UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 25, 2021

Tilray, Inc.
(Exact name of Registrant as Specified in Its Charter)

Delaware	001-38594	82-4310622
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1100 Maughan Rd., Nanaimo, BC, Canada	V9X 1J2
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (844) 845-7291

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instructions A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☒ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class 2 Common Stock, $0.0001 par value per share	**TLRY**	**The Nasdaq Global Select Market**

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 8.01. Other Events.

Arrangement Agreement

As previously disclosed on December 15, 2020, Tilray, Inc., a Delaware corporation ("Tilray"), and Aphria Inc., a corporation existing under the laws of the Province of Ontario ("Aphria"), entered into an Arrangement Agreement, as amended (the "Arrangement Agreement"), pursuant to which all of the issued and outstanding common shares of Aphria (the "Aphria Shares") will be exchanged for Class 2 common stock of Tilray, in accordance with a specified exchange ratio, pursuant to a plan of arrangement (the "Plan of Arrangement") under the Business Corporations Act (Ontario) (the "Arrangement").

In connection with the proposed Arrangement, certain information about Aphria, including a description of its business is filed herewith as Exhibit 99.2 and is incorporated herein by reference.

Lock-Up Release

As previously announced, on December 12, 2019, Tilray completed its transaction with Privateer Holdings, Inc., a Delaware corporation ("Privateer"), in accordance with the terms of the Agreement and Plan of Merger and Reorganization, dated as of September 9, 2019 (the "Merger Agreement") by and among Tilray, Privateer, Down River Merger Sub, LLC, a Delaware limited liability company and wholly owned subsidiary of Tilray and Michael Blue, as the Stockholder Representative. Pursuant to the terms described in the Merger Agreement, Privateer merged with and into Merger Sub (the "Merger"), with Merger Sub surviving the Merger as a wholly owned subsidiary of Tilray.

Pursuant to the Merger Agreement, each Privateer equity holder who received shares of Tilray common stock in the Merger is subject to a lock-up (the "Lock-Up Agreement") allowing for the sale of such shares only under certain circumstances over a two-year period.

On February 19, 2021, the Board of Directors of Tilray unanimously approved the release of the remaining shares of Class 2 common stock from the Lock-Up Agreement, effective as of 9:00 a.m. on the second trading day following the record date for Tilray's special meeting of the stockholders related to the Arrangement. The record date will be set by the Board of Directors of Tilray prior to filing the definitive proxy statement related to the Arrangement.

Additional Information and Where to Find It

In connection with the proposed transaction, Aphria will file a definitive management information circular, and Tilray will file a definitive proxy statement on Schedule 14A containing important information about the proposed transaction and related matters. Additionally, Aphria and Tilray will file other relevant materials in connection with the proposed transaction with the applicable securities regulatory authorities. Investors and security holders of Aphria and Tilray are urged to carefully read the entire management information circular and proxy statement (including any amendments or supplements to such documents), respectively, when such documents become available before making any voting decision with respect to the proposed transaction because they will contain important information about the proposed transaction and the parties to the transaction. The Aphria management information circular and the Tilray proxy statement will be mailed to the Aphria and Tilray shareholders, respectively, as well as be accessible on the SEDAR and EDGAR profiles of the respective companies.

Investors and security holders of Tilray will be able to obtain a free copy of the proxy statement, as well as other relevant filings containing information about Tilray and the proposed transaction, including materials that will be incorporated by reference into the proxy statement, without charge, at the SEC's website (www.sec.gov) or from Tilray by contacting Tilray's Investor Relations at (203) 682-8253, by email at Raphael.Gross@icrinc.com, or by going to Tilray's Investor Relations page on its website at https://ir.tilray.com/investor-relations and clicking on the link titled "Financials."

Participants in the Solicitation

Tilray and Aphria and certain of their respective directors, executive officers and employees may be deemed to be participants in the solicitation of Tilray proxies in respect of the proposed transaction. Information regarding the persons who may, under SEC rules, be deemed participants in the solicitation of proxies to Tilray stockholders in connection with the proposed transaction will be set forth in the Tilray proxy statement for the proposed transaction when available. Other information regarding the participants in the Tilray proxy solicitation and a description of their direct and indirect interests in the proposed transaction, by security holdings or otherwise, will be contained in such proxy statement and other relevant materials to be filed with the SEC in connection with the proposed transaction. Copies of these documents may be obtained, free of charge, from the SEC or Tilray as described in the preceding paragraph.

Notice Regarding Forward-Looking Statements

Certain information in this communication constitutes forward-looking information or forward-looking statements (together, “forward-looking statements”) under Canadian securities laws and within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbor created by such sections and other applicable laws. The forward-looking statements are expressly qualified by this cautionary statement. Any information or statements that are contained in this communication that are not statements of historical fact may be deemed to be forward-looking statements, including, but not limited to, statements in this communication with regards to: (i) statements relating to Aphria’s and Tilray’s strategic business combination and the expected terms, timing and closing of the Arrangement including, receipt of required regulatory approvals, shareholder approvals, court approvals and satisfaction of other closing customary conditions; (ii) estimates of pro-forma financial information of the combined company, including in respect of expected revenues and production of cannabis; (iii) estimates of future costs applicable to sales; (iv) estimates of future capital expenditures; (v) estimates of future cost reductions, synergies including pre-tax synergies, savings and efficiencies; (vi) statements that the combined company anticipates to have scalable medical and adult-use cannabis platforms expected to strengthen the leadership position in Canada, United States and internationally; (vii) statements that the combined company is expected to offer a diversified and branded product offering and distribution footprint, world-class cultivation, processing and manufacturing facilities; (viii) statements in respect of operational efficiencies expected to be generated as a result of the Arrangement in the amount of more than C$100 million of pre-tax annual cost synergies; (ix) expectations of future balance sheet strength and future equity; and (x) that the combined company is expected to unlock significant shareholder value. Aphria and Tilray use words such as “forecast”, “future”, “should”, “could”, “enable”, “potential”, “contemplate”, “believe”, “anticipate”, “estimate”, “plan”, “expect”, “intend”, “may”, “project”, “will”, “would” and the negative of these terms or similar expressions to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Various assumptions were used in drawing the conclusions contained in the forward-looking statements throughout this communication. Forward-looking statements reflect current beliefs of management of Aphria and Tilray with respect to future events and are based on information currently available to each respective management including based on reasonable assumptions, estimates, internal and external analysis and opinions of management of Aphria and Tilray considering their experience, perception of trends, current conditions and expected developments as well as other factors that each respective management believes to be relevant as at the date such statements are made. 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, risks assumptions and expectations described in Aphria’s and Tilray’s critical accounting policies and estimates; the adoption and impact of certain accounting pronouncements; Aphria’s and Tilray’s future financial and operating performance; the competitive and business strategies of Aphria and Tilray ; the intention to grow the business, operations and potential activities of Aphria and Tilray; the ability of Aphria and Tilray to complete the Arrangement; Aphria’s and Tilray’s ability to provide a return on investment; Aphria’s and Tilray’s ability to maintain a strong financial position and manage costs, the ability of Aphria and Tilray to maximize the utilization of their existing assets and investments and that the completion of the Arrangement is subject to the satisfaction or waiver of a number of conditions as set forth in the Arrangement Agreement. There can be no assurance as to when these conditions will be satisfied or waived, if at all, or that other events will not intervene to delay or result in the failure to complete the Arrangement. There is a risk that some or all the expected benefits of the Arrangement may fail to materialize or may not occur within the time periods anticipated by Aphria and Tilray. The challenge of coordinating previously independent businesses makes evaluating the business and future financial prospects of the combined company following the Arrangement difficult. Material risks that could cause actual results to differ from forward-looking statements also include the inherent uncertainty associated with the financial and other projections; the prompt and effective integration of the combined company; the ability to achieve the anticipated synergies and value-creation contemplated by the proposed transaction; the risk associated with Aphria’s and Tilray’s ability to obtain the approval of the proposed transaction by their shareholders required to consummate the proposed transaction and the timing of the closing of the proposed transaction, including the risk that the conditions to the transaction are not satisfied on a timely basis or at all; the risk that a consent or authorization that may be required for the proposed transaction is not obtained or is obtained subject to conditions that are not anticipated; the outcome of any legal proceedings that may be instituted against the parties and others related to the Arrangement Agreement; unanticipated difficulties or expenditures relating to the transaction, the response of business partners and retention as a result of the announcement and pendency of the transaction; risks relating to the value of Tilray’s common stock to be issued in connection with the transaction; the impact of competitive responses to the announcement of the transaction; and the diversion of management time on transaction-related issues.

For a more detailed discussion of risks and other factors, see the most recently filed annual information form of Aphria and the annual report filed on form 10-K of Tilray made with applicable securities regulatory authorities and available on SEDAR and EDGAR. The forward-looking statements included in this communication are made as of the date of this communication and neither Aphria nor Tilray undertake any obligation to publicly update such forward-looking statements to reflect new information, subsequent events or otherwise unless required by applicable securities laws.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

The audited consolidated financial statements of Aphria as of May 31, 2020 and May 31, 2019, and for the fiscal years ended May 31, 2020 and 2019 and the notes related thereto, as well as the unaudited interim consolidated financial statements of Aphria as of November 30, 2020 and May 31, 2020 and for the three and six months ended November 30, 2020 and 2019, and the notes related thereto, are included in Exhibit 99.2.

(b) Pro Forma Financial Information

Our unaudited pro forma condensed combined balance sheet information as at December 31, 2020, which gives effect to the Arrangement as if it had occurred on December 31, 2020, and our unaudited pro forma statement of net loss information for the year ended December 31, 2020, which gives effect to the Arrangement as if it had occurred on January 1, 2020, are filed as Exhibit 99.1. The pro forma financial statements have been prepared for illustrative purposes only and may not be indicative of the operating results or financial condition that would have been achieved if the merger transaction had been completed on the dates or for the periods presented, nor do they purport to project the results of operations or financial position for any future period or as of any future date. In addition to the pro forma adjustments, various other factors will have an effect on the financial condition and results of operations after the completion of the merger transaction. The actual financial position and results of operations may differ materially from the pro forma amounts reflected herein due to a variety of factors.

(d) Exhibits.

Exhibit Number	Description of Exhibit
23.1	Consent of Independent Registered Public Accounting Firm of Aphria
99.1	Unaudited pro forma condensed combined financial statements as of and for the year ended December 31, 2020, each giving effect to the proposed Arrangement
99.2	Disclosure regarding Aphria, including related consolidated financial statements
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		Tilray, Inc.
Date: February 25, 2021	By:	/s/ Brendan Kennedy
		Brendan Kennedy
		President and Chief Executive Officer

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-233703) of Tilray Inc. of our report dated July 28, 2020 relating to the consolidated financial statements and effectiveness of internal control over financial reporting of Aphria Inc., which is filed as Exhibit 99.2 to this Current Report on Form 8-K of Tilray Inc. dated February 25, 2021.

/s/ PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

February 25, 2021

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

Exhibit 99.1

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS OF TILRAY
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On December 15, 2020, Tilray, Inc. (“Tilray”) and Aphria Inc. (“Aphria”), entered into an Arrangement Agreement, under which the businesses of the two companies will be combined pursuant to a Plan of Arrangement (the “merger transaction”).

The following unaudited pro forma condensed combined financial statements (the “pro forma financial statements”) are based on the historical consolidated financial statements of Tilray and Aphria, as adjusted to give effect to the merger transaction. The unaudited pro forma condensed combined balance sheet as at December 31, 2020 (the “pro forma balance sheet”) gives effect to the merger transaction as if it had occurred on December 31, 2020. The unaudited pro forma condensed combined statement of net loss for the year ended December 31, 2020 (the “pro forma statement of net loss”) gives effect to the merger transaction as if it had occurred on January 1, 2020.

The transaction accounting adjustments consist of those necessary to account for the merger transaction as a reverse acquisition in accordance with generally accepted accounting principles in the United States of America (“US GAAP”).

The pro forma financial statements do not necessarily reflect what the combined company’s financial condition or results of operations would have been had the merger transaction occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual financial condition and results of operations of the combined company may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

Unaudited Pro Forma Condensed Combined Balance Sheet
December 31, 2020
(in '000 of United States dollars)

	Aphria adjusted historical November 30, 2020 (note 6)	Tilray historical December 31, 2020	Transaction accounting adjustments	Notes (note 4)	Pro forma combined December 31, 2020
Assets					
Current assets					
Cash and cash equivalents	$ 144,713	$ 189,702	$ 37,426	H	$ 371,841
Accounts receivable, net	74,034	29,033	—		103,067
Inventory	174,817	93,645	27,355	C	295,817
Prepayments and other current assets	56,375	34,640	—		91,015
Total current assets	449,939	347,020	64,781		861,740
Property and equipment, net	499,164	199,559	1,490	D,E	700,213
Operating lease, right-of-use assets	5,393	17,985	274	E	23,652
Intangible assets, net	528,397	186,445	876,555	F	1,591,397
Goodwill	578,161	166,915	2,422,696	G	3,167,772
Equity method investments	—	9,300	—		9,300
Other investments	16,792	14,369	—		31,161
Other assets	2,309	4,356	—		6,665
Total assets	$ 2,080,155	$ 945,949	$ 3,365,796		$ 6,391,900
Liabilities					
Current liabilities					
Bank indebtedness	3,934	—	—		3,934
Accounts payable	62,667	17,776	—		80,443
Accrued expenses and other	117,501	39,946	33,841	K	198,111
current liabilities			6,823	L	
Income taxes payable	12,760	—	—		12,760
Accrued lease obligations	1,360	2,913	—		4,273
Warrant liability	—	120,647	175,385	H	296,032
Current portion of long-term debt	11,708	—	—		11,708
Total current liabilities	209,930	181,282	216,049		607,261
Accrued lease obligations	34,560	30,623	—		65,183
Deferred tax liability	23,347	49,274	202,603	M	287,071
			11,847	M	
Convertible notes, net of issuance costs	275,581	257,789	(23,000)	I	510,370
Long-term debt	94,321	48,470	2,028	J	144,819
Other liabilities	—	4,612	—		4,612
Total liabilities	$ 637,739	$ 572,050	$ 409,527		$ 1,619,316
Stockholders' equity					
Common stock(1)	1,601,853	16	26	B	42
			(1,601,853)	B	
Additional paid-in capital	34,181	1,095,781	3,381,263	A, B	5,018,671
			(1,095,781)	B	
			1,390	I	
			1,601,837	B	
Warrants	277	—	—		277
Accumulated other comprehensive income	(309)	8,205	(8,205)	B	(309)
Accumulated deficit	(243,969)	(730,103)	730,103	B	(296,480)
			(33,841)	K	
			(6,823)	L	
			(11,847)	M	
Total stockholders' equity	1,392,033	373,899	2,956,269		4,722,201
Non-controlling interests	50,383	—	—		50,383
Total liabilities and stockholders' equity	$ 2,080,155	$ 945,949	$ 3,365,796		$ 6,391,900

(1) Consists of Aphria common shares and Tilray Class 2 common stock

Unaudited Pro Forma Condensed Combined Statement of Net Loss
For the Year Ended December 31, 2020
(in '000 of United States dollars, except per share and share amounts)

	Aphria constructed 12 month period ending November 30, 2020 (note 6)	Tilray 12 month period ending December 31, 2020	Transaction accounting adjustments	Notes (note 4)	Pro forma combined
Revenue	$ 471,963	$ 210,482	$ —		$ 682,445
Cost of sales	351,229	185,827	27,355	C	565,841
			(56)	D	
			1,486	L	
Gross profit	120,734	24,655	(28,785)		116,604
General and administrative expenses	112,069	85,883	33,841	K	231,117
			6,823	L	
			(7,499)	L	
Sales and marketing expenses	45,719	54,666	(6,729)	L	93,656
Research and development expenses	1,275	4,411	207	L	5,893
Depreciation and amortization expenses	15,123	13,722	(798)	D	55,945
			27,898	F	
Impairment of assets	47,643	61,114	—		108,757
Loss from equity method investments	—	5,983	—		5,983
Operating loss	(101,095)	(201,124)	(82,528)		(384,747)
Foreign exchange loss (gain), net	5,800	(13,169)	—		(7,369)
Change in fair value of warrant liability	—	100,286	—		100,286
Gain on debt conversion	—	(61,118)	—		(61,118)
Interest expenses, net	21,550	39,219	(5,258)	I	55,185
			(327)	J	
Other expense (income), net	83,044	10,333	—		93,377
Loss before income taxes	(211,489)	(276,675)	(76,943)		(565,107)
Deferred income tax recoveries	(40,544)	(5,376)	(16,211)	M	(58,889)
			3,242	M	
Current income tax (recoveries) expenses	18,592	(226)	—		18,366
Net loss	$ (189,537)	$ (271,073)	$ (63,974)		$ (524,584)
Net loss per share - basic and diluted		$ (2.05)			$ (1.32)
Weighted average shares used in computation of net loss per share - basic and diluted		126,041,710	271,794,347	note 5	397,836,057

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

(in '000 of United States dollars, except for shares, warrants, per share amounts and per warrant amounts, unless otherwise noted)

1. Basis of Presentation

The pro forma financial statements are based on the historical consolidated financial statements of Tilray and Aphria, adjusted to give effect to the merger transaction, and should be read in conjunction with the historical financial statements from which they are derived. Pro forma adjustments are limited to the transaction accounting adjustments that reflect the accounting for the merger transaction in accordance with US GAAP.

The pro forma financial statements were prepared using the purchase method of accounting. The merger transaction is accounted for as a reverse acquisition in which Tilray is the legal acquirer and Aphria is the acquirer for accounting purposes. Accordingly, the pro forma financial statements represent a continuation of the financial statements of Aphria; the assets and liabilities of Aphria are presented at their historical carrying values and the assets and liabilities of Tilray are recognized on the effective date of the merger transaction and measured at fair value.

