BrandCo Holdings Inc. ("Tokyo Smoke") for the purchase of 140,845 common shares, for a total cost of $1,000. In January 2018, TS BrandCo Holdings Inc. merged with DOJA Cannabis Company Ltd. and renamed the reporting issuer Hiku Brands Company Ltd. ("Hiku"). As part of the merger, each common share of Tokyo Smoke was exchanged for 13 common shares of Hiku. Subsequently, the Company contributed $10,000 as an equity investment in Hiku for 7,194,244 common shares and 7,194,244 common share purchase warrants, exercisable at $2.10 per warrant at any time for a period expiring two years from the date of issuance. The Company also entered into a supply agreement with Hiku. As part of the consideration for the supply agreement, the Company received 799,361 common shares and 799,361 common share purchase warrants, exercisable at $2.10 per warrant at any time for a period expiring two years from the date of issuance. As a result of these transactions, the Company holds 9,824,590 common shares and 7,993,605 common share purchase warrants at a cost of $12,111, with a fair value of $15,464 as at May 31, 2018.

Subsequent to year-end, all the issued and outstanding common shares of Hiku were acquired by a third party. The Company maintains the supply agreements identified previously.

(In thousands of Canadian dollars, except share and per share amounts)

Nuuvera Inc. ("Nuuvera")
In August 2017, the Company entered into a subscription agreement with Nuuvera for the purchase of 2,000,000 common shares, for a total cost of $2,029. In November 2017, the Company purchased an additional 1,980,000 common shares for $4,950. In January 2018, the Company sold 500,000 common shares for gross proceeds of $2,945 (Note 26). In January 2018, Nuuvera began trading on the TSX-Venture Exchange.

In February 2018, the Company purchased an additional 1,818,190 units for $10,050. Each unit is comprised of one common share and one half of one common share purchase warrant. Each whole common share purchase warrant is exercisable to purchase one common share at a price of $7.20 per share for a period of 24 months.

In March 2018, the Company acquired 100% of the issued and outstanding common shares of Nuuvera (Note 11).

Scythian Biosciences Inc. ("Scythian")
In August 2017, the Company's subscription receipts converted to common shares. As part of the conversion, Scythian consolidated its shares on a 20:1 basis. On August 8, 2017, Scythian began trading on the TSX-Venture Exchange. In November, 2017, the Company sold its 250,000 common shares in Scythian (Note 26).

In February 2018, the Company purchased 672,125 units of Scythian for $12,502. Each unit is comprised of one common share and one common share purchase warrant. Each common share purchase warrant is exercisable to purchase one common share at a price of $22.00 per share for a period of 24 months. In April 2018, Scythian declared a 4:1 stock split. As a result, the Company received an additional 2,016,375 common shares and each common share purchase warrant is exercisable to purchase four common shares at a price of $22.00 per warrant for a period of 24 months. The Company holds 2,688,500 common shares and 672,125 common share purchase warrants at a cost of $12,502, with a fair value of $9,264 as at May 31, 2018.

National Access Cannabis
In March 2018, the Company acquired 1,000,000 common shares of National Access Cannabis for $1,093. The Company owns 1,000,000 common shares at a cost of $1,093, with a fair value of $710 as at May 31, 2018.

Copperstate Farms, LLC ("Copperstate") and Copperstate Farms Investors, LLC ("CSF")
In July 2017, the Company purchased an additional 2,668 membership units in CSF for $1,334 USD ($1,668 CAD). The Company owns 5,000 membership units in Copperstate for total cost of $1,300 USD ($1,755 CAD), with a fair value of $5,300 and owns 13,868 membership units in CSF for a total cost of $7,094 USD ($9,407 CAD) with a fair value of $14,700 as at May 31, 2018.

During the year ended May 31, 2018, the Company entered into a definitive agreement with respect to the sale of Aphria's subsidiary Aphria (Arizona) Inc. and its sole holdings being the minority interests in Copperstate and CSF to Liberty for a purchase price of $20,000. Subsequent to entering into this definitive agreement, the existing investors in Copperstate and CSF exercised their right of first refusal to purchase the minority interests on the same terms. The fair value has been determined by the sale price from the definitive agreement with Liberty. As a result of the definitive agreement, the Company has recorded the total value of $20,000 as held for sale (Note 13). Subsequent to year-end, the Company received the $20,000 from the sale of the shares of Copperstate and CSF.

Resolve Digital Health Inc. ("Resolve")
During the year, the Company received an additional 200,002 penalty units comprised of 200,002 common shares and 200,002 common share purchase warrants, exercisable at $0.65 per warrant at any time for a period expiring December 1, 2021. 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 owns 2,200,026 common shares and 2,200,026 warrants at a total cost of $1,000, with a fair value of $5,216 as at May 31, 2018. The Company determined the fair value of its investment based on Resolve's most recent financing.

Green Acre Capital Fund
The Company committed $2,000 to the expected $25,000 fund and as of the balance sheet date has funded $1,600. The Company determined that the fair value of its investment, based on its proportionate share of net assets, was $2,042 as at May 31, 2018.

Green Tank Holdings Corp. ("Green Tank")
In November 2017, the Company entered into a subscription agreement with Green Tank Holdings Corp. for the purchase of 98,425 preferred shares, for a total cost of $500 USD ($650 CAD). The Company determined the fair value of its investment, based on Green Tank's most recent financing at the same price, is equal to its carrying value. The Company recognized a loss from the change in fair value of $3 due to changes in the foreign exchange rate.

Althea Company Pty Ltd. ("Althea")
In February 2018, the Company entered into a subscription agreement with Althea for the purchase of 2,500 common shares, for a total cost of $2,500 AUD ($2,483 CAD). Part of the consideration was satisfied through a promissory note (Note 17). On March 21, 2018, the Company acquired an additional 2,000 common shares for a total cost of $2,500 AUD ($2,497 CAD). As a result of the second investment, the Company has a 37.5% interest in Althea, and has determined that it exercises significant influence on Althea. Accordingly, the cost of this investment has been recorded as interest in equity investees (Note 13).

IBBZ Krankenhaus GmbH Klinik Hygiea ("Krankenhaus")
In May 2018, the Company acquired a 25.1 % interest in Krankenhaus, which is the owner and operator of Berlin-based Schöneberg Hospital, for €1,294 ($1,956 CAD). Through this investment the Company is entitled to 5% of the net income (loss) for the years 2018 to 2021, and 10% of the net income (loss) for the period thereafter. The Company determined that the fair value of its investment, based on Krankenhaus' most recent financing at the same price, is equal to its carrying value.

15. Income taxes and deferred income taxes

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

	For the year ended May 31, 2018	2017
Income before income taxes	$ 35,856	$ 4,332
Statutory rate	26.5%	26.5%
Expected income tax expense at combined basic federal and provincial tax rate	9,502	1,148
Effect on income taxes of:		
Permanent differences	65	--
Non-deductible share-based compensation and other expenses	4,737	659
Non-taxable portion of losses (gains)	(7,162)	(534)
Utilization of tax attributes not previously recognized	--	(876)
Deductible share issuance costs	--	(286)
Other	(768)	23
Tax assets not recognized	34	--
	$ 6,408	$ 134
Income tax expense is comprised of:		
Current	$ 2,750	$ --
Future	3,658	134
	$ 6,408	$ 134

The following table summarizes the components of deferred tax:

	May 31, 2018	May 31, 2017
Deferred tax assets		
Non-capital loss carry forward	$ 4,567	$ 1,313
Capital loss carry forward	405	381
Share issuance and financing fees	5,443	3,448
Unrealized loss	916	--
Other	27	34
Deferred tax liabilities		
Net book value in excess of undepreciated capital cost	(1,017)	(164)
Intangible assets in excess of tax costs	(64,120)	(194)
Unrealized gain	(1,097)	(914)
Biological assets and inventory in excess of tax costs	(4,377)	(589)
Net deferred tax (liabilities) assets	$ (59,253)	$ 3,315

16. Bank indebtedness

The Company secured an operating line of credit in the amount of $1,000 which bears interest at the lender's prime rate plus 75 basis points. As of the May 31, 2018, the Company has not drawn on the line of credit. The operating line of credit is secured by a first charge on the property at 265 Talbot St. West, Leamington, Ontario and a first ranking position on a general security agreement.