The pro forma financial statements are presented in United States dollars ("USD") and prepared in accordance with US GAAP. Since Aphria's historical consolidated financial statements are presented in Canadian dollars ("CAD" or "C$") and prepared in accordance with International Financial Reporting Standards ("IFRS"), the historical financial information of Aphria used in the pro forma financial statements has been reconciled to US GAAP and translated into USD (note 6).

The pro forma balance sheet gives effect to the merger transaction as if it had occurred on December 31, 2020. The pro forma statement of net loss gives effect to the merger transaction as if it had occurred on January 1, 2020.

The pro forma balance sheet combines the audited consolidated balance sheet of Tilray as at December 31, 2020 with the unaudited condensed consolidated statement of financial position (balance sheet) of Aphria as at November 30, 2020. As the ending date of the fiscal period for Aphria differs from that of Tilray by more than 93 days, the unaudited pro forma statement of operations (statement of net loss) for the year ended December 31, 2020 was derived by combining financial information from the audited consolidated statement of net loss and comprehensive loss of Tilray for the year ended December 31, 2020 with financial information of Aphria for the twelve months ended November 30, 2020, which was constructed by subtracting: (i) the financial information from the unaudited consolidated statement of operations for the six months ended November 30, 2019; from (ii) the financial information from the audited consolidated statement of operations for the year ended May 31, 2020; and adding (iii) the financial information from the unaudited consolidated statement of operations for the six months ended November 30, 2020 (note 6). The financial statements of Aphria used to prepare the pro forma balance sheet and the pro forma statements of operations (statement of net loss) were prepared for the purpose of such pro forma financial statements and do not conform with the financial statements for Aphria included, or incorporated by reference, elsewhere in the Circular. Tilray's audited consolidated balance sheet as of December 31, 2020 and audited consolidated statement of net loss and comprehensive loss for the year ended December 31, 2020 are included Part II, Item 8 - Financial Statements and Supplementary Data, of Tilray's Consolidated Financial Statements filed on Form 10-K with the SEC on February 19, 2021.

The assumptions and estimates underlying the adjustments to the pro forma financial statements are described in the accompanying notes.

The pro forma adjustments are preliminary, subject to further revision as additional information becomes available and additional analyses are performed. The pro forma adjustments have been made solely for the purpose of providing unaudited pro forma combined financial information and actual adjustment, when recorded, may differ materially.

The pro forma financial statements have been prepared for illustrative purposes only and may not be indicative of the operating results or financial condition that would have been achieved if the merger transaction had been completed on the dates or for the periods presented, nor do they purport to project the results of operations or financial position for any future period or as of any future date. In addition to the pro forma adjustments, various other factors will have an effect on the financial condition and results of operations after the completion of the merger transaction. The actual financial position and results of operations may differ materially from the pro forma amounts reflected herein due to a variety of factors.

The unaudited pro forma financial statements do not reflect operational and administrative cost savings that may be achieved as a result of the merger transaction.

2. Estimated Purchase Price

Tilray is the legal acquirer and, pursuant to the Plan of Arrangement, will (i) exchange each outstanding Aphria common share for 0.8381 of a Tilray Class 2 common share (the "Exchange Ratio"), and (ii) exchange outstanding equity instruments exercisable into Aphria common shares for instruments with similar terms that are exercisable into Tilray Class 2 common shares, adjusted to reflect the Exchange Ratio.

However, since the merger transaction is being accounted for as a reverse acquisition (note 1), the purchase price is calculated as the fair value of the hypothetical consideration Aphria would have to issue to acquire Tilray's outstanding equity instruments and obtain the same percentage of ownership interest in the combined entity that will result from the merger transaction.

The estimated purchase price of $3,381,289 is based on the number of equity instruments of Tilray outstanding at December 31, 2020, adjusted for the exercise of 6,290,000 warrants (note 3, 4H), and Aphria's closing share price of $16.60 on February 3, 2021 (the "Measurement Date"). The purchase price will change based on fluctuations in Aphria's share price and the number of equity instruments of Tilray outstanding on the effective date of the merger transaction. A 10% increase or decrease in Aphria's share price would increase or decrease both the purchase price and goodwill by approximately $338,924, respectively, and a 25% increase or decrease in Aphria's share price would increase or decrease both the purchase price and goodwill by approximately $847,299, respectively.

The following table summarizes the calculation of the purchase price hypothetically paid by Aphria (in thousands, except warrants, share and per share data):

Tilray Class 2 common stock outstanding at December 31, 2020 adjusted for warrants exercised(1)		164,746,087
Aphria common stock hypothetically issued based on Exchange Ratio		196,570,919
Price per common stock of Aphria on Measurement Date	$	16.60
Total estimated fair value of acquired Tilray Class 2 common stock	$	3,263,077
Estimated fair value of Tilray stock-based compensation related to the precombination service period	$	118,212
Total estimated purchase price	$	3,381,289

(1) *Represents 158,456,087 Tilray Class 2 common stock outstanding at December 31, 2020 and 6,290,000 warrants exercised from Jan 1, 2021 to the Measurement Date (note H)*

The estimated fair value of the Tilray stock-based compensation related to the precombinaion service period consisted of $91,089 related to Tilray stock options and $27,123 related to restricted share units ("RSUs"). The fair values of the RSUs included in the purchase price are estimated using the market share price of Aphria on the purchase price Measurement Date. The fair values of the options included in the purchase price are calculated using the Black Scholes model, using the following assumptions:

Volatility	100%
Dividend yield	0%
Risk-free interest rate	0.03% to 0.96%
Expected term	0.06 to 8.13 years

3. Preliminary Purchase Price Allocation

A preliminary valuation analysis of the fair value of Tilray's assets and liabilities has been performed at December 31, 2020, with the following exception:

- The warrant liability has been valued at the Measurement Date, which reflects the exercise of 6,290,000 warrants between January 1, 2021 and the Measurement Date (note 2, 4H); and
- The cash and cash equivalents balance at December 31, 2020 has been increased by $37,426 (note 4H) to reflect the cash received upon exercise of the warrants.

The purchase price has been allocated to such assets and liabilities, with the excess allocated to goodwill. The following table summarizes the preliminary purchase price allocation:

Cash and cash equivalents	$ 227,128
Accounts receivable	29,033
Inventory	121,000
Prepayments and other current assets	34,640
Property and equipment	201,049
Operating right-of-use assets	18,259
Intangible assets	1,063,000
Equity method investments	9,300
Other investments	14,369
Other assets	4,356
Accounts payable	(17,776)
Accrued expenses and other current liabilities	(39,946)
Accrued lease obligations	(33,536)
Warrant liability	(296,032)
Deferred tax liability	(251,877)
Convertible notes	(236,179)
Long-term debt	(50,498)
Other liabilities	(4,612)
Goodwill	2,589,611

The preliminary purchase price allocation has been used to prepare the pro forma adjustments (note 4). The purchase price allocation will be finalized following the effective date of the merger transaction when the valuation analysis is complete. The final allocation could differ materially from the preliminary allocation used in the pro forma adjustments.

4. Pro Forma Adjustments

Adjustments to the pro forma financial statements are limited to those that reflect the accounting for the merger transaction in accordance with US GAAP. The pro forma financial statements give effect to the merger transaction as if it had occurred on December 31, 2020 for purposes of the pro forma balance sheet and January 1, 2020 for purposes of the pro forma statement of net loss.

The pro forma adjustments are as follows:

A – Purchase price

Records the purchase price consideration, which is the fair value of the equity interests hypothetically issued by Aphria to acquire Tilray (note 2).

B – Equity

Eliminates Tilray's historical equity balances and reallocates Aprhia's equity balances so the equity structure appearing in the pro forma balance sheet reflects the legal equity structure of Tilray, including the equity interests issued by Tilray to effect the merger transaction.

The following table summarizes how the equity balances in the pro forma balance sheet were determined:

	Common stock	Additional paid-in capital	Warrants	Accumulated other comprehensive income	Accumulated deficit	Total
Aphria as at November 30, 2020	$ 1,601,853	$ 34,181	$ 277	$ (309)	$ (243,969)	$1,392,033
Total estimated purchase price (note 2, 4A)	26	3,381,263	—	—	—	3,381,289
Tilray as at December 31, 2020	16	1,095,781	—	8,205	(730,103)	373,899
Eliminate Tilray as at December 31, 2020	—	(1,095,781)	—	(8,205)	730,103	(373,883)
Reallocate balance to reflect Tilray structure	(1,601,853)	1,601,837		—	—	(16)
Equity component of Tilray convertible notes (note 4I)	—	1,390	—	—	—	1,390
Accumulated deficit impact of pro forma adjustments (note 4K, 4L, 4M)	—	—	—	—	(52,511)	(52,511)
Pro forma - December 31, 2020	$ 42	$ 5,018,671	$ 277	$ (309)	$ (296,480)	$4,722,201

The $26 pro forma balance as part of the total estimated purchase price represents the $0.0001 par value of the estimated 265,504,347 of Tilray Class 2 common stock issued on the merger transaction.

C – Inventory

Increases Tilray's inventory to a fair value of approximately $121,000, an increase of $27,355 from the carrying value. The fair value was determined based on the estimated selling price of the inventory, less the remaining manufacturing and selling costs and a normal profit margin on those manufacturing and selling efforts. After the merger transaction, the $27,355 step-up in inventory value will increase cost of sales over the following twelve months as the inventory is sold, which is reflected in the pro forma statement of net loss and represents a nonrecurring charge. The fair value calculation is preliminary and subject to change.

D – Property and equipment

Increases Tilray's property and equipment to an estimated fair value of approximately $201,049, an overall increase of $1,490 from the carrying value. The overall increase represents an estimated increase of $2,110 relating to finance lease right-of-use assets (note 4E) offset by an estimated decrease of $620 to property and equipment. The estimated useful lives, excluding land, range from 4 to 27 years. The estimated fair value of property and equipment, excluding finance lease right-of-use assets is determined primarily using an income approach, which requires a forecast of expected future cash flows. After the merger transaction, the estimated impact of the combined change in the value and useful lives of property and equipment will be an estimated decrease in depreciation expense in the pro forma statement of net loss recognized through a $56 decrease in cost of sales and $798 decrease in depreciation and amortization expense. The estimated fair value and estimated useful life calculations are preliminary and subject to change.

The following table summarizes the changes in the estimated depreciation expense for property and equipment including finance lease right-of-use assets in the pro forma statement of net loss based on a straight-line method of depreciation:

Estimated annual depreciation expense:	
Included in cost of sales	$4,876
Included in depreciation and amortization expenses	1,922
Historical depreciation expense:	
Included in cost of sales	4,932
Included in depreciation and amortization expenses	2,720
Pro forma decrease to depreciation expense:	
Decrease included in cost of sales	(56)
Decrease included in depreciation and amortization expenses	(798)

The preliminary estimates of fair value and estimated useful lives will likely differ from the final amounts after completing a detailed valuation analysis, and the difference could have a material effect on the accompanying pro forma financial statements. A 10% change in the estimated fair value of property and equipment, excluding finance lease right-of-use assets, would cause a corresponding increase or decrease in the balance of goodwill. A 10% change would also cause the annual depreciation expense in the pro forma statement of net loss to increase or decrease by approximately $646, assuming a weighted average useful life of depreciable property and equipment of 18.4 years.

E – Leases

Included in Tilray's property and equipment carrying value (note 4D) is $13,167 related to finance lease right-of-use assets. The carrying value has been adjusted to the corresponding carrying value of finance lease liabilities of $15,277, resulting in a pro forma increase of $2,110. The corresponding impact to depreciation expense is included in property and equipment (note 4D). The carrying value of Tilray's operating lease right-of-use assets has been adjusted to the corresponding carrying value of operating lease liabilities of $18,259, resulting in a pro forma increase of $274. The finance and operating lease liabilities, and corresponding right-of-use assets may differ from the final amounts after completing the detailed incremental borrowing rate analysis.

F – Intangible assets

Increases Tilray's intangible assets to an estimated fair value of approximately $1,063,000, an increase of $876,555 from the carrying value. As part of the preliminary valuation analysis, the identified intangible assets include distribution channels, customer relationships, know how, developed technology, licenses, brands and trademarks. The fair value of identifiable intangible assets is determined primarily using an income approach, which requires a forecast of expected future cash flows. For purposes of the preliminary fair value, the mid point of the estimated range has been used. After the merger transaction, the $876,555 increase in the value of intangible assets will increase amortization expense over the respective estimated useful lives, which is reflected in the pro forma income statement through a $27,898 increase in depreciation and amortization expenses.

The following table summarizes the estimated fair values (mid point) of Tilray's identifiable intangible assets and, where applicable, their estimated useful lives:

	Estimated fair value	Estimated useful life (years)
Definite-lived intangible assets		
Distribution channels	$ 137,000	15
Customer relationships	85,000	15
Know how	47,000	2
Developed technology	6,000	10
	275,000	
Indefinite-lived intangible assets		
Licenses	660,000	Indefinite
Brands	116,000	Indefinite
Trademarks	12,000	Indefinite
	788,000	
	$ 1,063,000	

The following table summarizes the changes in the estimated amortization expense recorded to depreciation and amortization expense in the pro forma statement of net loss based on a straight-line method of amortization:

Estimated annual amortization expense	$38,900
Historical amortization expense	11,002
Pro forma increase to amortization expense	$27,898

The preliminary estimates of fair value and estimated useful lives will likely differ from the final amounts after completing a detailed valuation analysis, and the difference could have a material effect on the accompanying pro forma financial statements. A 10% change in the estimated fair value of intangible assets would cause a corresponding increase or decrease in the balance of goodwill. A 10% change would also cause the annual amortization expense in the pro forma statement of net loss to increase or decrease by approximately $3,890, assuming an overall weighted average useful life of definite-lived intangible assets of 12.7 years.

G – Goodwill

Adjusts goodwill in the pro forma balance sheet as follows:

Reversal of Tilray's historical goodwill	$ (166,915)
Goodwill recognized in purchase accounting	2,589,611
Pro forma increase to goodwill	$2,422,696

H – Warrant liability

Increases Tilray's warrant liability to an estimated fair value of approximately $296,032, an increase of $175,385 from the carrying value to reflect the estimated fair value at the Measurement Date. The 19,000,000 outstanding warrants at December 31, 2020 are reduced for the additional exercise of 6,290,000 warrants at a price of $5.95 from January 1, 2021 to the Measurement Date. The resulting increase in cash on exercise of $37,426 is an adjustment to the carrying value of cash in the purchase price allocation. The remaining 12,710,000 warrants outstanding on the Measurement Date have an estimated fair value of $23.29 per warrant, using Tilray's market share price on the Measurement Date as an input.

I – Convertible notes

Adjusts the carrying value of the liability component of the convertible notes from $257,789 in Tilray's historical balance sheet to an estimated fair value of $234,789, a decrease of $23,000. The fair value is determined using the expected cash flows, discounted by the estimated interest rate of similar nonconvertible debt based on current market rates. The combined instrument's fair value of $236,179 is adjusted to present the equity component of $1,390 in equity (note 4B), with the remaining $234,789 recorded as a liability. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The adjusted debt discount is to be amortized as additional non-cash interest expense over the remaining term of the convertible notes using the interest method with an effective rate of 11.7 % per annum.

The following table summarizes the changes in the estimated interest expense related to convertible notes:

	Historical annual interest expense	Estimated annual interest expense	Pro Forma (decrease) increase to interest expense
Contractual coupon interest	$ 22,929	$ 13,893	$ (9,036)
Amortization of discount	7,863	14,095	6,232
Amortization of transaction costs	2,454	—	(2,454)
Total interest expense related to convertible notes	$ 33,246	$ 27,988	$ (5,258)

J – Long-term debt

Adjusts the carrying value of Tilray's Senior Facility from $48,478 in Tilray's historical balance sheet to $50,498, an increase of $2,028. The adjustment reflects removal of the unamortized transaction costs which are not recognized in a business combination.
The following table summarizes the changes in the estimated interest expense related to the Senior Facility:

	Historical annual interest expense	Estimated annual interest expense	Pro forma increase (decrease) in interest expense
Contractual interest at Canadian prime plus 8.05%	$ 4,257	$ 5,302	$ 1,045
Amortization of transaction costs	1,372	—	(1,372)
Total interest expense related to Senior Facility	$ 5,629	$ 5,302	$ (327)

K – Transaction costs

Recognizes in both the pro forma balance sheet and pro forma statement of net loss $33,841 of nonrecurring transaction costs directly related to the merger transaction that are expected to be incurred by Aphria and Tilray subsequent to November 30, 2020 and December 31, 2020, respectively.

The following table summarizes the nonrecurring transaction costs related to the merger transaction included in general and administrative expenses in the pro forma statement of net loss:

	Aphria	Tilray	Total
Expensed in historical financial statements	$ 955	$ 2,232	$ 3,187
Accrued in pro forma adjustment	23,212	10,629	33,841
Total recognized in pro forma statement of net loss	$24,167	$12,861	$37,028

L – Compensation arrangements

Recognizes in both the pro forma balance sheet and pro forma income statement $6,823 of nonrecurring compensation costs related to severance payments and retention payments. This pro forma adjustment excludes any related severance or other compensation costs which may be triggered upon an announcement of a new executive team or other headcount restructuring that may result from the merger transaction.