17. Promissory note payable

	May 31, 2018	May 31, 2017
Note payable to Copperstate Farms, LLC - $1,300 USD ($1,755), opening balance, bearing nominal interest, two-year term, repayable in eight quarterly instalments of $162 USD	$ 1,244	$ 1,539
Reduction of Promissory note payable balance with respect to consulting services provided	(1,244)	(295)
Balance remaining	--	1,244
Deduct - principal portion included in current liabilities	--	(878)
	$ --	$ 366

On May 15, 2018, the Company entered into an amendment agreement with CSF which resulted in the Company no longer expecting to provide any further consulting services. Accordingly, the Company has recorded the remaining balance of the loan as consulting revenue.

During the year ended May 31, 2018, the Company entered into a promissory note with Althea for $700 AUD ($686), as part of the purchase of Althea common shares (Note 14). The note is due and payable on December 31, 2020. The Company reached an agreement with Althea where the promissory note amount will be used by Althea to purchase products from the Company in connection with a supply agreement entered into in September 2017.

	May 31, 2018	May 31, 2017
Note payable to Althea Company Pty Ltd - $700 AUD ($686), opening balance, non-interest bearing, due and payable on December 31, 2020	$ 686	$ --
Reduction of Promissory note payable balance with respect to products provided	(63)	--
Foreign exchange (gain) loss	(13)	--
Balance remaining	610	--
Deduct - principal portion included in current liabilities	(610)	--
	$ --	$ --

(In thousands of Canadian dollars, except share and per share amounts)

18. Long-term debt

	May 31, 2018		May 31, 2017
Term loan - $25,000 - 3.95%, compounded monthly, 5 year term with a 15-year amortization, repayable in equal monthly installments of $188 including interest, due in April 2022	$ 24,107	$	25,000
Term loan - $1,250 - 3.99%, 5-year term, with a 10-year amortization, repayable in equal monthly instalments of $13 including interest, due in July 2021	1,057		1,164
Mortgage payable - $3,750 - 3.95%, 5-year term, with a 20-year amortization, repayable in equal monthly instalments of $23 including interest, due in July 2021	3,515		3,645
Vendor take-back mortgage owed to related party - $2,850 - 6.75%, 5-year term, repayable in equal monthly instalments of $56 including interest, due in June 2021	1,869		2,396
	30,548		32,205
Deduct - unamortized financing fees	(71)		(20)
- principal portion included in current liabilities	(2,140)		(765)
	$ 28,337	$	31,420

Total long-term debt repayments are as follows:

Next 12 months	$	2,140
2 years		2,241
3 years		2,348
4 years		23,819
Balance of obligation	$	30,548

The term loan of $24,107 was entered into on May 9, 2017 and is secured by a first charge on the property at 265 Talbot Street West, Leamington Ontario, a first position on a general security agreement, and an assignment of fire insurance to the lender. Principal payments started on the term loan in March 2018.

The term loan of $1,057 and mortgage payable of $3,515 were entered into on July 22, 2016 and are secured by a first charge on the property at 265 Talbot St. West, Leamington, Ontario and a first position on a general security agreement.

The vendor take-back mortgage payable of $1,869, 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, Leamington, Ontario.

The Company acquired term loans of $3,000 and $1,201, and a mortgage payable of $1,713 as part of the acquisition of Broken Coast (Note 11). These loans and mortgages were paid in full during the year.