The following table summarizes the nonrecurring compensation costs related to the merger transaction included in the pro forma income statement:

	Aphria	Tilray	Total
Expensed in historical financial statements	$ —	$ —	$ —
Accrued in pro forma adjustment	—	6,823	6,823
Total recognized in pro forma statement of net loss	$ —	$6,823	$6,823

Also recognizes in the pro forma statement of net loss is compensation costs related to the difference between Tilray's historical share-based compensation expense and the estimated share-based compensation expense related to replacement stock options and restricted stock units hypothetically issued by Aphria as consideration. The portion of the fair value of the replacement share-based awards related to compensation costs will be recognized ratably over post-merger service periods ranging from 0 to 3 years. The following table summarizes the changes in the estimated Tilray stock-based compensation expense in the pro forma statement of net loss:

	Historical stock-based compensation expense	Estimated annual stock-based compensation expense	Pro forma increase (decrease) in stock-based compensation expense
Cost of sales	$ 1,568	$ 3,054	$ 1,486
General and administration expenses	20,491	12,993	(7,499)
Sales and marketing	6,729	—	(6,729)
Research and development expenses	922	1,129	207
Total stock-based compensation expense	$ 29,710	$ 17,176	$ (12,535)

The total pro forma adjustment to stock-based compensation expense excludes the impact of accelerated vesting of Aphria's stock-based awards that is subject to the approval by the Aphria Board, which has not yet occurred.

M – Income taxes

The pro forma income tax adjustments to the pro forma balance sheet results in an overall increase in the deferred income tax liability of $214,450 relating to the following:

- Increase of $202,603 related to Tilray's increase in taxable temporary differences due primarily to fair value increases in inventory, property and equipment, and intangibles, offset by a partial reversal of the valuation allowance on net operating losses carrying forward in several legal entities and jurisdictions; and
- Increase of $11,847 related to restrictions on Aphria's losses in several legal entities and jurisdictions, and valuation allowances due to the impact of the merger transaction.

The pro forma income tax adjustments to the pro forma statement of net loss are comprised of the following amounts:

(a) Tax impact of pro forma adjustments:

Tax impact of pro forma adjustments	Increase (decrease)	Deferred tax expense (recovery)
C - Inventory (cost of sales)	$ 27,355	$ (2,227)
D - Property and equipment (depreciation expense)	(854)	226
F - Intangible assets (amortization expense)	27,898	(7,532)
I - Convertible debt (interest expense)	(5,258)	—
J - Long-term debt (interest expense)	(327)	—
K - Transaction costs	33,841	—
L - Compensation	(5,712)	—
	76,944	(9,533)
M - Income taxes—benefit of current year losses	—	(6,678)
	$ 76,944	$ (16,211)

The $16,211 deferred tax recovery is comprised of the following:

- $9,533 which relates to the tax-effect of pro-forma adjustments, C, D, F. The remaining pro-forma statement of loss adjustments are not tax-effected due to the amounts being non-deductible for tax purposes, or the benefit of the deductible expense cannot be recognized due to a valuation allowance in the legal entity and jurisdiction to which it relates; and
- $6,678 which relates to the deferred tax asset that can be recognized for a portion of the current period loss.

(b) Reversal of $3,242 of deferred tax recoveries recorded by Aphria during the twelve months ended November 30, 2020 which would either not be eligible for recovery or require a valuation allowance as a result of the merger transaction.

5. Pro Forma Loss Per Share

Historical Tilray basic weighted average shares at December 31, 2020	126,041,710
Adjustment for warrants exercised at Measurement Date (note 3, note 4H)	6,290,000
Incremental shares issued in merger transaction (note 4B)	265,504,347
Pro forma combined basic and diluted weighted average shares	397,836,057

On a pro forma basis, the combined company incurred a net loss for the year ended December 31, 2020. As such, all potential shares are excluded from the calculation of pro forma diluted loss per share because they are anti-dilutive.

6. Adjustments to the Historical Financial Information of Aphria

The historical financial information of Aphria was prepared in accordance with IFRS as issued by the IASB and presented in CAD. Aphria's fiscal year end is May 31 and historical financial information was used to present pro forma financial statements based on the fiscal year of Tilray being December 31. Reclassification adjustments have been made to Aphria's historical financial information to comply with Tilray's presentation which resulted in a net impact of $nil on the net loss for the period presented and on the adjusted unaudited condensed consolidated statement of financial position of Aphria.

The historical financial information was translated from CAD to USD using the following historical exchange rates:

	CAD to USD
Period end exchange rate as at November 30, 2020	0.7698
Average exchange rate for the year ended November 30, 2020	0.7439
Average exchange rate for the six months ended November 30, 2020	0.7516
Average exchange rate for year ended May 31, 2020	0.7460
Average exchange rate for the six months ended November 30, 2019	0.7561

The table below presents the conversion from IFRS to US GAAP adjustments as well as the presentation and reclassification adjustment which had a $nil impact on the total assets, liabilities and deficit accounts and translation of Aphria's adjusted unaudited condensed consolidated statement of financial position as at November 30, 2020:

Adjusted Unaudited Condensed Consolidated Statement of Financial Position (Balance Sheet) of Aphria

(in '000)

	IFRS			US GAAP			
	As at November 30, 2020 CAD	IFRS to US GAAP differences CAD	Notes (note 6)	As at November 30, 2020 CAD	Presentation reclassification CAD	Adjusted presentation CAD	Adjusted presentation USD
Assets							
Current assets:							
Cash and cash equivalents	$ 187,997	$ —		$ 187,997	$ —	$ 187,997	$ 144,713
Accounts receivable, net	96,177	—		96,177	—	96,177	74,034
Inventory	321,484	(112,442)	i	209,042	18,063	227,105	174,817
Biological assets	28,952	(10,889)	i	18,063	(18,063)	—	—
Prepayments and other current assets	48,162	15,704	vi	63,866	9,371	73,237	56,375
Current portion of convertible notes receivable	9,371	—		9,371	(9,371)	—	—
Total current assets	692,143	(107,627)		584,516	—	584,516	449,939
Property and equipment, net	655,114	(6,650)	iii	648,464	—	648,464	499,164
Operating lease, right-of-use assets	—	7,006	iii	7,006	—	7,006	5,393
Intangible assets, net	686,440	—		686,440	—	686,440	528,397
Goodwill	752,289	(1,200)	vii	751,089	—	751,089	578,161
Other investments	21,815	—		21,815	—	21,815	16,792
Other assets	—	—		—	3,000	3,000	2,309
Promissory notes receivable	3,000	—		3,000	(3,000)	—	—
Total assets	$ 2,810,801	$(108,471)		$ 2,702,330	$ —	$2,702,330	$2,080,155
Liabilities							
Current liabilities							
Bank indebtedness	5,111	—		5,111	—	5,111	3,934
Accounts payable	—	—		—	81,411	81,411	62,667
Accrued expenses and other current liabilities	—	—		—	152,646	152,646	117,501
Accounts payable and accrued liabilities	254,318	(20,261)	ii	234,057	(234,057)	—	—
Income taxes payable	16,576	—		16,576	—	16,576	12,760
Accrued lease obligations	1,767	—		1,767	—	1,767	1,360
Current portion of long-term debt	15,210	—		15,210	—	15,210	11,708
Total current liabilities	292,982	(20,261)		272,721	—	272,721	209,930
Accrued lease obligations	44,896	—		44,896	—	44,896	34,560
Deferred tax liability	45,391	(15,061)	vi	30,330	—	30,330	23,347
Long-term debt	122,533	—		122,533	—	122,533	94,321
Convertible notes, net of issuance costs	358,008	—		358,008	—	358,008	275,581
Total liabilities	$ 863,810	$ (35,322)		$ 828,488	$ —	$ 828,488	$ 637,739
Shareholders' equity							
Share capital	2,078,343	2,624	ii	2,080,967	(2,080,967)	—	—
Common stock	—	—		—	2,080,967	2,080,967	1,601,853
Additional paid-in capital	—	—		—	44,404	44,404	34,181
Warrants	360	—		360	—	360	277
Share-based payment reserve	29,600	14,804	ii	44,404	(44,404)	—	—
Accumulated other comprehensive income	—	—		—	(402)	(402)	(309)
Accumulated other comprehensive loss	(211)	(191)	v	(402)	402	—	—
Accumulated deficit	(215,739)	(92,472)	i	(316,940)	—	(316,940)	(243,969)
		2,833	ii				
		262	iii				
		(10,815)	iv				
		191	v				
		(1,200)	vii				
Total stockholders' equity	$ 1,892,353	$ (83,964)		$ 1,808,389	$ —	$1,808,389	$1,392,033
Non-controlling interests	54,638	10,815	iv	65,453	—	65,453	50,383
	1,946,991	(73,149)		1,873,842	—	1,873,842	1,442,416
Total liabilities and stockholders' equity	$ 2,810,801	$(108,471)		$ 2,702,330	$ —	$2,702,330	$2,080,155

Adjusted Unaudited Condensed Consolidated Statement of Operations (Statement of Loss) of Aphria
(in ‘000)

	IFRS						US GAAP			
	Year ended May 31, 2020 CAD	6 months ended November 30, 2019 CAD	6 months ended November 30, 2020 CAD	12 months ended November 30, 2020 CAD	IFRS to US GAAP differences CAD	Notes (note 6)	12 months ended November 30, 2020 CAD	Presentation reclassification CAD	12 months ended November 30, 2020 CAD	12 months ended November 30, 2020 USD
Revenue	$ —	$ —	$ —	$ —	$ —		$ —	$ 634,459	$ 634,459	$ 471,963
Cannabis revenue	204,736	—	—	204,736	—		204,736	(204,736)	—	—
Distribution revenue	369,214	—	—	369,214	—		369,214	(369,214)	—	—
Insurance recovery	1,000	—	—	1,000	—		1,000	(1,000)	—	—
Excise taxes	(31,611)	—	—	(31,611)	—		(31,611)	31,611	—	—
Net revenue	—	246,712	306,221	59,509	—		59,509	(59,509)	—	—
Cost of sales	—	—	—	—	—		—	472,157	472,157	351,229
Production costs	64,972	—	—	64,972	500	i	65,472	(65,472)	—	—
Cost of cannabis purchased	21,920	—	—	21,920	—		21,920	(21,920)	—	—
Cost of goods purchased	322,688	—	—	322,688	—		322,688	(322,688)	—	—
Cost of goods sold	—	188,670	219,136	30,466	—		30,466	(30,466)	—	—
Fair value adjustment on sale of inventory	57,039	19,677	57,556	94,918	(94,918)	i	—	—	—	—
Fair value adjustment on growth of biological assets	(115,255)	(46,645)	(85,242)	(153,852)	153,852	i	—	—	—	—
Gross profit	191,975	85,010	114,771	221,736	(59,434)		162,302	—	162,302	120,734
General and administrative expenses	99,977	44,381	56,144	111,740	1,667	iii	113,407	37,248	150,655	112,069
Sales and marketing expenses	—	—	—	—	—		—	61,460	61,460	45,719
Selling	21,042	7,642	14,751	28,151	—		28,151	(28,151)	—	—
Marketing and promotion	20,464	12,426	11,380	19,418	—		19,418	(19,418)	—	—
Research and development expenses	2,568	1,282	428	1,714	—		1,714	—	1,714	1,275
Stock-based compensation	22,500	12,519	17,856	27,837	(6,659)	ii	21,178	(21,178)	—	—
Depreciation and amortization expenses	21,747	10,904	11,056	21,899	(1,569)	iii	20,330	—	20,330	15,123
Impairment of assets	63,971	—	—	63,971	75	iii	64,046	—	64,046	47,643
Acquisition-related expenses, net	5,763	1,426	25,624	29,961	—		29,961	(29,961)		
Operating loss	(66,057)	(5,570)	(22,468)	(82,955)	(52,948)		(135,903)	—	(135,903)	(101,095)
Foreign exchange loss (gain), net	—	—	—	—	—		—	7,797	7,797	5,800
Interest expense, net	26,347	10,263	13,277	29,361	(391)	iii	28,970	—	28,970	21,550
Other expense (income), net	—	—	—	—	—		—	111,636	111,636	83,044
Non-operating (income) expense, net	(11,687)	(24,871)	107,119	120,303	(870)	v	119,433	(119,433)	—	—
Loss before income taxes	(80,717)	9,038	(142,864)	(232,619)	(51,687)		(284,306)	—	(284,306)	(211,489)
Deferred income tax recoveries	—	—	—	—	(15,788)	vi	(15,788)	(38,715)	(54,503)	(40,544)
Current income tax expenses	—	—	—	—	—		—	24,993	24,993	18,592

Income taxes expense (recoveries)	3,917	526	(17,171)	(13,780)	58	vi	(13,722)	13,722	—	—
Net loss	$ (84,634)	$ 8,512	$ (125,693)	$ (218,839)	$ (35,957)		$ (254,796)	$ —	$ (254,796)	$ (189,537)

IFRS differs in certain material respects from US GAAP. The following material adjustments have been made to reflect Aphria's historical consolidated statement of loss on a US GAAP basis for purposes of the unaudited pro forma financial information (expressed in thousands of CAD), these adjustments are before certain reclassification adjustments:

i – Inventory and biological assets

Cannabis plants are accounted for as biological assets and agricultural products under IFRS and US GAAP, respectively. Under IFRS, biological assets are accounted for at fair value less costs to sell and are revalued at each subsequent reporting date up to the point of harvest, upon which time they are transferred into inventories. Any change in fair value is recognized in the period of change within profit or loss. Under US GAAP, agricultural products are accounted for at cost in accordance with guidance on property, plant and equipment or inventories depending on their nature.

The following table reflects the removal of the fair value adjustment that was included in the cost basis of inventories and biological assets under IFRS to reflect cannabis plants at cost in accordance with Accounting Standards Codification 330, *Inventory* as required under US GAAP and includes a corresponding impact to accumulated deficit:

	As at November 30, 2020 CAD
Inventory	$ (112,442)
Biological assets	(10,889)
Accumulated deficit, net of tax of $30,859	(92,472)

The following table reflects the removal of the changes in fair value recognized in the period of change within the statement of operations:

	Year ended May 31, 2020 CAD	6 months ended November 30, 2019 CAD	6 months ended November 30, 2020 CAD	12 months ended November 30, 2020 CAD
Production costs	$ 5,000	$ 4,500	$ —	$ 500
Fair value adjustment on sale of inventory	(57,039)	(19,677)	(57,556)	(94,918)
Fair value adjustment on growth of biological assets	115,255	46,645	85,242	153,852

ii – Share-based payments

Under US GAAP, Restricted Stock Units ("RSUs") and Deferred Stock Units ("DSUs") that can be settled in either cash or equity at the option of Aphria should be classified as equity. Currently, Aphria classifies its RSUs and DSUs as liabilities. Under US GAAP, Aphria measures and recognizes compensation expense for these awards on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards based on their grant date fair value.

The following table reflects the removal of the RSU and DSU liability in accounts payable and accrued liabilities and the reclassification of the awards to equity:

	As at November 30, 2020 CAD
Accounts payable and accrued liabilities	$ (20,261)
Share capital	2,624
Share-based payment reserve	14,804
Accumulated deficit	2,833

This adjustment also reflects the impact to share-based compensation of C$1,735 for the year ended May 31, 2020; C$879 for the six months ended November 30, 2019; (C$7,515) for the six months ended November 30, 2020, for a total adjustment of (C$6,659) for the twelve months ended November 30, 2020.

iii – Leases

Under US GAAP, at lease commencement, a lessee classifies a lease as a finance lease or an operating lease (unless the short-term lease recognition exemption is elected). Under IFRS, lessees do not classify leases and all leases are treated under a single model (unless the short-term leases or leases of low-value asset recognition exemptions are elected). For operating leases under US GAAP, the subsequent measurement of the lease liability is based on the present value of the remaining lease payments using the discount rate determined at lease commencement (which would result in the same amount of lease liability as in IFRS), while the right-of-use asset is remeasured at the amount of the lease liability, adjusted for the remaining balance of any lease incentives received, cumulative prepaid or accrued rents, unamortized initial direct costs and any impairment. This treatment under US GAAP generally results in straight-line expense being incurred over the lease term and recorded to general and administrative expenses. IFRS generally yields front-loaded expense recognition. Under IFRS, a constant interest rate is applied to the lease liability, interest expense decreases as cash payments are made during the lease term and the lease liability decreases. Therefore, more interest expense is incurred in the early periods and less in the later periods. This trend in the interest expense, combined with straight-line depreciation of the right-of-use asset, results in a front-loaded expense recognition pattern.

The following table reflects the adjustments to the right-of-use asset for operating leases under US GAAP, the corresponding impact to accumulated deficit and reclassifies the right-of-use asset from property and equipment, net to operating lease, right-of-use assets:

	As at November 30, 2020 CAD
Operating lease, right-of-use assets	$ 7,006
Property and equipment, net	(6,650)
Accumulated deficit, net of tax of $94	262

For the operating leases under US GAAP, the following table reflects the removal of amortization and interest expense recognized under IFRS and instead includes the straight-line operating lease expense as calculated under US GAAP in general and administrative expenses. Furthermore, additional impairment was recognized for the year ended May 31, 2020 under US GAAP for leases that were fully impaired under IFRS as a result of the adjustments to the associated right-of-use assets:

	Year ended May 31, 2020 CAD	6 months ended November 30, 2019 CAD	6 months ended November 30, 2020 CAD	12 months ended November 30, 2020 CAD
General and administrative expenses	$ 1,512	$ 630	$ 785	$ 1,667
Depreciation and amortization expenses	(1,455)	(606)	(720)	(1,569)
Impairment of assets	75	—	—	75
Interest expense, net	(380)	(161)	(172)	(391)

iv – Non-controlling interest on acquisition

Under US GAAP, non-controlling interest is measured at fair value on acquisition date. Under IFRS, Aphria measures non-controlling interest at the proportionate share of the fair value of the acquiree's net identifiable assets and goodwill recorded on consolidation by Aphria would only reflect the acquirer's share. This approach does not exist under US GAAP and the adjustment reflects the increase in non-controlling interests and accumulated deficit of C$10,815 as of November 30, 2020.

v – Investments in debt securities

US GAAP requires the use of three categories for the classification and measurement of debt securities based on the entity's investment intent: held-to-maturity ("HTM") - measured at amortized cost, trading - measured at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") - measured at fair value through other comprehensive income ("FVOCI"). Under US GAAP, Aphria will classify its investments in debt securities as available-for-sale, measured at FVOCI. Since amounts were previously recognized at FVTPL under IFRS, this will result in a presentation reclassification difference.

This adjustment reflects the reversal of gains and losses recorded by Aphria for its investments in debt securities from non-operating income (expense), net into other comprehensive income of (C$7,341) for the year ended May 31, 2020; (C$6,939) for the six months ended November 30, 2019; (C$468) for the six months ended November 30, 2020, for a total adjustment of (C$870) for the twelve months ended November 30, 2020. This also results in a reclassification of amounts recognized in accumulated deficit to accumulated other comprehensive loss of C$191 as of November 30, 2020.

vi – Income taxes

For the purposes of the IFRS to US GAAP adjustments Aphria's effective income tax rate was 26.5% for the year ended May 31, 2020, for the six months ended November 30, 2020 and for the six months ended November 30, 2019. The effective income tax rate was used in determining adjustments to:

- Deferred tax liability of (C$15,061) as of November 30, 2020 as a result of the removal of the fair value adjustment of (C$30,859) from biological assets and inventory offset by an increase to the right-of-use asset under US GAAP C$94 and a reclassification of income taxes on intercompany transfers of inventory of C$15,704 that remain within the consolidated group from Deferred tax liability to Prepayments and other current assets. Under US GAAP, income tax expense paid by the transferor on intercompany profits from the transfer or sale of inventory within a consolidated group are deferred on consolidation, resulting in the recognition of a prepaid asset for the taxes paid rather than deferred taxes as required under IFRS.
- Deferred income tax recoveries of C$15,179 for the year ended May 31, 2020; C$7,070 for the six months ended November 30, 2019; C$7,679 for the six months ended November 30, 2020, for a total adjustment of C$15,788 for the twelve months ended November 30, 2020 as a result of the removal of the fair value adjustments from biological assets and inventory under US GAAP.
- Income taxes of C$66 for the year ended May 31, 2020; C$36 for the six months ended November 30, 2019; C$28 for the six months ended November 30, 2020, for a total adjustment of C$58 for the twelve months ended November 30, 2020 as a result of decreases to operating lease expense under US GAAP.

vii – Cannway Pharmaceuticals Inc.

In the fiscal year ending May 31, 2016, Aphria acquired 100% of the issued and outstanding shares of Cannway Pharmaceuticals Inc. Under IFRS, Aphria treated this transaction as a business combination and accordingly recorded goodwill of C$1,200. Under US GAAP, the transaction did not meet the definition of a business and is considered an asset acquisition. This adjustment reflects the removal of goodwill and includes a corresponding impact to accumulated deficit as the asset is fully amortized as of November 30, 2020.

Company Overview

We are a leading global cannabis-lifestyle consumer packaged goods company, with operations in Canada, the United States, Europe and Latin America, that is changing people's lives for the better – one person at a time – by inspiring and empowering the worldwide community to live their very best life by providing them with products that meet the needs of their mind, body and soul and invoke a sense of wellbeing. Our mission is to be the trusted partner for our patients and consumers by providing them with a cultivated experience and health and wellbeing through high-quality, differentiated brands and innovative products. Headquartered in Leamington, Ontario, we cultivate, process, market and sell medical and adult-use cannabis, cannabis-derived extracts and derivative cannabis products in Canada under the provisions of the *Cannabis Act* and globally pursuant to applicable international regulations. We also manufacture, market and sell alcoholic beverages in the United States.

Aphria Inc. exists under the laws of the *Business Corporations Act* (Ontario) and our common shares are listed under the symbol "APHA" on the Toronto Stock Exchange ("**TSX**") in Canada and the Nasdaq Global Select Market ("**Nasdaq**") in the U.S.

Core Mission and Values

We are committed to changing people's lives for the better by investing in our products, our people and our planet. In an emerging and constantly evolving industry, our values unite us, informing and inspiring the way we work with our employees, patients, consumers and one another. The following core values serve as our compass in our strategic direction and decisions:

<u>We put people first</u>

We are committed to significantly improving the lives of as many people as possible – whether it is meeting the needs of our patients and consumers, building a best-in-class, diverse workforce that's more representative of all people or giving back and supporting our neighbours in the communities where we make our home – we continuously seek to help others live their very best life.

<u>We lead by example</u>

We are passionate about pushing our industry forward in a responsible manner. We believe that we should use our influence in helping to establish industry standards that continue to support the health and wellbeing of our employees, our patients and consumers and the communities in which we call home. As a purpose-driven organization, we continuously explore ways to deliver on our values and commitments to serve all our key stakeholders including our shareholders.

<u>We respect the earth</u>

As a conscientious company, we are committed to ensuring that our actions and those of our employees have a positive impact on the environment around us. We are proud to employ – and continuously improve – sustainable growing and business practices to provide efficiencies, cost reduction benefits and lessen our impact on the environment.

<u>We take responsibility to heart</u>

We believe it is our responsibility to ensure the safety of our employees, patients, consumers and the worldwide community. Our partnerships and programs reflect our ongoing commitment to the safety of our worldwide communities through education, responsible use and meaningful corporate citizenship. We are also committed to ensuring ample access to legal, safe, high-quality cannabis products to help eliminate the illicit market and keep cannabis out of the hands of youth.

Strategy and Outlook

Our overall strategy is to leverage our scale, expertise and capabilities to drive market share in Canada and internationally, achieve industry-leading, profitable growth and build sustainable, long-term shareholder value. We are focused on maximizing growth in net revenue and profitability in our identified core markets in Canada, the United States, Germany and Latin America. In order to ensure the long-term sustainable growth of our Company, we continue to focus on developing strong capabilities in consumer insights, drive category management leadership and assess growth opportunities with the introduction of innovative new products. In addition, we are relentlessly focused on managing our cost of goods and expenses in order to maintain our strong financial position.

Within Canada, we are focused on gaining market share in the Canadian cannabis industry by executing on our strategic priorities through entering new product categories that possess the most consumer demand, while leveraging our expertise to develop brands that are truly differentiated from our competitors, investing in brand building and innovation activities and optimizing our production to continue to be the high-quality, low-cost producer we are today.

Internationally, we are focused on business activities that provide a return on investment in the near term without being capital intensive. We intend to continue to maximize the utilization of our existing assets and investments in connection with the development and execution of our growth plans, while leveraging our cannabis expertise and well-established Aphria medical brand. By building on this foundation, we strive to take a leadership position in the international cannabis industry.

Within the U.S., we are focused on leading the craft beer segment in the U.S., including growing our SweetWater brand through expanding distribution within the U.S., focusing on new product development and innovation and building brand awareness of, and equity in, our existing adult-use cannabis brands in the U.S. ahead of federal legalization of cannabis by leveraging the SweetWater manufacturing and distribution infrastructure.

Canadian Cannabis Business[2]

Medical

In 2014, we were among the first companies to be permitted to cultivate and sell legal medical cannabis. Since then, we grew to be one of the top Canadian providers of medical cannabis with operations in multiple international markets.

We are committed to meeting the needs of our patients whether they are looking for more natural options for their medical needs, exploring their options in wellness, or seeking alternatives in their lifestyle. We are driven by a desire to help others live their very best life. This includes continuous product development on different methods of administering cannabis products through oil, softgels, vapes and eventually edibles and other derivatives, as well as being proactive in aiding patients with difficulties obtaining the required medical care by partnering with them on their healthcare journey.

Accessibility is a top priority for Aphria. We are committed to ensuring patients have access to the medication they depend on through a strong supply chain and dedicated support through our dedicated patient care team. We also understand some patients may have barriers that can impact their financial wellbeing. To help, we offer various financial support programs including a Compassionate Pricing Program for those in financial need, a Senior Pricing Program for patients 65 years of age and older and a Front-line Workers Program for those who are currently risking their lives to protect their fellow Canadians during the unprecedented COVID-19 pandemic. We also maintain a robust Veterans Program to help support veterans across Canada. In addition, the Company continues to provide access to treatment, on a compassionate basis, for a four-year-old girl in the United Kingdom; a treatment that has decreased her seizures from around thirty per day to just three or four.

We currently produce, market and distribute our medical cannabis products under the **Aphria** (Canada and international) and **Broken Coast** (Canada only) brands.

2 References to Canadian cannabis business include the results of Aphria One, Aphria Diamond and Broken Coast.

Since 2014, the ***Aphria*** *brand has been a leading, trusted choice for patients seeking high-quality pharmaceutical-grade medical cannabis. Today, the Aphria brand continues to be a leading brand in Canada and, we continue to leverage its market leadership as we grow our medical cannabis markets internationally under the Aphria brand.*

Medical cannabis products under the ***Broken Coast*** *brand are grown in small batches in single-strain rooms, with a commitment to product quality in order to exceed patient expectations.*

We continue to invest in the medical cannabis space within Canada and in international markets through the development of innovative product offerings, state-of-the-art facilities and the expansion of our global supply chain to address the unmet needs of patients around the world.

In May, the Canadian Medical Association reported that patient volumes in family practices have dropped by about 30-50%. A survey of over 1,700 Canadians conducted by the Angus Reid Institute found that 23%[3] were unable to see their doctor due to the pandemic. This decrease in access to health care led Health Canada to issue a temporary amendment that allowed patients already registered with a licensed producer whose medical document expires between March 13, 2020 and September 20, 2020 to extend their medical document for 6 months without the authorization of a Health Care Practitioner. While this amendment helped patients that are currently registered patients, it did not help address the access issue for patients that were seeking access to medical cannabis for the first time during the COVID-19 pandemic.

Canadian Adult-Use Market Brands

We believe that our differentiated portfolio of brands, which is designed to resonate with consumers in all categories, sets us apart from our competitors and is providing us with the ability to establish a leading position in the adult-use market in Canada. Therefore, we are investing in brand building with our consumers, new product innovation, distribution, trade marketing and cannabis education to drive market share in the Canadian adult-use cannabis industry.

As the industry continues to evolve, we continue to evaluate the market and our adult-use brand portfolio in order to ensure that it continues to meet the different consumer segments that continue to emerge. In addition, we seek to leverage our vast selection of strains to offer each consumer segment a different experience through product and terpene profiles, while also focusing on the value proposition for each of these segments as it relates to price, potency and product assortment. We are also focused on gaining market share by entering new product categories that possess the most consumer demand. Today, our brands consist of **B!NGO**, **P'tite Pof, Good Supply**, **Solei**, **RIFF** and **Broken Coast**. Each brand is unique to a specific consumer segment and is designed to meet the needs of these targeted segments, as described below:

[3] http://angusreid.org/covid19-medical-access/

ECONOMY BRANDS

Everyday enjoyment

B!NGO *is like a nice cold beer on a summer's day. Our products hit the spot and gives consumers that little something that lets them enjoy the moment.*

We are the everyday companion that keeps it light and simple.

VALUE BRANDS

Unmistakably Québécois

P'tite Pof *is inspired by Québécois culture, casse-croûte signage and your local dépanneur.*

Straightforward, functional, bold, charming and iconic. Our traditional blue and red with a modern twist.

CORE BRANDS

Quality Bud. No B.S.

Embrace the goodness of classic cannabis culture.

Good Supply is an insider brand that speaks your language and reminds you of when you first fell in love with cannabis.

Find Your Moment

Solei Sungrown Cannabis ("Solei") *is a brand designed to embrace the bright Moments in your day.*

Solei's Moments-based products help to make cannabis simple, approachable and welcoming.

PREMIUM BRANDS

Elevate. Collaborate. Create.

RIFF *is not your conventional cannabis brand. We are a brand by creatives for creatives.*

An unconventional brand, fueled by creativity and collaboration.

Cultivated with Character

[4]

PREMIUM+ BRANDS

West Coast, Naturally – The best bud in the world

Authentic and effortless build on small batch growing techniques / craft approach.

Broken Coast's *reputation for its high-quality flower; aroma, bud composition, and heavy trichome appearance delivers an incredible experience.*

Operations

Our Canadian cannabis business is comprised of our Aphria One and Aphria Diamond greenhouse facilities and our Broken Coast indoor cultivation facility.

FACILITY	LOCATION	TYPE	PROPERTY OWNED/LEASED	LICENCE EXPIRATION	OWNERSHIP
APHRIA ONE [5]	Leamington, Ontario	Cultivation, Processing, Distribution, R&D	Owned	March 20, 2023	100%
APHRIA DIAMOND	Leamington, Ontario	Cultivation	Owned	October 29, 2023	51%
BROKEN COAST	Vancouver Island, B.C.	Cultivation, Processing, Distribution, R&D	Owned	March 13, 2023	100%

Cannabis Distribution

Medical Cannabis

In Canada, we distribute medical cannabis to our patients following a direct to patient model which allows us to provide patients with medical cannabis directly through our medical portal. We recently upgraded our medical portal to a state-of-the-art platform in order to provide our patients with an optimal experience and service.

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4 No peeking (unless you already peeked). Coming soon.

5 Aphria One maintains a European Union Good Manufacturing Practices ("EU-GMP") certification as an active substance manufacturer (Part II - Medical Products) issued by the Malta Medicines Authority for the supply of bulk cannabis product for medicinal use to worldwide EU-GMP-certified facilities, where permissible.

Wholesale and Other Sales Channels

Recent changes in the Canadian market have resulted in more of our competitors moving towards an asset light model through the rationalization of their cultivation facilities. As this transition occurs, we anticipate the demand for bulk, saleable flower to increase, thereby providing new opportunities for revenue growth in the wholesale channel. Our early focus and investment in developing the capabilities for high-quality, low-cost cannabis cultivation and processing at scale provides us with the unique positioning to drive wholesale channel opportunities for revenue growth. We already completed several sales through our wholesale strategy and expect to continue to do so by building partnerships in the industry.

Canadian Adult-Use Market

We maintain supply agreements for the sale and distribution of adult-use cannabis products with all the provinces and the Yukon Territory in Canada, representing access to 99.8% of the Canadian population.

We opted to out-source the majority of our sales function by entering into an agreement with Great North Distributors Inc. ("**Great North Distributors**"), a wholly-owned Canadian subsidiary of Southern Glazer's Wine & Spirits, which provides us with the sales force and wholesale/retail channel expertise required to effectively and efficiently promote our cannabis products through each of the provincial/territorial cannabis control agencies.

New Cannabis Products and Accessories

At the launch of cannabis infused products ("**Cannabis 2.0** "), the Company's primary focus was within the vape category as the Company anticipated, similar to the U.S. market, that these products would grow to represent a significant percentage of the Canadian cannabis market demand for derivatives. The current Canadian vape pen market represents approximately 15%[6] of the total Canadian retail cannabis market, and the Company believes it has the potential to reach at least 20%. Additionally, vape products are aligned with the Company's extraction capabilities and know-how. Once legislatively allowed, the Company successfully launched over 30 new vape SKUs into the Canadian market with positive reviews from control boards and consumers alike. The Company benefited from being first in the Canadian cannabis vape market, winning market share with consumers with its 510 and "all in one" branded vape products. The Company also supplies vape pods under the PAX platform for consumers who already purchased this proprietary vape componentry system.

The Company believes edibles, concentrates and beverage products will collectively represent a growing proportion of the Cannabis 2.0 market and developed a strategy to meet this demand.

■ United States Operations

Beverage Alcohol Business

The Company recently acquired U.S.-based independent craft brewer, SweetWater Brewing Company, LLC. SweetWater is one of the largest independent craft brewers in the U.S. based on volume. Beginning with the flagship 420 beverage offerings, SweetWater has created an award-winning lineup of year-round, seasonal and specialty beers, a portfolio of brands closely aligned with a cannabis lifestyle. We will seek to expand SweetWater's presence in the U.S. and internationally and grow its product offerings within the beverage alcohol industry. In addition, we seek to build brand awareness of, and equity in, our existing adult-use cannabis brands in the U.S. ahead of federal legalization by leveraging SweetWater's manufacturing and distribution infrastructure.

6 Per Headset reporting data – October 2020

SweetWater Brand

We believe that the SweetWater product offerings, including the 420 Strain series of products, resonate as a cannabis lifestyle brand. In addition to branding, SweetWater's various 420 strains of craft brews use plant-based terpenes and natural hemp flavours that, when combined with select hops, emulate the flavours and aromas of popular cannabis strains, to appeal to a loyal consumer base that made the 420 Strain G13 IPA SweetWater's #2 best-selling beer and #1 best-selling new craft beer in the U.S.

Operations

Our U.S. craft beer operations are concentrated today in Atlanta, Georgia, in a 158,000 square foot brewhouse and taproom, that is leased through 2040. The real estate lease includes an option to purchase for the first three years and thereafter a right of first refusal on sale of the real estate.

The brewhouse is capable of brewing approximately 400,000 barrels of craft beer a year, and SweetWater sold approximately 230,000 barrels in the twelve month period ended November 30, 2020.

Distribution

In the U.S., our craft beer is distributed under a three-tier model utilized for beverage alcohol. Distribution points include approximately 29,000 off-premises retail locations ranging from independent bottle shops to national chains. SweetWater's significant on-premises business allows consumers to enjoy its varietals in more than 10,000 restaurants and bars. Further, in addition to its traditional distribution footprint, SweetWater 420 Extra Pale Ale and IPA are served on all Delta flights nationwide plus internationally totaling more than 50 countries across six continents which have served to extend SweetWater's brand reach on both a national and international level. The Company supplements this distribution with Delta with a kiosk in Atlanta's Hartsfield-Jackson Airport. SweetWater is also available in Canada through limited distribution within Ontario and Quebec.

■ International Operations

Internationally, we are seeking to drive market share growth in key core markets by leveraging our expertise and capabilities in order to achieve profitable growth and build sustainable, long-term shareholder value. We intend to continue to maximize the utilization of our existing assets and investments in connection with the development and execution of our strategic plan, while leveraging our cannabis expertise and well-established Aphria medical brand. We are focused on maximizing growth in net sales, profitability and managing cash flow in our identified core markets by focusing on business activities that provide a return on investment in the near term that are not capital intensive.