19. Share capital

The Company is authorized to issue an unlimited number of common shares. As at May 31, 2018, the Company has issued 210,169,924 shares, of which 1,777,971 shares were held and subject to various escrow agreements.

Common Shares	Number of shares	Amount
Balance at May 31, 2017	138,628,704	$ 274,317
November 2017 bought deal, net of cash issuance costs	12,689,675	86,661
January 2018 bought deal, net of cash issuance costs	8,363,651	109,000
Broken Coast acquisition	14,373,675	214,168
Nuuvera acquisition	31,226,910	411,258
Warrants exercised	2,388,636	3,767
Options exercised	2,493,623	11,559
Deferred share units exercised	5,050	62
Income tax recovery on share issuance costs	--	3,002
Shares held in escrow earned in exchange for services	--	187
	210,169,924	$ 1,113,981

a) Throughout the year, 2,388,636 warrants with exercise prices ranging from $1.50 to $1.75 were exercised for a value of $3,767 including any cash consideration.

b) Throughout the year, 2,493,623 shares were issued from the exercise of stock options with exercise prices ranging from $0.60 to $9.05 for a value of $11,559, including any cash consideration.

c) Throughout the year, 5,050 shares were issued in accordance with the deferred share unit plan to former directors of the Company.

d) In January 2017, the Company issued 112,500 common shares in escrow pursuant to a third party consulting agreement for greenhouse related services, net of cash issuance costs. At May 31, 2018, all 112,500 common shares of the shares in escrow have been released.

e) In November 2017, the Company closed a bought deal financing in which it issued 12,689,675 common shares at a purchase price of $7.25 per share for $86,661, net of cash issuance costs.

f) In January 2018, the Company closed a bought deal financing in which it issued 8,363,651 common shares at a purchase price of $13.75 per share for $109,000 net of cash issuance costs.

g) In February 2018, the Company completed the acquisition of Broken Coast (Note 11) in which it issued 14,373,675 common shares at a deemed price of $14.90 per share for $214,168.

h) In March 2018, the Company completed the acquisition of Nuuvera (Note 11) in which it issued 31,226,910 common shares at a deemed price of $13.17 per share for $411,258.

i) During the year, the Company recognized a $3,002 income tax recovery on share issuance costs.

(In thousands of Canadian dollars, except share and per share amounts)

20. Warrants

The warrant details of the Company are as follows:

Type of warrant	Expiry date	Number of warrants	Weighted average price	Amount
Warrant	December 11, 2018	36,003	1.75	--
Warrant	December 2, 2019	1,261,269	1.50	--
Warrant	September 26, 2021	200,000	3.14	360
Nuuvera warrant	February 14, 2020	1,345,866	20.30	1,015
		2,843,138	$ 10.52	$ 1,375

	May 31, 2018			May 31, 2017		
	Number of warrants		Weighted average price	Number of warrants		Weighted average price
Outstanding, beginning of the period	3,885,908	$	1.61	18,721,987	$	1.51
Expired during the period	--		--	(50,305)		1.20
Issued during the period	1,345,866		20.30	465,391		2.35
Exercised during the period	(2,388,636)		1.54	(15,251,165)		1.51
Outstanding, end of the period	2,843,138	$	10.52	3,885,908	$	1.61

In March 2018, the Company completed the acquisition of Nuuvera (Note 11) in which it reserved 1,345,866 common shares for issuance to the holders of certain common share purchase warrants of Nuuvera ("Nuuvera Warrants"). There are 3,795,450 Nuuvera Warrants, exercisable for Nuuvera shares at an exercise price of $7.20 per share, the Nuuvera shares would convert to 0.3546 Aphria shares and $0.62 cash.

21. 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 can 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 can 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 $15,780 during the year ended May 31, 2018 (2017 - $2,064), including $4,570 of options granted as part of the acquisition of Broken Coast. The total fair value of options granted during the year was $28,912 (2017 - $4,222), including $9,509 of options granted as part of the acquisition of Broken Coast.

	May 31, 2018			May 31, 2017		
	Number of options		Weighted average price	Number of options		Weighted average price
Outstanding, beginning of the period	5,926,001	$	1.99	4,975,000	$	0.84
Exercised during the period	(2,637,363)		2.30	(1,121,999)		1.05
Issued during the period	6,703,330		11.12	2,253,000		3.99
Cancelled during the period	(1,035,773)		11.77	(180,000)		1.09
Outstanding, end of the period	8,956,195	$	7.60	5,926,001	$	1.99
Exercisable, end of the period	4,507,696	$	4.04	3,919,542	$	1.36

In June 2017, the Company issued 250,000 stock options at an exercise price of $5.44 per share, exercisable for 5 years to officers of the company. 83,333 vested immediately and the remainder vest over 2 years.

In July 2017, the Company issued 1,015,000 stock options at an exercise price of $5.24 per share, exercisable for 3 years to employees, officers and consultants of the company. 688,333 vested immediately and the remainder vest over 2 years.

In October 2017, the Company issued 533,000 stock options at an exercise price of $6.90 per share, exercisable for 3 to 5 years to employees, officers and consultants of the company. 244,330 vested immediately and the remainder vest over 2 years.

In November 2017, the Company issued 330,000 stock options at an exercise price of $9.05 - $9.28 per share, exercisable for 3 years to employees and consultants of the company. 109,998 vested immediately and the remainder vest over 2 years.

In December 2017, the Company issued 100,000 stock options at an exercise price of $14.06 per share, exercisable for 3 years to employees of the company. 33,333 vested immediately and the remainder vest over 2 years.

In January 2018, the Company issued 1,000,000 stock options at an exercise price of $20.19 per share, exercisable for 3 years as part of the acquisition of Broken Coast. All of the options vest over 3 years.

In January 2018, the Company issued 725,000 stock options at an exercise price of $21.70 - $22.89 per share, exercisable for 3 – 5 years to employees, officers and consultants of the company. 171,662 vested immediately and the remainder vest over 2 – 3 years.

In March 2018, as part of the acquisition of Nuuvera, the Company issued 1,280,914 replacement options at an exercise price of $2.52 - $14.38, exercisable for 7 – 10 years to former option holders of Nuuvera. 1,211,197 vested immediately and the remainder vest over 8 months.

In March 2018, the Company issued 160,000 stock options at an exercise price of $12.39 - $14.39 per share, exercisable for 3 years to employees of the company. 23,332 vested immediately and the remainder vest over 1 – 3 years.

In April 2018, the Company issued 1,310,000 stock options at an exercise price of $9.98 - $11.40 per share, exercisable for 3 years to employees, officers and consultants of the company. 133,333 vested immediately and the remainder vest over 1 – 3 years.

In May 2018, directors and officers of the Company rescinded 541,000 stock options at an exercise price of $6.90 – $21.70 per share. As at that date, $1,907 was recorded as share based compensation. The Company has reclassified $1,907 from contributed surplus to retained earnings as part of this forfeiture.

(In thousands of Canadian dollars, except share and per share amounts)

The outstanding option details of the Company are as follows:

Expiry date	Weighted average exercise price	Number of options	Vested and exercisable
October 2018	$ 1.17	20,000	20,000
November 2018	$ 1.49	20,000	20,000
December 2018	$ 1.30	20,000	20,000
April 2019	$ 1.67	30,000	30,000
June 2019	$ 0.60	1,480,000	1,480,000
September 2019	$ 3.00	42,365	35,915
October 2019	$ 3.47	13,400	6,733
November 2019	$ 3.90	837,052	516,709
December 2019	$ 5.25	500,000	133,332
January 2020	$ 5.72	20,668	5,667
April 2020	$ 7.92	133,334	88,333
June 2020	$ 5.44	216,668	49,999
July 2020	$ 5.24	761,658	456,967
September 2020	$ 0.85	185,000	185,000
October 2020	$ 6.90	381,000	94,330
November 2020	$ 9.05	270,000	83,332
November 2020	$ 9.28	50,000	16,666
December 2020	$ 14.06	100,000	33,333
January 2021	$ 21.70	10,000	3,333
January 2021	$ 22.89	150,000	33,330
January 2021	$ 22.08	50,000	16,666
March 2021	$ 14.39	90,000	23,332
March 2021	$ 11.40	300,000	--
March 2021	$ 9.98	200,000	--
March 2021	$ 12.39	50,000	--
April 2021	$ 11.40	710,000	100,000
April 2021	$ 11.45	100,000	33,333
May 2021	$ 20.19	1,000,000	--
June 2021	$ 1.40	193,336	100,000
August 2021	$ 1.64	110,000	69,993
October 2022	$ 6.90	74,000	74,000
July 2027	$ 2.52	328,369	268,048
November 2027	$ 6.29	250,693	250,693
December 2027	$ 6.29	99,482	99,482
March 2028	$ 12.29	119,378	119,378
March 2028	$ 14.38	39,792	39,792
Outstanding, end of the period	$ 7.60	8,956,195	4,507,696

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 0.75-1.70% on the date of grant; expected life of 3 – 10 years; volatility of 70% based on comparable companies; forfeiture rate of 0%; dividend yield of nil; and, the exercise price of the respective option.

22. Non-controlling interest

The following tables summarise the information relating to the Company's subsidiary, Aphria Diamond, before intercompany eliminations.

	May 31, 2018	May 31, 2017
Current assets	$ 7,313	$ --
Non-current assets	83,207	--
Current liabilities	(10,085)	--
Non-current liabilities	(60,884)	--
Net assets	19,551	--
Non-controlling interest %	49%	--
Non-controlling interest	$ 9,580	$ --

	For the year ended May 31,	
	2018	2017
Revenue	$ --	$ --
Total expenses	(449)	--
Net loss and comprehensive loss	(449)	--
Non-controlling interest %	49%	--
	$ (220)	$ --

23. General and administrative expenses

	For the year ended May 31,	
	2018	2017
Executive compensation	$ 1,794	$ 829
Consulting fees	1,154	220
Office and general	3,562	1,336
Professional fees	2,951	608
Salaries and wages	3,295	1,142
Travel and accomondation	889	464
Rent	256	79
	$ 13,901	$ 4,678

(In thousands of Canadian dollars, except share and per share amounts)

24. Share-based compensation

Share-based compensation is comprised of:

	For the year ended May 31, 2018	For the year ended May 31, 2017
Amounts charged to share-based payment reserve in respect of share-based compensation	$ 15,780	$ 2,064
Share-based compensation accrued in the prior period	(44)	44
Share-based compensation issued on behalf of a related party	(32)	--
Shares for services compensation	187	263
Deferred share units expensed in the period	1,983	28
	$ 17,874	$ 2,399

During the year, the Company issued 480,090 deferred share units to certain directors and officers of the Company, under the terms of the Company's Deferred Share Unit Plan. In May 2018, directors and officers of the Company forfeited 312,000 deferred share units which were granted during the year.

25. Finance income, net

Finance income, net, is comprised of:

	For the year ended May 31, 2018	For the year ended May 31, 2017
Interest income	$ 6,362	$ 1,115
Interest expense	(1,350)	(387)
	$ 5,012	$ 728

26. Gain on long-term investments

Gain on long-term investments for the year ended May 31, 2018 is comprised of:

Investment	Proceeds	Opening fair value /cost	Gain (loss) on disposal	Change in fair value	Total
Level 1 on fair value hierarchy					
CannaRoyalty Corp. - shares	$ 4,389	$ 1,793	$ 2,596	$ --	$ 2,596
Kalytera Therapeutics, Inc. - shares	763	1,111	(348)	--	(348)
MassRoots, Inc. - shares	102	232	(130)	--	(130)
Canabo Medical Inc. - shares	433	316	117	--	117
Nuuvera Inc. - shares and warrants	31,216	17,029	14,187	--	14,187
Scythian Biosciences Inc. - shares	1,225	2,000	(775)	--	(775)
Long-term investments (Note 14)	--	--	--	11,028	11,028
Year ended May 31, 2018	$ 38,128	$ 22,481	$ 15,647	$ 11,028	$ 26,675