We currently maintain key international operations in the United States, Germany, Italy, Malta, Colombia and Argentina as well as strategic relationships in Israel with Canndoc, Denmark and Poland. In establishing our international footprint, we sought to create operational hubs in those continents where we identified the biggest opportunities for growth and designed our operations to ensure consistent, high-quality supply of cannabis products as well as a distribution network.

Export Facility from Canada

Leveraging our industrial scale cultivation and automation for the production of cannabis grown in environmentally responsible conditions in Canada and our ability to cultivate high-quality, low cost cannabis on a consistent basis, we expect to supply much of our international demand with cannabis and cannabis derivative products from Canada. The Company ships EU-GMP certified dried cannabis from our Aphria One facility and EU-GMP certified cannabis oil from our wholly-owned subsidiary ARA – Avanti Rx Analytics Inc. ("**Avanti**") to our wholly-owned subsidiary CC Pharma in Germany in order to leverage CC Pharma's extensive distribution network. For Argentina, we supplied medical cannabis oil from Canada to Argentina under the Argentinian "Compassionate Use" national law as well as for the medical cannabis product being supplied to the Hospital de Pediatria Garrahan for a pediatric refractory epilepsy clinical study.

Avanti currently holds four Canadian licences: (i) Cannabis Processing Licence; (ii) Cannabis Analytical Testing Licence; (iii) Drug Establishment Licence; and (iv) Medical Device Establishment Licence. In addition, Avanti received its EU-GMP certification in respect of medicinal products for human use and medicinal and research purposes for human use (Part 1 – Medical Products) in January 2020. Avanti provides laboratory testing services to our Canadian cannabis businesses and, its Part II EU-GMP certification allows Avanti to process, package, label and test cannabis oil as well as package, label and test dried cannabis for medicinal use in permitted jurisdictions throughout the European Union and in any jurisdiction, worldwide, that recognizes the EU-GMP standards. In addition, Aphria One's EU-GMP certification allows the Company to be a supplier of bulk dried flower for medicinal use worldwide to other Part I EU-GMP-certified facilities licensed to further process or package bulk dried flower into finished cannabis product for sale in permitted jurisdictions.

European Union

Germany

The German market is considered to be one of the most highly sought-after developed medical cannabis markets in the world and, therefore, we focused our efforts and resources on developing this important market.

Our strategy in Germany consists of a three-pronged approach covering demand, supply and distribution:

Demand

During the COVID-19 pandemic, we refocused our efforts to develop virtual educational programs and other means of outreach to healthcare professionals to deliver education on the uses of medical cannabis. In order to improve access to medical cannabis, we also partnered with a leading company in digital applications and medical software to establish a modern and patient-centric telemedicine clinic to improve patient access to healthcare professionals capable of prescribing medical cannabis. Our plan is to establish strategic partnerships, which will further facilitate access for patients to medical cannabis. It is also our intention to establish collaborations with academic institutions in Germany to improve scientific evidence for Aphria medical cannabis products.

Supply

The Company intends to supply cannabis products to meet the demand in Germany through imports from Canada and our German cultivation and processing facility, which was completed as of the date of this MD&A. We also entered into a supply agreement with a prominent European flower producer in Denmark for EU-GMP-certified dried bud for both the German market as well as throughout Europe.

In Germany, we participated in the tender process for in-country cultivation licences and are one of three companies selected by the German Federal Institute for Drugs and Medical Devices ("**BfArM**") to receive a licence for the cultivation of medical cannabis. We were granted a total of five lots, which was the most available lots within the tender process and we are the only winner of the German tender with the permission to grow all three strains of medical cannabis approved by the BfArM. Each lot is currently expected to provide a minimum annual capacity of 200 kgs for a total of 1,000 kgs. Pursuant to the licence granted by BfArM, the Company is expecting the first harvest in the beginning of calendar year 2021. In addition, we completed the construction of a storage facility located at CC Pharma. All cultivation and storage facilities are being constructed in line with EU-GMP requirements, subject to certification.

Distribution

Germany currently allows for the sale of medical cannabis and cannabis extracts to pharmacies. These cannabis products are also covered by insurance companies. This coverage provides the opportunity for a greater number of medical cannabis patients with access to the full use and benefits of these products. Through CC Pharma, we have a leading importer and distributor of EU-pharmaceuticals for the German market and Europe. CC Pharma operates a production, repackaging and labelling facility. Based on regulations, pharmacies can only supply the branded product that has been named in a prescription to the patient by a physician. Substitution of the product is only possible if the particular brand of product is unavailable. As such, the Company intends to expand CC Pharma's operations to meet the high demand for medicinal cannabis by distributing cannabis throughout the German pharmacies, leveraging its existing business and know-how to ensure that the Company's products are sufficiently stocked in the pharmacies in Germany. Currently, the majority of distribution activities for CC Pharma within Europe relate to the distribution of non-cannabis medical products. However, the Company exports EU-GMP certified cannabis from our Canadian facilities and from our partner in Denmark to CC Pharma and purchases third party EU-GMP certified cannabis grown in Europe in order to leverage CC Pharma's extensive distribution network.

Malta

Through our subsidiary, ASG Pharma Ltd. ("**ASG**"), we received the first import permit for medical cannabis issued by the Government of Malta's Ministry of Health. ASG also received its Part II EU-GMP certification in respect of production of cannabis for medicinal and research purposes, allowing it to ship finished dried flower and finished oil for medicinal and research use in permitted jurisdictions throughout the European Union. The Company intends to use ASG to import cannabis oil in bulk and dried flower for packaging and distribution of EU-GMP compliant cannabis products. In October 2020, ASG received its first shipment of EU-GMP certified bulk cannabis oil from our Avanti facility, which it packaged into finished product for Germany.

Italy

Our wholly-owned subsidiary, FL Group, is authorized to import cannabis products into Italy and to distribute pharmaceutical products, including cannabis-based and cannabinoids products in Italy to pharmacies.

Poland

We entered into a supply agreement with ODI Pharma AB ("**ODI**"). Under the terms of the supply agreement, ODI has the exclusive right to sell a defined set of co-branded products in Poland over a five-year period. During each five-year term, we will provide ODI with an annual minimum of 1,200 kgs. of medical cannabis product, which will be processed into finished product, co-branded under the Aphria and ODI brand names, and sold exclusively within the Polish market.

South America

Colombia

We maintain a 90% ownership interest in ColCanna S.A.S. ("**ColCanna**"). This ownership provides the Company with the ability to further develop the global Aphria brand through the distribution of Aphria branded products to patients across South America. Furthermore, the Company signed an exclusive three-year agreement with the Colombian Medical Federation ("**FMC**"), a national guild that oversees the ethical exercise of the medical profession in Colombia. Under this agreement, Aphria and the FMC jointly developed an academic curriculum and cohosted several conferences and events on the appropriate medicinal use of cannabis. The FMC is affiliated with nearly 2,000 doctors and maintains a database of more than 70,000 medical professionals that rely on the organization for research and educational resources, including through a virtual platform that offers certified courses on a range of subjects.

Argentina

In Argentina, ABP, the Company's wholly-owned subsidiary, is a distributor of traditional pharmaceutical medicines and medical cannabis products for the Argentinian market. On June 6, 2019, the Ministry of Health in Argentina approved a resolution authorizing public and private health insurance companies to import and stock medical cannabis inventory for sale to patients suffering from refractory epilepsy. This represents a significant improvement for these patients since before the resolution products could only be imported on a named patient basis. The legislative change reduces the delay experienced by patients when ordering and receiving their prescribed medical cannabis since it is now readily available and can be dispensed on demand. The Company believes that this recent resolution represents an evolution of the medical cannabis regulatory framework in Argentina towards sustainable commercialization.

ABP distributes and delivers medical cannabis into Argentina under the “Compassionate Use” national law for patients with refractory epilepsy, holding a medical prescription from a neurologist. In compliance with the national drug law, patients are required to pick up controlled substances products at an authorized pharmacy. ABP is fully authorized and licensed by the national regulatory agency (“**ANMAT**”) to distribute and deliver controlled substances via authorized pharmaceutical channels.

The Company maintains its relationship with Hospital de Pediatria Garrahan, a leading pediatric hospital in Buenos Aires, which recently published favourable preliminary results in refractory epileptic patients following treatment with Aphria products.

Pan-Asia

Australia

Aphria maintains relationships in Australia with two companies conducting medical cannabis clinical trials.

Medlab Pty Ltd. is currently in a clinical trial related to oncology pain using Aphria blended cannabis strains for oil, subsequently converted in Australia into a nanocell mucosol spray. Aphria and Medlab Pty Ltd. share the rights in the intellectual property associated with the active pharmaceutical ingredient in this trial.

CannPal Pty Ltd. is currently in a clinical trial related to animal pain in cats and dogs, wherein the test product is fabricated using Aphria strains.

Israel

Aphria entered into a Strategic Supply Agreement (the “**Canndoc Agreement**”) with Canndoc Ltd. (“**Canndoc**”), a subsidiary of InterCure Ltd. (TASE: INCR/INCR.TA), one of Israel’s largest and most established medical cannabis producers. Under the terms of the Canndoc Agreement, Aphria will exclusively supply Canndoc with dried bulk flower in Israel over a two-year period, with the option to extend for two additional terms of two years each, and an option for an additional year if the parties agree to terms. During each two-year term, Aphria will provide Canndoc with up to 3,000 kgs. of bulk dried flower, which will be processed into finished product, co-branded under the Aphria and Canndoc brand names, and sold exclusively within the Israeli market.

Recent Events

Business Combination with Tilray

On December 16, 2020, the Company and Tilray, Inc. ("**Tilray**") announced that we entered into a definitive agreement (the "**Agreement**") to combine their businesses and create the world's largest global cannabis company (the "**Combined Company**") based on pro forma revenue. The transaction will be completed by way of a plan of arrangement (the "**Arrangement**") under the *Business Corporations Act* (Ontario), and the implied pro forma equity value of the Combined Company is approximately $5.0 billion ($3.9 billion USD), based on the share price of Aphria and Tilray at the close of market on December 15, 2020. Following the completion of the Arrangement, the Combined Company will have principal offices in the United States (New York and Seattle), Canada (Toronto, Leamington and Vancouver Island), Portugal and Germany, and it will operate under the Tilray corporate name with shares trading on Nasdaq under ticker symbol "TLRY". In addition, the Combined Company is pursuing a listing of its shares on the TSX.

Under the terms of the Arrangement, the shareholders of Aphria (the "**Aphria Shareholders**") will receive 0.8381 shares (the "**Exchange Ratio**") of Tilray common stock (each, a "**Tilray Share**") for each Aphria common share (each, an "**Aphria Share**"). Upon the completion of the Arrangement, Aphria Shareholders will own approximately 62 percent of the outstanding Tilray Shares on a fully diluted basis, resulting in a reverse acquisition of Tilray. On a pro forma basis for the last twelve months reported by each company, the Combined Company would have had revenue of $874,000 ($685,000 USD). As part of the Arrangement, we identified over $100,000 of annual pre-tax cost synergies that can be achieved within the first 24 months of the Combined Company.

The Combined Company will be the largest global cannabis company based on pro forma revenue for the last twelve months reported by each company with scale and breadths across major geographies and a complete portfolio of market leading brands in the major Cannabis 2.0 product categories. Subject to receiving the requisite approvals, we believe the business combination pursuant to the Arrangement will provide the following financial and strategic benefits, among others:

Financial Strength and Flexibility

The Combined Company will enjoy an attractive financial pro forma revenue of approximately $874,000 for the last twelve months reported by each company, the highest in the global cannabis industry. In Canada, the combination of Aphria and Tilray will create the leading adult-use cannabis company with gross revenue of approximately $296,000 in the adult-use market for the last twelve months reported by each company. We have generated positive adjusted EBITDA* over the last seven quarters, which we believe, in combination with the synergies to be realized, will provide a robust platform for future profitability and cash flow generation for the Combined Company. This, collectively with the strength of the Combined Company's balance sheet and access to capital, is expected to help accelerate global growth and value for the Combined Company's shareholders.

Creates the Leading Canadian Adult-Use Cannabis Licensed Producer

Together, we will be the leading adult-use cannabis Canadian licensed producer based on revenue for the last twelve months by combining respective brands, distribution networks and world-class facilities. In Canada's $3.1 billion adult-use, retail market[8], we believe the Combined Company will have one of the lowest cost production operations with its state-of-the-art facilities. In addition, the Combined Company will have a portfolio of carefully curated brands across all consumer segments that are sold through its distribution partners. On a pro forma basis, for the period August to October 2020, the Combined Company would have held a 17.3%, retail market share[9], the largest share held by any single licensed producer in Canada and 700 basis points higher than the next closest competitor.

Increases Product Breadth and Commitment to Innovation

Leveraging both companies' commitment and culture of innovation and brand building, the Combined Company will serve clients with a complete portfolio of Cannabis 2.0 products and sales and service infrastructure supported by leading distribution partners. Our complementary brands will be available across economy, value, core, premium and premium plus product offerings. In addition, the Combined Company will have a complete breadth of products in every major cannabis category, including flower, pre-roll, oils, capsules, vapes, edibles and beverages.

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8 Annualized September 2020 retail sales of $256 million based on Statistics Canada November 2020 release
9 Based on Stifel analyst report by Andrew Carter, dated December 6, 2020, "December 2020 Headset Canada Review"
* Adjusted EBITDA is net income (loss), plus (minus) income taxes (recovery), plus (minus) finance (income) expense, net, plus (minus) non-operating (income) loss, 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, plus transaction costs, 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.

Establishes an Unrivaled European Platform

The Combined Company will be well-positioned to pursue growth opportunities with its end-to-end EU-GMP supply chain and distribution, which includes our German medical cannabis distribution footprint and Tilray's 2.7 million square foot European EU-GMP low-cost cannabis cultivation and production facility in Portugal. In Germany, our wholly-owned subsidiary, CC Pharma, will provide the Combined Company with distribution capabilities for our medical cannabis brands to more than 13,000 pharmacies. In Portugal, Tilray's EU-GMP cultivation and production facility will provide the Combined Company with the capacity to cultivate and produce medical cannabis products in order to meet international demand and has export capabilities, which provides tariff-free access to the EU.

Enhances Consumer Packaged Goods Presence and Infrastructure in the U.S.

In the U.S., the Combined Company will have a strong consumer packaged goods presence and infrastructure with two strategic pillars, including SweetWater, a cannabis lifestyle branded craft brewer, and Manitoba Harvest, a pioneer in branded hemp, CBD and wellness products with access to 17,000 stores in North America. The Combined Company is expected to leverage SweetWater's craft beer manufacturing and distribution network to build brand awareness for the Combined Company's leading brands via craft beers, hard seltzers, and other beverages as it seeks to take advantage of opportunities for both the adult-use and health and wellbeing beverage trends. We also expect to pursue the opportunity to expand with new or existing CBD or other cannabinoid brands leveraging Manitoba Harvest's strong hemp and wellness product platform. If and when U.S. regulations allow, we expect to be well-positioned to compete in the U.S. cannabis market given Aphria and Tilray's existing strong brands and distribution systems in addition to their track record of growth in consumer-packaged goods and cannabis.

Positions Combined Company to Continue to Grow in the Beverage Segment

We believe the Combined Company will be well-positioned to pursue an accelerated rate of growth in the Canadian and U.S. beverage industries by leveraging SweetWater's innovation, knowledge and expertise to introduce adult-use cannabis brands via craft beers and other beverages. This includes leveraging Aphria and Tilray's proven distribution networks in Canada to sell SweetWater's 420 cannabis lifestyle brand in Canada.

Substantial Synergies

The combination is expected to deliver approximately $100,000 of annual pre-tax cost synergies within 24 months of the completion of the transaction. The Combined Company is expected to achieve cost synergies in the key areas of cultivation and production, cannabis and product purchasing, sales and marketing and corporate expenses. This is expected to include the opportunity for our Leamington, Ontario operations to provide additional volume for Tilray's brands and to replace the need for Tilray to use wholesale cannabis purchases from other licensed producers. Tilray's London, Ontario facility will also provide us with excess capacity to increase production of additional form factors including their branded edibles and beverages. The Combined Company is considering utilizing Tilray's existing Nanaimo, British Colombia facility for Aphria's premium Broken Coast brand to increasingly meet consumer demand for its products. The Combined Company is expected to capitalize on opportunities for growth through a broadened product offering and additional form factors, with the aim of increasing adult-use cannabis brand availability across certain Canadian provinces to an expanded customer base with the Combined Company's scalable infrastructure. Internationally, the Combined Company will have the opportunity to reach additional pharmacies and patients via distribution relationships. We expect the combination to unlock significant shareholder value.

The Arrangement will require the approval of at least two-thirds of the votes cast by the Aphria Shareholders at a special meeting of Aphria Shareholders. Approval of a majority of the votes cast by Tilray stockholders at a meeting of Tilray stockholders will be required to, among other things contemplated by the Agreement, authorize the issuance of Tilray Shares to Aphria Shareholders pursuant to the Arrangement. Following completion of the Arrangement, Aphria will become a wholly-owned subsidiary of Tilray, with Aphria Shareholders owning approximately 62 percent of the Combined Company.

Completion of the Arrangement is subject to regulatory and court approvals and other customary closing conditions, including competition authorities.

Acquisition of SweetWater Brewing Company

During the quarter, the Company completed the acquisition of SweetWater, one of the largest independent craft brewers in the United States based on volume. SweetWater manufactures and distributes bottled, canned and draft premium craft beers under the SweetWater brand. With a state-of-the-art brewery and integrated restaurant and live music venue, SweetWater maintains its principal offices in Atlanta, Georgia. SweetWater created an award-winning lineup of year-round, seasonal and specialty beers and a portfolio of brands closely aligned with a cannabis lifestyle, including its 420 beverage offerings.