27. Earnings per share

The calculation of earnings per share for the year ended May 31, 2018 was based on the net income attributable to common shareholders of $29,448 (2017 – $4,198) and a weighted average number of common shares outstanding of 161,026,463 (2017 – 104,341,319) calculated as follows:

	2018	2017
Basic earnings per share:		
Net income for the period	$ 29,448	$ 4,198
Average number of common shares outstanding during the period	161,026,463	104,341,319
Earnings per share - basic	$ 0.18	$ 0.04

	2018	2017
Diluted earnings per share:		
Net income for the period	$ 29,448	$ 4,198
Average number of common shares outstanding during the period	161,026,463	104,341,319
"In the money" warrants outstanding during the period	1,293,890	2,697,681
"In the money" options outstanding during the period	3,593,647	4,388,893
	165,914,000	111,427,893
Earnings per share - diluted	$ 0.18	$ 0.04

28. Change in non-cash working capital

Change in non-cash working capital is comprised of:

	For the year ended May 31, 2018	For the year ended May 31, 2017
Decrease (increase) in accounts receivable	$ (1,797)	$ 953
Decrease (increase) in other current assets	(7,628)	(5,284)
Decrease (increase) in inventory, net of fair value adjustment	(7,045)	3,057
Decrease (increase) in biological assets, net of fair value adjustment	(367)	(4,188)
Increase (decrease) in accounts payable and accrued liabilities	3,764	4,534
Increase (decrease) in income taxes payable	2,662	--
	$ (10,411)	$ (928)

(In thousands of Canadian dollars, except share and per share amounts)

29. Financial risk management and financial instruments

Financial instruments

The Company has classified its cash and cash equivalents, marketable securities, long-term investments, and embedded derivatives as fair value through profit or loss ("FVTPL"), accounts receivable and other current assets as loans and receivables, and accounts payable and accrued liabilities, promissory notes payable, and long-term debt as other financial liabilities. The convertible notes receivable are accounted for on an amortized cost basis.

The carrying values of accounts receivable and other current assets, 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 $30,548 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, 2018 was $29,725.

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, 2018
Financial assets at FVTPL				
Cash and cash equivalents	$ 59,737	$ --	$ --	$ 59,737
Marketable securities	45,062	--	--	45,062
Embedded derivatives (note 12)	--	--	7,410	7,410
Long-term investments	33,600	2,567	29,861	66,028
Outstanding, end of the period	$ 138,399	$ 2,567	$ 37,271	$ 178,237

	Level 1	Level 2	Level 3	May 31, 2017
Financial assets at FVTPL				
Cash and cash equivalents	$ 79,910	$ --	$ --	$ 79,910
Marketable securities	87,347	--	--	87,347
Embedded derivatives	--	--	173	173
Long-term investments	14,946	--	12,842	27,788
Outstanding, end of the period	$ 182,203	$ --	$ 13,015	$ 195,218

The following table presents the changes in level 3 items for the years ended May 31, 2018 and May 31, 2017:

	Unlisted equity securities	Trading derivatives	Total
Closing balance May 31, 2017	$ 12,842	$ 173	$ 13,015
Acquisitions	16,236	4,450	20,686
Reclassification to Level 1	(9,979)	(1,348)	(11,327)
Reclassification to equity Investee	(2,483)	--	(2,483)
Unrealized gain on fair value	13,245	4,135	17,380
Closing balance May 31, 2018	$ 29,861	$ 7,410	$ 37,271

Investments in Scythian Biosciences Corp., TS BrandCo Holdings Inc. and Nuuvera Inc., originally classified as a Level 3 investment, were reclassified subsequent to the investee going public. During the year ended May 31, 2018, the Company sold its shares in Scythian Biosciences Corp. The Company converted the CannaRoyalty Corp. notes, and transferred $1,348 from embedded derivatives to long-term investments.

Financial risk management

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

(a) Credit risk

The maximum credit exposure at May 31, 2018 is the carrying amount of cash and cash equivalents, marketable securities, accounts receivable and other current assets 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	61-90 days	90+ days
Trade receivables	**$ 3,386**	$ 1,622	$ 1,005	$ 227	$ 532
		48%	29%	7%	16%

(b) Liquidity risk

As at May 31, 2018, 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, 2018, management regards liquidity risk to be low.

(c) Currency rate risk

(In thousands of Canadian dollars, except share and per share amounts)

As at May 31, 2018, a portion of the Company's financial assets and liabilities held in USD consist of marketable securities, convertible notes receivable, 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.

The Company is exposed to unrealized foreign exchange risk through its convertible notes receivable and long-term investments. A 1% change in the foreign exchange rate would result in an unrealized gain or loss of approximately $28.

(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.

30. 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. Subsequent to year-end, the Company entered into a new lease for rental office space from December 2018 until November 30, 2028. The Company has lease commitments for the use of two motor vehicles expiring September 2019 and August 2020 in the amounts payable of $9 and $20, respectively. In April of 2017, the Company indemnified the landlord of the office space leased by Liberty with annual rent from $180 to $190 expiring June 2023. The Company has agreed to contribute an additional $400 to Green Acre Capital Fund. The Company has committed purchase orders outstanding at May 31, 2018 related to capital asset expansion of $30,360, all of which are expected to be paid within the next year. Minimum payments payable over the next five years are as follows:

	years ending May 31,
2019	$ 30,914
2020	22
2021	3
	$ 30,939

31. Subsequent events

Subsequent to year-end, the Company completed the forming of CannInvest Africa Ltd. ("CannInvest"), with the South African Verve Group of Companies. Through the combination of a share-for-share swap and cash payment of $4.05 million, the Company obtained a 50% ownership in CannInvest which in turn acquired a 60% interest in Verve Dynamics Inc. ("Verve"), a licensed producer of medical cannabis extracts in Lesotho.

Subsequent to year-end, the Company closed a bought deal and issued 21,835,510 common shares for gross proceeds of $258,751.

Subsequent to year-end, the Company's Malta based subsidiary, ASG Pharma Ltd. ("ASG"), received the first import license for medical cannabis issued by the Malta Medicines Authority. The license will allow ASG to import medical cannabis for analytical testing and research and is an important step that will enable ASG to become a cornerstone in testing, research and development of medical cannabis in Europe.

Subsequent to year-end, the Company announced the proposed acquisition of industry-leading companies in Colombia, Argentina, Jamaica and a right of first offer and refusal in respect of Brazil through a definitive share purchase agreement with Scythian. The Company expects to issue 15,678,310 shares, and assume $1,000 of existing debt in connection with the proposed acquisition.

Subsequent to year-end, Aphria Inc. amalgamated with its previously wholly-owned subsidiary, Pure Natures Wellness Inc., pursuant to a short form, vertical amalgamation. The resulting entity retained the name "Aphria Inc."

Subsequent to year-end, the Company amended its Obligation Agreement, where the Company will accept a 30-day promissory note to settle the next tranche of Liberty shares owned by the Company that became freely trading on July 26, 2018. The Company also paid $480 to enter into a standstill agreement, whereby the purchaser of the Liberty shares will not sell the newly acquired shares for 18 months from the date of purchase. The purchaser also granted the Company an option to buy back the shares at $1.00 per share, subject to certain downside risk protection which results in the purchaser sharing a portion of the difference between the share price on the day the option is exercised and the exercise price, provided the share price exceeds $1.25.

Subsequent to year-end, the Company committed to a $15,000 investment in Green Acre Capital Fund II to be launched before December 2018.

(In thousands of Canadian dollars, except share and per share amounts)