In addition to acquiring a strong brand and accretive business, this strategic acquisition positions Aphria with a platform and infrastructure within the U.S. to enable it to access the U.S. market more quickly in the event of U.S. federal legalization of cannabis. The acquisition creates a larger and more diversified leading global company. Aphria believes the acquisition will provide several financial and strategic benefits including the following:

Creates a Combined Branded Cannabis Lifestyle Products Company with Diversified Financial Position

The SweetWater acquisition further diversifies our current net revenue mix, with the combined cannabis and distribution business representing approximately 85 percent of net revenue and the craft brewing and beverage business representing approximately 15 percent of net revenue, based on the pro forma net revenue. In addition, the acquisition is margin accretive with SweetWater generating adjusted EBITDA margins well in excess of 30 percent of net revenue.

Generates Significant Cross-Selling Opportunities while Expanding Aphria's Addressable Market in both the U.S. and Canada

The combination of our existing cannabis business with SweetWater's craft brewing business expands the Company's addressable market. According to Brewers Association, 2019 retail dollar sales of craft beer in the U.S. was USD $29.3 billion. SweetWater provides a profitable platform for future growth and development in the U.S. market. We believe the acquisition positions us to introduce and build brand awareness of, and equity in, our existing adult-use cannabis brands in the U.S. by leveraging SweetWater's manufacturing and distribution infrastructure. The significant growth of SweetWater's Strain series, launched in 2018, showcases its cultivated reputation for innovation, staying at the forefront of the industry and current with craft and consumer trends. Leveraging SweetWater's innovation, knowledge and expertise, we plan to introduce our brands via craft beers and other beverages as well as other non-alcoholic products as we seek to take advantage of opportunities for both the adult-use and health and wellbeing beverage trends. In addition, SweetWater's innovation pipeline includes entry into the rapidly growing hard seltzer category, which is being fueled by millennials, an important demographic.

Opportunity for Accelerated Entry into the U.S. Cannabis Market, Subject to U.S. Federal Legalization

We believe the acquisition of SweetWater is the cornerstone of our longer-term U.S. strategy. SweetWater's existing infrastructure can be leveraged to accelerate our entry into the U.S. ahead of U.S. federal legalization of cannabis. The acquisition provides key partnerships with leading U.S. distributors, retailers and on-premises customers strengthening our ability to develop new distribution in the U.S. for our products.

Addition of an Experienced Executive Team

The acquisition expands our leadership team through the addition of SweetWater's talented group of executives with substantial operational experience in the craft brewing and beverage industry and a proven track record of developing, building and growing strong consumer brands. SweetWater's management team will remain in place along with approximately 125 employees. Freddy Bensch will continue as Chief Executive Officer of the SweetWater, reporting directly to Irwin D. Simon, reflecting the commitment and belief of both companies in the future success of the combined company. Freddy Bensch entered into a consulting agreement that will continue until the end of calendar 2023, subject to renewals.

Coronavirus ("COVID-19") Pandemic, Its Impact

Aphria continues to closely monitor and respond, where possible, to the ongoing COVID-19 pandemic. As the global situation continues to change rapidly, ensuring the well-being of our employees remains one of our top priorities. The Company also remains committed to providing best in class care and service to our valued patients and consumers – facilities continue to remain open and operational with heightened measures in place to protect the health and safety of employees, vendors, partners and their families. The Company is committed to enhancing these measures and implementing other necessary practices as the situation warrants.

Leamington, Ontario and Brampton, Ontario

Our Leamington facilities, Aphria One and Aphria Diamond, and Brampton facility, Avanti, remain open as they are currently considered essential businesses by the Ontario government.

Duncan, British Columbia

Our Duncan facility in British Columbia ("**BC**"), Broken Coast, remains open and is currently considered an essential business by the BC government.

Supply chain in Canada

Our supply chain team continues to work closely with our supply chain partners on a day-to-day basis to prevent and minimize any sort of disruption. As of the date of this MD&A, there do not appear to be any indications of challenges or material delays in our supply chain; however, the Company has undertaken pre-emptive measures to ensure alternate supply sources in different continents.

Densborn, Germany

Our Densborn facility, CC Pharma, remains open and is considered an essential service by the German government.

Supply chain in Germany

Our supply chain team continues to work closely with our supply chain partners on a day-to-day basis to prevent and minimize any sort of disruption associated with COVID-19. As of the date of this MD&A, a number of suppliers in foreign countries are impacted by COVID-19. Further, at this time, recent Brexit initiatives, while not COVID-19 related, will impact CC Pharma's supply chain in the future. CC Pharma is working closely with alternative suppliers to minimize any Brexit impacts and has purchased additional inventory, after quarter-end, from the United Kingdom in advance of Brexit.

Atlanta, Georgia

Our Atlanta facility, SweetWater, remains open during the COVID-19 pandemic.

Supply chain in United States

Our supply chain team continues to work closely with our supply chain partners on a day-to-day basis to prevent and minimize any sort of disruption. As of the date of the MD&A, supply chain challenges related to the supply of aluminum cans is the only noticeable impact on SweetWater's supply chain. SweetWater is managing the supply of aluminum cans by increasing the production of bottled craft beer.

COVID-19 impact on our SweetWater business

Various federal, state and local government imposed restrictions as a result of the COVID-19 pandemic, which include, among others, restricting people from gathering in groups or interacting within a certain physical distance (i.e., social distancing), ordering businesses, particularly bars and restaurants, to close or limit operations or people to stay at home, which have impacted the SweetWater business primarily driven by reductions in sales and profit margin. The reduced profit margins are driven by a reduction in keg demand from the on-premises channel, which have higher profit margins than products intended for off-premises consumption. We believe this change in SweetWater's sales mix and demand may continue as long as the COVID-19 pandemic and related restrictions continue.

COVID-19 impact on our medical and distribution businesses

As a result of individual country restrictions, a general decrease in elective medical procedures and surgeries, in-person medical visits and social distancing requirements, the Company experienced and may continue to experience decreases in revenue in its Canadian medical cannabis business and global distribution businesses. Declining new patient registrations in Canada driven by the decrease in medical visits continue to impact our medical cannabis business. Limitations on elective medical procedures and lower frequency patient visits to physicians and pharmacies continue to impact our global distribution businesses as doctors have less opportunity to write new prescriptions.

Increasing COVID-19 case counts in Canada, Germany and the United States

During the COVID-19 global pandemic, we continued to monitor infection rates and the measures taken by various governments to contain the infection. As of the date of this MD&A, we noted an increase in infection rates with increasingly stronger measures being adopted in those countries in which the Company operates predominately – Canada, Germany and the United States. In Canada, individual provinces are taking increasingly stronger measures to slow infection rates, including the temporary closure of retail outlets, including cannabis stores. Most provinces, however, allow curbside pick-up or delivery replacing in-person visits to cannabis stores. In Germany, the duration of lockdown measures that were put in place continue to be extended and have become more restrictive and, as a result, the Germany population is becoming less mobile with patients not visiting their physicians or engaging in elective surgeries. In the United States, while lockdown measures have not been as stringent as in Canada and in Germany, certain state and local governments significantly curtailed entertainment activities, including the consumption of alcohol at on-premises locations. The reduction of on-premises consumption has not fully been offset by an increase in off-premises consumption. Depending on the length and severity of these measures to help curtail COVID-19, our revenues may be negatively impacted in the short-term.

Liquidity

At the present time, Aphria believes it has sufficient levels of cash to respond to the current pandemic through its anticipated duration. As of November 30, 2020, Aphria has working capital of $399,161 including cash balances of over $187,997 and access to line of credit facilities in the United States, Germany and to a very minor extent Canada. Further, on a proforma basis, proforma cash is approximately $320,000.

Throughout the pandemic, the Company has applied for and received Canadian government funding under the Canada Emergency Wage Subsidy program, where and when available. The funds received are not repayable and are included in other non-operating items, net.

To this point in the pandemic, the Company has neither experienced a decline in its adult-use cannabis revenue nor observed signs suggesting that adult-use cannabis demand is expected to decrease.

While there are certain principal payments due in the next 12 months, our earliest debt maturity with a material repayment due is in April 2022.

Protection of our employees

We took and continue to take, important steps to protect our employees during this period, including:

- Mandatory mask policy in all common and production areas;
- Staggered work schedules, banning all non-essential contractors and closing our facility to guests, all to reduce flow of traffic into and out of our facilities;
- Staggered employee breaks, redesigned work stations and processes to minimize employee interaction and ensure appropriate social distancing;
- Installed thermal scanners at all facility employee entrances to monitor employee temperatures;
- Enhanced sanitation of work areas, both in terms of breadth and depth of cleanings; and
- Implemented mandatory 14-day quarantines for all workers returning from out of country visits.

Giving back to our communities

We are providing multiple programs to seniors and front-line healthcare workers in the local Leamington community to support them during this period, including having:

- Made various donations to Erie Shores Community Hospital;
- Made a donation of excess personal protective equipment to Erie Shores Community Hospital;
- Piloted 'The Wellness Lounge', a virtual mental health forum to promote mental health awareness, community and connections among Veterans and First Responders in conjunction with Wounded Warriors Canada;
- Continued the Aphria Supports program, where employee volunteers operate a dedicated local phone number for seniors and front-line healthcare workers to purchase and deliver groceries and other necessities during this difficult time; and,
- Continued a 10% discount on medical products to compensate for the current economic climate.

Brand and Product portfolio

The Company's brand and product portfolio continue to grow in stature and size. The Company's early efforts in consumer segmentation laid the cornerstone for its brand strategy and has continued to grow as a result of the Company's focus on product and its competitive pricing strategy. The end result continues to resonate with new and repeat purchasers.

Canadian market overview

During the quarter, the Canadian cannabis retail market grew from an annualized value of $2.9 billion at the start of the quarter, to $3.2 billion in October[10]. The four largest markets remain Ontario, Quebec, Alberta and British Columbia, which represent over 80% of the Canadian market[10].

During the period, the top provincial markets grew as follows:

- Ontario grew the most from $0.8 billion to $1.0 billion, or 25%[10];
- Quebec grew from $0.5 billion to $0.6 billion, or 8%[10];
- Alberta grew from $0.6 billion to $0.7 billion or 7%[10]; and,
- British Colombia grew from $0.4 billion to $0.5 billion, or 4%[10].

During this period, the Company maintained its #1 position, as the top licensed producer in terms of sales to provincial boards across all brands, in both Ontario[11] and Alberta[11]. In Ontario, the Company maintained a 16.9 share[11], and in Alberta, it maintained a 12.2 share[11], both as measured in the same manner as above. For the same period, the Company maintained a #3 position in British Columbia[11], the #3 position in Saskatchewan[11] and based on its own internal estimates, the Company believes that it maintained the #4 position in Quebec

■ Disclosure Controls and Procedures and Management's Annual Report on Internal Control 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, 2020, 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. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. 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 and Rule 13a-15(e) and 15d-15(e) under the Exchange Act within the U.S.) 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 control over financial reporting (as defined in the SEC's rules and the rules of the Canadian Securities Administrators) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management team, under the supervision of the CEO and the CFO, has evaluated the effectiveness of internal control over financial reporting using COSO to design the Company's internal control over financial reporting. Based on the evaluation performed, management has concluded that internal control over financial reporting was effective as of May 31, 2020.

The effectiveness of the Company's internal control over financial reporting as of May 31, 2020 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which accompanies the consolidated financial statements.

It is important to understand that there are inherent limitations on effectiveness 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. These inherent limitations include the following:

- Judgments in decision-making can be faulty, and control and process breakdowns can occur because of simple errors or mistakes;
- Controls can be circumvented by individuals, acting alone or in collusion with each other, or by management override;
- The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; and
- Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies 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.

In accordance with the provisions of National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, the Company has limited the design of its disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of SweetWater. Aphria Inc. acquired the SweetWater on November 25, 2020, and the brand portfolio and other assets acquired are currently operated by Aphria Inc's wholly-owned subsidiary, Four Twenty Corporation

Further details related to the acquisition of SweetWater are included in Note 10 in the Notes to the Company's interim condensed consolidated financial statements for the three- and six-month periods ended November 30, 2020.

Since the completion of the acquisition of SweetWater on November 25, 2020, the acquired brands and assets have contributed $881 to revenues and $299 in net earnings. The purchase price has been preliminarily allocated as described in Note 10 to the interim condensed consolidated financial statements for the three and six months ended November 30, 2020.

The scope limitation discussed under this section is primarily based on the time required to assess SweetWater Brewing Company's disclosure controls and procedures and internal control over financial reporting in a manner that is consistent with the Company's other operations.

Except for the preceding changes, there have been no changes in the Company's internal control over financial reporting during the three months ended November 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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[10] Per Stats Canada report – October 2020

[11] Per Headset reporting data – November 2020

Aphria Inc.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2020 AND MAY 31, 2019

(Expressed in Canadian Dollars, unless otherwise noted)

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Aphria Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial position of Aphria Inc. and its subsidiaries (together, the Company) as of May 31, 2020 and 2019, and the related consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, including the related notes (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of May 31, 2020, based on criteria established in *Internal Control -Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of May 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included under the heading 'Disclosure Controls and Procedures and Management's Annual Report on Internal Controls Over Financial Reporting' appearing in Management's Discussion and Analysis dated July 28, 2020 for the year ended May 31, 2020. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Valuation of Goodwill for the LATAM, Nuuvera and Broken Coast Cash Generating Units and Indefinite lived Intangible Assets

As described in Notes 3, 9 and 10 to the consolidated financial statements, the Company's consolidated goodwill and indefinite lived intangible assets balances were $617.9 and $254.2 million respectively at May 31, 2020. The goodwill associated with the LATAM, Nuuvera and Broken Coast cash generating units was $87.2 million, $377.2 million and $146.1 million respectively. For the year ended May 31, 2020, management recorded an impairment of $71.4 million on their LATAM cash generating unit consisting of $52.0 million goodwill and $19.4 million indefinite lived intangible assets. Management conducts an impairment assessment annually, or more frequently if events or changes in circumstances indicate that the carrying value of goodwill or indefinite lived intangibles may be impaired. Potential impairment is identified by comparing the recoverable amount of a cash generating unit to its carrying value. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. Recoverable amounts are estimated by management using a discounted cash flow model. Management's cash flow models included significant judgements and assumptions relating to future cash flows, growth rates and discount rates.

The principal considerations for our determination that performing procedures relating to valuation of goodwill for the LATAM, Nuuvera and Broken Coast cash generating units and indefinite lived intangible assets is a critical audit matter are there was significant judgement by management when developing their estimate of the recoverable amount of the cash generating units. This in turn led to a high degree of auditor judgement, subjectivity and effort in performing procedures to evaluate management's cash flow projections and significant assumptions, including future cash flows, growth rates and discount rates. In addition, the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence, in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill and indefinite lived intangible assets impairment assessment, including controls over the valuation of the Company's cash generating units. These procedures also included, among others, testing management's process for developing the fair value estimate; evaluating the appropriateness of the discounted cash flow model; testing the completeness, accuracy, and relevance of underlying data used in the model; and evaluating the significant assumptions used by management, including the future cash flows, growth rates and discount rates. Evaluating management's assumptions related to future cash flows and growth rates involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the cash generating unit, (ii) the consistency with external market and industry data, (iii) sensitivities over significant inputs and assumptions and (iv) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's discounted cash flow model and certain significant assumptions, including the discount rate.

Fair value less costs to sell inventory and biological assets

As described in Notes 3, 5 and 6 to the consolidated financial statements, the Company's consolidated inventory and biological assets related to cannabis inventory is $264.3 and $28.3 million, respectively at May 31, 2020. Inventory is carried at the lower of cost and net realizable value, with cost also including a fair value adjustment which represents the fair value of the biological asset at the time of harvest. Biological assets are carried at fair value less costs to sell prior to harvest. Fair value less costs to sell require management to make significant judgements and assumptions relating to the stage of growth of the cannabis, harvesting costs, sales price and expected yields.

The principal considerations for our determination that performing procedures relating to fair value less costs to sell inventory and biological assets is a critical audit matter are there was significant judgement by management when developing the fair value less costs to sell estimates of the biological assets and inventory. This led to a high degree of auditor judgement, subjectivity and effort in performing procedures to evaluate management's estimate of fair value less costs to sell and the significant assumptions, including the stage of growth, harvest costs, sales price and expected yields.

Addressing the matter involved performing procedures and evaluating audit evidence, in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the fair value less costs to sell for inventory and biological assets. These procedures also included, among others, testing management's process for developing the fair value estimate; testing the model used to calculate the fair value less costs to sell; testing the completeness, accuracy and relevance of the underlying data used in the calculation; and evaluating the significant assumptions used by management including the stage of growth, harvest costs, sales price and expected yields. Evaluating management's assumptions related to the stage of growth of cannabis involved performing physical observation of the growing cannabis and assessing quantities and growth stage as compared to the plant's birth date. Evaluating management's assumptions related to harvest costs, sales price and expected yields involved evaluating whether the assumptions used by management were reasonable considering (i) historical actual information, (ii) independent calculations of these inputs, (iii) sensitivities over significant inputs and assumptions, (iv) whether these assumptions were consistent with evidence obtained in other areas of the audit, and (v) consideration of future sales price and distribution.

/s/ PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
July 28, 2020

We have served as the Company's auditor since 2017.

Aphria Inc.
Consolidated Statements of Financial Position
(In thousands of Canadian dollars)

	Note	May 31, 2020	May 31, 2019
Assets			
Current assets			
Cash and cash equivalents		**$ 497,222**	$ 550,797
Marketable securities		**—**	20,199
Accounts receivable		**55,796**	25,488
Prepaids and other current assets	4	**42,983**	23,391
Inventory	5	**264,321**	91,529
Biological assets	6	**28,341**	18,725
Promissory notes receivable	14	**—**	39,200
Current portion of convertible notes receivable	11	**14,626**	11,500
		903,289	780,829
Capital assets	8	**587,163**	503,898
Intangible assets	9	**363,037**	392,056
Convertible notes receivable	11	**—**	20,730
Interest in equity investees	12	**—**	9,311
Long-term investments	13	**27,016**	64,922
Goodwill	10	**617,934**	669,846
		$2,498,439	$2,441,592
Liabilities			
Current liabilities			
Bank indebtedness	16	**$ 537**	$ —
Accounts payable and accrued liabilities		**152,750**	105,813
Income taxes payable		**6,410**	2,722
Deferred revenue		**902**	23,678
Current portion of lease liabilities		**1,315**	—
Current portion of long-term debt	17	**8,467**	6,332
		170,381	138,545
Long-term liabilities			
Lease liabilities		**5,828**	—
Long-term debt	17	**129,637**	60,895
Convertible debentures	18	**270,783**	421,366
Deferred tax liability	15	**83,468**	87,633
		660,097	708,439
Shareholders' equity			
Share capital	19	**1,846,938**	1,655,273
Warrants	20	**360**	1,336
Share-based payment reserve		**27,721**	36,151
Accumulated other comprehensive loss		**(1,269)**	(119)
Retained earnings (deficit)		**(61,215)**	12,103
		1,812,535	1,704,744
Non-controlling interests	22	**25,807**	28,409
		1,838,342	1,733,153
		$2,498,439	$2,441,592

Nature of operations (Note 1),
Commitments and contingencies (Note 31),

Approved on behalf of the Board:

"Renah Persofsky"	"Irwin Simon"
Signed: Director	Signed: Director

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

Aphria Inc.
Consolidated Statements of Loss and Comprehensive Loss
(In thousands of Canadian dollars, except share and per share amounts)

	Note	For the year ended May 31, 2020	2019
Cannabis revenue		**$ 204,736**	$ 89,383
Distribution revenue		**369,214**	157,931
Insurance recovery		**1,000**	—
Excise taxes		**(31,611)**	(10,204)
Net revenue		**543,339**	237,110
Production costs	5	**64,972**	36,446
Cost of cannabis purchased		**21,920**	—
Cost of goods purchased		**322,688**	138,126
Gross profit before fair value adjustments		**133,759**	62,538
Fair value adjustment on sale of inventory	5	**57,039**	27,724
Fair value adjustment on growth of biological assets	6	**(115,255)**	(40,607)
Gross profit		**191,975**	75,421
Operating expenses:			
General and administrative	23	**99,977**	69,752
Share-based compensation	24	**22,500**	26,080
Amortization		**21,747**	14,084
Selling		**21,042**	4,961
Marketing and promotion		**20,464**	23,010
Research and development		**2,568**	1,391
Impairment	10	**63,971**	58,039
Transaction costs		**5,763**	23,259
		258,032	220,576
Operating loss		**(66,057)**	(145,155)
Finance income (expense), net	25	**(26,347)**	6,575
Non-operating income, net	26	**11,687**	122,935
Loss before income taxes		**(80,717)**	(15,645)
Income taxes (recovery)	15	**3,917**	854
Net loss		**(84,634)**	(16,499)
Other comprehensive loss			
Other comprehensive loss		**(1,150)**	(119)
Comprehensive loss		**$ (85,784)**	$ (16,618)
Total comprehensive income (loss) attributable to:			
Shareholders of Aphria Inc.		**(91,961)**	(14,667)
Non-controlling interests	22	**6,177**	(1,951)
		$ (85,784)	$ (16,618)
Weighted average number of common shares—basic		**257,914,589**	242,763,558
Weighted average number of common shares—diluted		**257,914,589**	242,763,558
Loss per share—basic	28	**$ (0.33)**	$ (0.07)
Loss per share—diluted	28	**$ (0.33)**	$ (0.07)

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

Aphria Inc.
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	Retained earnings	Non-controlling interests (Note 22)	Total
Balance at May 31, 2018	210,169,924	$1,113,981	$ 1,375	$22,006	$ (801)	$ 27,452	$ 9,580	$1,173,593
Share issuance—June 2018 bought deal	21,835,510	245,925	—	—	—	—	—	245,925
Additional share issuance—Broken Coast acquisition	19,963	297	—	—	—	—	—	297
Share issuance—LATAM acquisition	15,678,310	273,900	—	—	—	—	11,341	285,241
Share issuance—warrants exercised	550,335	1,762	(39)	—	—	—	—	1,723
Share issuance—options exercised	2,632,078	15,029	—	(9,933)	—	—	—	5,096
Share issuance—DSUs exercised	103,000	953	—	—	—	—	—	953
Income tax recovery on share issuance costs	—	3,426	—	—	—	—	—	3,426
Share-based payments	—	—	—	24,078	—	—	—	24,078
Elimination of CTA on disposal of equity investee	—	—	—	—	801	(801)	—	—
Non-controlling interests	—	—	—	—	—	—	9,439	9,439
Comprehensive loss for the year	—	—	—	—	(119)	(14,548)	(1,951)	(16,618)
Balance at May 31, 2019	250,989,120	$1,655,273	$ 1,336	$36,151	$ (119)	$ 12,103	$ 28,409	$1,733,153

	Number of common shares	Share capital (Note 19)	Warrants (Note 20)	Share-based payment reserve	Accumulated other comprehensive loss	Retained earnings (deficit)	Non-controlling interests (Note 22)	Total
Balance at May 31, 2019	250,989,120	**$1,655,273**	**$ 1,336**	**$ 36,151**	**$ (119)**	**$ 12,103**	**$ 28,409**	**$1,733,153**
Share issuance—January 2020 bought deal	14,044,944	**99,727**	**—**	**—**	**—**	**—**	**—**	**99,727**
Share issuance—debt settlement	18,860,505	**78,063**	**—**	**—**	**—**	**—**	**—**	**78,063**
Share issuance—options exercised	1,293,745	**6,950**	**—**	**(2,848)**	**—**	**—**	**—**	**4,102**
Share issuance—RSUs exercised	667,529	**4,428**	**—**	**—**	**—**	**—**	**—**	**4,428**
Share issuance—DSUs exercised	398,050	**1,962**	**—**	**—**	**—**	**—**	**—**	**1,962**
Share issuance—warrants exercised	766,372	**1,150**	**—**	**—**	**—**	**—**	**—**	**1,150**
Cancelled shares	(500,000)	**(615)**	**—**	**—**	**—**	**615**	**—**	**—**
Expired options	—	**—**	**—**	**(15,984)**	**—**	**15,984**	**—**	**—**
Expired warrants	—	**—**	**(976)**	**—**	**—**	**976**	**—**	**—**
Share-based payments	—	**—**	**—**	**10,402**	**—**	**—**	**—**	**10,402**
Nuuvera Malta acquisition	—	**—**	**—**	**—**	**—**	**(82)**	**82**	**—**
Non-controlling interests	—	**—**	**—**	**—**	**—**	**—**	**(8,861)**	**(8,861)**
Comprehensive income (loss) for the year	—	**—**	**—**	**—**	**(1,150)**	**(90,811)**	**6,177**	**(85,784)**
Balance at May 31, 2020	**286,520,265**	**$1,846,938**	**$ 360**	**$ 27,721**	**$ (1,269)**	**$(61,215)**	**$ 25,807**	**$1,838,342**

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

Aphria Inc.
Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

	Note	For the year ended May 31, 2020	2019
Cash used in operating activities:			
Net loss for the year		**$ (84,634)**	$ (16,499)
Adjustments for:			
Future income taxes	15	**(2,722)**	(4,090)
Fair value adjustment on sale of inventory	5	**57,039**	27,724
Fair value adjustment on growth of biological assets	6	**(115,255)**	(40,607)
Loss on marketable securities		**338**	178
Unrealized foreign exchange gain		**(605)**	(256)
Amortization	8,9	**49,271**	22,940
Loss (gain) on sale of capital assets		**10,824**	(55)
Impairment	10	**63,971**	58,039
Unrealized loss on convertible notes receivable	11,26	**7,341**	3,399
Gain on equity investee		**—**	(58,438)
Loss on promissory notes receivable		**13,000**	—
Deferred gain recognized		**—**	(618)
Other non-cash items		**(458)**	(566)
Share-based compensation	24	**22,500**	26,080
Loss (gain) on long-term investments	27	**32,568**	(19,651)
Gain on convertible debentures		**(71,866)**	(48,439)
Unrealized loss on financial liabilities		**—**	1,326
Transaction costs		**—**	15,419
Change in non-cash working capital	29	**(115,068)**	(21,491)
		(133,756)	(55,605)
Cash provided by (used in) financing activities:			
Share capital issued, net of cash issuance costs		**99,727**	245,925
Proceeds from warrants and options exercised		**5,252**	7,772
Proceeds from convertible debentures		**—**	454,386
Repayment of convertible debentures		**(1,089)**	—
Proceeds from long-term debt		**81,696**	27,841
Repayment of long-term debt		**(10,877)**	(11,374)
Repayment of lease liabilities		**(1,301)**	—
Increase in bank indebtedness		**537**	—
		173,945	724,550
Cash used in investing activities:			
Proceeds from disposal of marketable securities		**19,861**	24,685
Investment in capital and intangible assets		**(132,423)**	(205,965)
Proceeds from disposal of capital assets		**1,892**	55
Convertible notes advances		**—**	(19,500)
Repayment of convertible and promissory notes receivable		**26,000**	8,551
Investment in long-term investments and equity investees		**(605)**	(72,367)
Proceeds from disposal of long-term investments and equity investees	27	**26,233**	110,213
Net cash paid on business acquisitions	10	**(34,722)**	(23,557)
		(93,764)	(177,885)
Net increase (decrease) in cash and cash equivalents		**(53,575)**	491,060
Cash and cash equivalents, beginning of year		**550,797**	59,737
Cash and cash equivalents, end of year		**$ 497,222**	$ 550,797
Cash is comprised of:			
Cash in bank		**$ 86,151**	$ 129,998
Short-term deposits		**411,071**	420,799
Cash and cash equivalents		**$ 497,222**	$ 550,797

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

1. Nature of operations

Aphria Inc. (the "Company" or "Aphria") is an international organization with a focus on building a global cannabis brand, with operations in Canada, Germany, Italy, Malta, Colombia, and Argentina. The Company exists under the laws of the *Business Corporations Act* (Ontario), is licensed to produce and sell medical and adult-use cannabis, cannabis-derived extracts, and derivative cannabis products in Canada under the provisions of *The Cannabis Act.*

Broken Coast Cannabis Ltd. ("Broken Coast") is a wholly owned subsidiary of the Company licensed to produce and sell cannabis under *The Cannabis Act*.

1974568 Ontario Ltd. ("Aphria Diamond") is a 51% majority owned subsidiary of the Company. In November 2019, Aphria Diamond received its cultivation licence under the provisions of *The Cannabis Act*.

The registered office of the Company is located at 1 Adelaide Street East, Suite 2310, Toronto, Ontario.

The Company's common shares are listed under the symbol "APHA" on the Toronto Stock Exchange ("TSX") in Canada and the National Association of Securities Dealers Automated Quotations Exchange ("NASDAQ") in the United States.

These consolidated financial statements were approved by the Company's Board of Directors on July 28, 2020.

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

All figures presented in the consolidated financial statements are reflected in Canadian dollars; however, the functional currency of the Company includes the Canadian dollar and the Euro.

Foreign currency transactions are translated to the respective functional currencies of the Company's entities at the exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate applicable at the statement of financial position date. Non-monetary items carried at historical cost denominated in foreign currencies are translated to the functional currency at the date of the transactions. Non-monetary items carried at fair value denominated in foreign currencies are translated to the functional currency at the date when the fair value was determined. Realized and unrealized exchange gains and losses are recognized through profit and loss.

On consolidation, the assets and liabilities of foreign operations reported in their functional currencies are translated into Canadian dollars, the Group's presentation currency, at period-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. The Company and all of its subsidiaries' functional currency is Canadian dollars, with the exception of CC Pharma GmbH whose functional currency is the Euro.

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

(d) Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The following is a list of the Company's operating subsidiaries:

Subsidiaries	Jurisdiction of incorporation	Ownership interest[1]
Broken Coast Cannabis Ltd.	British Columbia, Canada	100%
ARA – Avanti Rx Analytics Inc.	Ontario, Canada	100%
FL Group S.r.l.	Italy	100%
ABP, S.A.	Argentina	100%
Nuuvera Deutschland GmbH[2]	Germany	100%
Aphria RX GmbH	Germany	100%
CC Pharma GmbH	Germany	100%
CC Pharma Research and Development GmbH	Germany	100%
Aphria Wellbeing GmbH	Germany	100%
Marigold Projects Jamaica Limited	Jamaica	95%[3]
ASG Pharma Ltd.	Malta	100%
ColCanna S.A.S.	Colombia	90%
CC Pharma Nordic ApS	Denmark	75%
1974568 Ontario Ltd.	Ontario, Canada	51%

1 The Company defines ownership interest as the interest in which the Company is entitled to a proportionate share of net income. Legal ownership of some subsidiaries differ from ownership interest shown above.

2 Entity name was changed to Aphria Germany GmbH subsequent to year-end.

3 The Company holds 49% of the issued and outstanding shares of Marigold Projects Jamaica Limited, through wholly owned subsidiary Marigold Acquisitions Inc. The Company holds rights through a licensing agreement to 95% of the results of operations of Marigold Projects Jamaica Limited.

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.

(e) Corporate reorganization

During the year, the Company completed the name changes for the following entities: Aphria RX GmbH (formerly Aphria Deutschland GmbH) and Aphria Wellbeing GmbH (formerly Aphria Handelsgesellschaft). The Company also dissolved Aphria Italy S.p.A. and sold its interest in APL – Aphria Portugal, Lda.

(f) Interest in equity investees

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.

3. Significant accounting policies

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

a. Revenue

Revenue is recognized when performance obligation under the terms of a contract with a customer are satisfied, which is upon the transfer of control of the contracted goods. Except for goods sold under bill-and-hold arrangements, control is transferred when title and physical possession of the product has transferred to the customer, which is determined by respective shipping terms and certain additional considerations. Invoices are generally issued at the time of delivery (which is when the Company has satisfied its performance obligation under the arrangement). The Company does not have performance obligations subsequent to delivery on the sale of goods to customers and revenues from sale of goods are recognized at a "point in time", which is upon passing of control to the customer.

Under bill-and-hold arrangements – whereby the Company bills a customer for product to be delivered at a later date – control typically transfers when the product is still in our physical possession, and title and risk of loss has passed to the customer. Revenue is recognized when all specific requirements for transfer of control under a bill-and-hold arrangement have been met.

Amounts disclosed as net revenue are net of sales tax, duty tax, 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. Purchased inventory is carried at cost and is determined using the weighted average method. The capitalized cost for produced inventory includes the direct and indirect costs initially capitalized to biological assets before the transfer to inventory. The capitalized cost also includes subsequent costs such as materials, labour and amortization expense on equipment involved in packaging, labelling and inspection. The total cost of inventory also includes a fair value adjustment which represents the fair value of the biological asset at the time of harvest. All direct and indirect costs related to inventory are capitalized as they are incurred, and they are subsequently recorded within 'production costs' on the statements of loss and comprehensive loss at the time cannabis is sold, the realized fair value amounts included in inventory sold are recorded as a separate line on the statements of loss and comprehensive loss.

e. Biological assets

The Company's biological assets consist of 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 costs of growing materials as well as other indirect costs of production such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as amortization on production equipment and overhead costs to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred, and subsequently transferred to inventory at the point of harvest. Unrealized fair value gains on growth of biological assets are recorded in a separate line on the face of the statements of loss and comprehensive loss and subsequently transferred to inventory at the point of harvest.

f. Capital assets

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

Amortization is calculated using the following terms and methods:

Asset type	Amortization method	Amortization term
Land	Not amortized	No term
Production facility	Straight-line	15 – 20 years
Equipment	Straight-line	3 – 10 years
Leasehold improvements	Straight-line	Over lease term
Construction in progress	Not amortized	No term
Right-of-use assets	Straight-line	Over lease 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 loss and comprehensive loss in the year the asset is derecognized.

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

g. 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 – 10 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
Intellectual property, trademarks & brands	Straight-line	15 months – 20 years

The estimated success of applications and useful life 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.

h. Goodwill

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

i. Impairment of non-financial assets

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

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

j. Income taxes

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

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

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

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

k. Earnings per share

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

l. Share-based compensation

The Company has an omnibus long-term incentive plan which includes issuances of stock options, restricted share units and deferred share units 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 loss and comprehensive loss such that the cumulative expense reflects the revised estimate.

m. Research and development

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

n. Leases

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the leases as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are assumed.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The incremental borrowing rate is defined as the rate of interest that the Company would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Company applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line administrative expenses in the consolidated statements of operations and comprehensive income.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has elected to use this practical expedient.

o. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provision of the respective instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets and financial liabilities at FVTPL , are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Fair value estimates are made at the consolidated statement of financial position date based on relevant market information and information about the financial instrument. The Company has made the following classifications:

Financial assets/liabilities	IFRS 9 Classification
Cash and cash equivalents	FVTPL
Marketable securities	FVTPL
Accounts receivable	amortized cost
Promissory notes receivable	amortized cost
Convertible notes receivable	FVTPL
Long-term investments	FVTPL
Bank indebtedness	amortized cost
Accounts payable and accrued liabilities	other financial liabilities
Income taxes payable	other financial liabilities
Lease liabilities	other financial liabilities
Long-term debt	other financial liabilities
Convertible debentures	FVTPL

(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 loss and comprehensive loss. Transaction costs are expensed as incurred.

(ii) Amortized cost financial assets

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset is initially measured at fair value, including transaction costs and subsequently at amortized cost.

(iii) 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 loss and comprehensive loss. With the exception of FVOCI 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 loss and comprehensive loss.

(iv) Financial liabilities and other financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. Financial liabilities at FVTPL are stated at fair value, with changes being recognized through the consolidated statements of loss and comprehensive loss. 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.

(v) 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 within the critical accounting estimates and judgements.

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 and convertible notes receivable

The determination of fair value of the Company’s long-term investments and convertible notes receivable at other than initial cost is 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 or convertible notes receivable 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 and convertible notes receivable.

The fair value of long-term investments and convertible notes receivable 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 and convertible notes receivable 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. The uncertainties of coronavirus' ("COVID-19") impact on the future cash flow estimates are further described in Note 10.

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.

Convertible debentures

The fair value of the convertible debentures is determined using the quoted price in the over-the-counter broker market. As the convertible debentures are classified as FVTPL, the subsequent interest as well as change in the fair value will flow through the consolidated statements of comprehensive income. There is judgement in assessing what portion of the gain/loss, if any, relates to the change in the Company's own risk.

q. New standards and interpretations applicable effective June 1, 2019

<u>Adoption of IFRS 16 – Leases</u>

IFRS 16 introduced a single, on-balance sheet accounting model for leases. The Company, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Company has applied IFRS 16 using the modified retrospective method and has elected to set the right-of-use asset equal to the lease liability. As such the cumulative effect of initial application recognized in retained earnings at June 1, 2019 is nil. Accordingly, the comparative information presented for the prior period has not been restated and is presented as previously reported under IAS 17 and related interpretations.

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement Contains a Lease. The Company now determines whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is Initially measured at cost, and subsequently at cost less any accumulated depreciation or impairment losses and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company primarily uses its incremental borrowing rate as the discount rate. The weighted average discount rate used was 5.0% . The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions represent leases. The Company applied IFRS 16 only to contracts that were previously identified as leases under IAS 17 and IFRIC 4. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into, or changed, on or after June 1, 2019.

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

The Company used the following additional practical expedients:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Applied the exemption not to recognize right-of-use assets and lease liabilities for short-term leases with terms less than 12 months and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line or other systematic basis over the lease term;
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Account for any lease and associated non-lease components as a single arrangement and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Company has furthermore applied judgment to determine the applicable discount rate. The discount rate is based on the Company's incremental borrowing rate and reflects the current market assessments of the time value of money and the associated risks for which the estimates of future cash flows have not been adjusted for.

With the election of the practical expedient methods on transition to IFRS 16, the Company recognized right-of-use assets and corresponding lease liabilities of $8,606 on June 1, 2019 for a combination of vehicle and office lease agreements. The Company has recognized amortization expense of $1,455 and finance costs of $380 in the consolidated statements of loss and comprehensive loss for the year ended May 31, 2020.

Lease liabilities recognized in the consolidated statement of financial position on the date of transition:

Reconciliation of IFRS 16 transitional impact	**June 1, 2019**
Discounted using the incremental borrowing rate at the date of initial application	**7,722**
Adjustments for renewal options reasonably certain to be exercised	**884**
Lease liabilities recognized	**$8,606**

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 loss and comprehensive loss, and consolidated statements of cash flows to improve clarity.

4. Prepaids and other current assets

Prepaids and other current assets are comprised of:

	May 31, 2020	**May 31, 2019**
Sales tax receivable	**$11,670**	$ 7,583
Accrued interest	**125**	2,779
Prepaid assets	**23,365**	10,696
Other	**7,823**	2,333
	$42,983	**$23,391**

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

5. Inventory

Inventory is comprised of:

	Capitalized cost	Fair value adjustment	May 31, 2020	May 31, 2019
Harvested cannabis	$ 72,641	$ 70,310	$142,951	$23,253
Purchased cannabis	8,764	—	8,764	—
Harvested cannabis trim	3,855	168	4,023	5,789
Cannabis oil	30,946	6,053	36,999	19,601
Purchased CBD distillate	5,503	—	5,503	—
Softgel capsules	430	150	580	764
Cannabis vapes	5,686	1,865	7,551	—
Distribution inventory	35,341	—	35,341	32,944
Packaging and other inventory items	22,609	—	22,609	9,178
	$ 185,775	**$ 78,546**	**$264,321**	**$91,529**

During the year ended May 31, 2020, the Company recorded $64,972 (2019 - $36,446) of production costs. Included in production costs for the year ended May 31, 2020 is $1,860 of internal cannabis oil conversion costs (2019 - $1,682), $nil of external cannabis oil conversion costs (2019 - $892), and amortization of $9,544 (2019 - $4,133). The Company also included $17,980 of amortization which remains in inventory for the year ended May 31, 2020 (2019 - $4,723) related to capital assets utilized in production. During the year ended May 31, 2020, the Company expensed $57,039 (2019 - $27,724) of fair value adjustments on the growth of biological assets included in inventory sold.

During the year, the Company purchased a total of $30,684 (9,253.6 kgs) of dried flower cannabis on the wholesale market. At May 31, 2020, the Company maintained $8,764 (2,887.5 kgs) of purchased cannabis in inventory. During the year ended May 31, 2020, the Company recorded $21,920 of purchased cannabis in the statements of loss and comprehensive loss.

The Company holds 47,318.4 kgs of harvested cannabis (May 31, 2019 – 6,309.9 kgs), 16,092.3 kgs of harvested cannabis trim (May 31, 2019 – 1,908.0 kgs), 106,371.0 litres of cannabis oils or 18,499.3 kgs equivalent in various stages of production (May 31, 2019 – 28,458.1 litres or 4,949.2 kgs equivalent), 1,669.2 litres of cannabis oils used in softgel capsules or 290.3 kgs equivalent (May 31, 2019 – 982.0 litres or 218.2 kgs equivalent) and 21,707.5 litres of cannabis oils used in cannabis vape oils or 3,775.2 kgs equivalent at May 31, 2020 (May 31, 2019 – nil litres or nil kgs equivalent).

6. Biological assets

Biological assets are comprised of:

	Amount
Balance at May 31, 2018	$ 7,331
Changes in fair value less costs to sell due to biological transformation	40,607
Production costs capitalized	47,747
Transferred to inventory upon harvest	(76,960)
Balance at May 31, 2019	$ 18,725
Changes in fair value less costs to sell due to biological transformation	115,255
Production costs capitalized	131,561
Transferred to inventory upon harvest	(237,200)
Balance at May 31, 2020	**$ 28,341**

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

The Company values 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 $3.00 and $0.25 per gram respectively, upon harvest for greenhouse produced cannabis (May 31, 2019 – $3.50 and $2.75 per gram) and $4.00 and $0.25 per gram respectively (May 31, 2019 – $4.00 and $3.25 per gram), 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 $115,255 during the year ended May 31, 2020 (2019 – $40,607).

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, the Company lowered the expected selling price of cannabis and cannabis trim from between $3.00 and $7.00 to $2.50 and $6.50 for harvested cannabis and $0.50 and $2.00 for harvested cannabis trim. These changes resulted in a decrease in the fair value of biological assets of approximately $5,000 for the year ended May 31, 2020. The lower fair value of biological assets will continue to result in lower carrying value of harvested cannabis inventory for all harvested inventory upon the change in assumptions.

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

- The harvest yield is between 20 grams and 60 grams per plant;
- The selling price is between $2.50 and $6.50 per gram of harvested cannabis;
- The selling price is between $0.50 and $2.00 per gram of harvested cannabis trim;
- 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 $1.50 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 $682 (May 31, 2019 – $516) and inventory decreasing by $9,895 (May 31, 2019 – $2,470)
- Harvest yield per plant – a decrease in the harvest yield per plant of 5% would result in the biological asset value decreasing by $439 (May 31, 2019 – $266)

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.

7. Related party transactions

Key management personnel compensation for the year ended May 31, 2020 and 2019 was comprised of:

	For the year ended May 31,	
	2020	**2019**
Salaries	**$ 6,863**	$ 5,140
Share-based compensation	**5,037**	11,854
	$11,900	$16,994

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

Directors and officers of the Company control 0.12% or 353,442 of the voting shares of the Company.

As at May 31, 2020, a balance paid to an officer and director of the Company of $801 is included within prepaid and other current assets.

During the year, the Company issued 165,100 deferred share units to directors of the Company under the terms of the Company's Omnibus Long-Term Incentive Plan.

During the year, the Company issued 1,575,848 restricted share units to officers and directors of the Company under the terms of the Company's Omnibus Long-Term Incentive Plan. 1,127,698 restricted share units issued to an officer and director of the Company vest upon the achievement of specified performance measures. 50,000 vested immediately, 86,746 vest June 1, 2020 and the remaining vest over two years.

During the year, the Company issued 1,200,962 stock options to officers of the Company, under the terms of the Company's Omnibus Long-Term Incentive Plan.

8. Capital assets

	Land	Production facility	Equipment	Leasehold improvements	Construction in process	Right-of-use assets	Total capital assets
Cost							
At May 31, 2018	$24,504	$ 99,442	$ 15,949	$ 1,665	$ 167,157	$ —	**$308,717**
Business acquisitions	345	4,524	1,662	182	154	—	**6,867**
Additions	8,109	3,829	28,305	778	163,953	—	**204,974**
Transfers	192	124,603	33,687	(1,389)	(157,093)	—	**—**
Effect of foreign exchange	3	70	24	—	11	—	**108**
At May 31, 2019	33,153	232,468	79,627	1,236	174,182	—	**520,666**
IFRS 16 Adjustment	—	—	—	—	—	8,606	**8,606**
Additions	—	4,480	21,034	1,240	101,284	677	**128,715**
Transfers	72	37,491	108,730	16,081	(162,414)	40	**—**
Disposals	—	—	(7,157)	—	(5,559)	—	**(12,716)**
Impairment	(15)	(3,433)	(46)	(119)	(2,147)	(840)	**(6,600)**
Effect of foreign exchange	—	14	22	—	114	107	**257**
At May 31, 2020	**$33,210**	**$271,020**	**$202,210**	**$ 18,438**	**$ 105,460**	**$8,590**	**$638,928**
Accumulated depreciation							
At May 31, 2018	$ —	$ 2,500	$ 2,957	$ 109	$ —	$ —	**$ 5,566**
Amortization	—	5,160	5,962	80	—	—	**11,202**
At May 31, 2019	—	7,660	8,919	189	—	—	**16,768**
Amortization	—	13,584	19,508	450	—	1,455	**34,997**
At May 31, 2020	**$ —**	**$ 21,244**	**$ 28,427**	**$ 639**	**$ —**	**$1,455**	**$ 51,765**
Net book value							
At May 31, 2018	$24,504	$ 96,942	$ 12,992	$ 1,556	$ 167,157	$ —	**$303,151**
At May 31, 2019	$33,153	$224,808	$ 70,708	$ 1,047	$ 174,182	$ —	**$503,898**
At May 31, 2020	**$33,210**	**$249,776**	**$173,783**	**$ 17,799**	**$ 105,460**	**$7,135**	**$587,163**

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

9. Intangible assets

	Customer relationships	Corporate website	Licences, permits & applications	Non-compete agreements	Intellectual property, trademarks & brands	Total intangible assets
Cost						
At May 31, 2018	$ 11,730	$ 409	$ 139,170	$ 1,930	$ 81,086	**$234,325**
Business acquisitions	21,300	—	123,956	1,400	16,200	**162,856**
Additions	—	496	12,754	—	1,244	**14,494**
At May 31, 2019	33,030	905	275,880	3,330	98,530	**411,675**
Additions	112	557	2,893	2	1,944	**5,508**
Impairment	—	—	(19,363)	—	—	**(19,363)**
Effect of foreign exchange	(540)	(5)	68	(55)	(358)	**(890)**
At May 31, 2020	**$ 32,602**	**$ 1,457**	**$ 259,478**	**$ 3,277**	**$ 100,116**	**$396,930**
Accumulated depreciation						
At May 31, 2018	$ 1,274	$ 256	$ 277	$ 314	$ 5,760	**$ 7,881**
Amortization	4,729	161	582	1,176	5,090	**11,738**
At May 31, 2019	6,003	417	859	1,490	10,850	**19,619**
Amortization	6,040	437	176	1,348	6,273	**14,274**
At May 31, 2020	**$ 12,043**	**$ 854**	**$ 1,035**	**$ 2,838**	**$ 17,123**	**$ 33,893**
Net book value						
At May 31, 2018	$ 10,456	$ 153	$ 138,893	$ 1,616	$ 75,326	**$226,444**
At May 31, 2019	$ 27,027	$ 488	$ 275,021	$ 1,840	$ 87,680	**$392,056**
At May 31, 2020	**$ 20,559**	**$ 603**	**$ 258,443**	**$ 439**	**$ 82,993**	**$363,037**

Included in Licences, permits & applications is $254,216 of indefinite lived intangible assets.

10. Business Acquisitions and Goodwill

Acquisition of LATAM Holdings Inc.

On July 17, 2018, the Company signed a share purchase agreement with Scythian Biosciences Corp. ("Scythian") to purchase 100% of the issued and outstanding shares of LATAM Holdings Inc. ("LATAM Holdings"); a direct wholly-owned subsidiary of Scythian. As outlined in the share purchase agreement, the negotiated purchase price was to be settled with the issuance of 15,678,310 shares of the Company valued on July 17, 2018 at $193,000 and the assumption of $1,000 USD ($1,310 CAD) short-term liabilities. The acquisition of LATAM Holdings closed on September 27, 2018. Therefore, in accordance with IFRS 3—Business Combinations, the equity consideration transferred was measured at fair value at the acquisition date, which is the date control was obtained, which in this case was determined to be September 27, 2018. The fair value of the consideration shares on September 27, 2018 was $273,900.

LATAM Holdings, through other subsidiaries, provides the Company with access to the emerging cannabis markets in Latin America and the Caribbean. Through this acquisition, the Company secured key licenses in Colombia, Argentina and Jamaica which is anticipated to provide first mover advantage in these countries. In addition, the Company acquired an option and rights of first refusal to purchase a Brazilian incorporated entity, with the option and right of first refusal vesting only upon the entity obtaining a licence to cultivate and distribute cannabis lawfully in Brazil.

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

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

	Note	Number of shares	Share price	Amount
Consideration paid				
Shares issued	(i)	15,678,310	$17.47	$273,900
Total consideration paid				**$273,900**
Net assets acquired				
Current assets				
Cash and cash equivalents				2,704
Accounts receivable				571
Prepaids and other current assets				106
Inventory				65
Long-term assets				
Capital assets				494
Licences, permits & applications				123,956
Goodwill				189,188
Total assets				**317,084**
Current liabilities				
Accounts payable and accrued liabilities				1,986
Income taxes payable				20
Long-term liabilities				
Deferred tax liability				29,837
Total liabilities				**31,843**
Non-controlling interest				**11,341**
Total net assets acquired				**$273,900**

(i) Share price based on the price of the shares on September 27th, 2018.

Net income and comprehensive net income for the Company would have been lower by approximately $4,556 for the year ended May 31, 2019, if the acquisition had taken place on June 1, 2018. In connection with this transaction, the Company expensed transaction costs of $1,133.

Acquisition of CC Pharma GmbH

On November 7 ,2018, the Company signed a share purchase agreement to acquire 100% of the issued and outstanding shares of CC Pharma. The purchase price was cash consideration of €18,920 ($28,775 CAD) and additional cash consideration of up to €23,500 ($35,741 CAD) contingent on CC Pharma obtaining a specified EBITDA target. The acquisition of CC Pharma closed on January 9, 2019. During the three months ended August 31, 2019, the Company paid the additional cash consideration of €23,500 previously included in accounts payable. The value in CAD at the date of settlement was $34,722.

CC Pharma is a leading distributor of pharmaceutical products to pharmacies in Germany as well as throughout Europe. The acquisition of CC Pharma provides the Company access to the cannabis markets in Germany and ultimately pan-European platforms.

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

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

	Amount
Consideration	
Cash	$ 28,775
Contingent consideration	35,741
Total consideration	**$ 64,516**
Net assets acquired	
Current assets	
Cash and cash equivalents	7,237
Accounts receivable	33,989
Prepaids and other current assets	14,616
Inventory	28,352
Long-term assets	
Capital assets	6,373
Customer relationships	21,300
Non-compete agreements	1,400
Intellectual property, trademarks & brands	16,200
Goodwill	6,146
Total assets	**135,613**
Current liabilities	
Bank loans and overdrafts	20,255
Accounts payable and accrued liabilities	44,111
Income taxes payable	672
Long-term liabilities	
Deferred tax liability	6,059
Total liabilities	**71,097**
Total net assets acquired	**$ 64,516**

Revenue for the Company would have been higher by approximately $367,200, net income and comprehensive net income for the Company would have been higher by approximately $9,955, for the year ended May 31, 2019, if the acquisition had taken place on June 1, 2018. In connection with this transaction, the Company expensed transaction costs of $595.

Goodwill is comprised of:

	May 31, 2020	May 31, 2019
CannWay goodwill	**$ 1,200**	$ 1,200
Broken Coast goodwill	**146,091**	146,091
Nuuvera goodwill	**377,221**	377,221
LATAM goodwill	**87,188**	139,188
CC Pharma goodwill	**6,146**	6,146
Effect of foreign exchange	**88**	—
	$617,934	$669,846

During the year ended May 31, 2020, the Company completed its annual assessment of the recoverable amount of the Company's cash-generating units ("CGUs") compared to their carrying values. The recoverable amount of each CGU was determined based on updated cash flow projections in light of the current COVID-19 pandemic. The cash flows are management's best projections based on current and anticipated market conditions covering a five-year period. However, these projections are inherently uncertain due to the recent and fluidly evolving impact of the COVID-19 pandemic. It is possible that long-term underperformance to these projections could occur if further delays in regulatory services, international construction and restrictions on travel continue to prevail with duration and impact greater than currently anticipated.

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

As a result of the effects of COVID-19 on the Company's expected cash flows, the Company recorded the following impairment charges:

- $4,800 on CannInvest Africa Ltd. and Verve Dynamics Incorporated (Pty) Ltd., the Company used a discount rate of 38.5%;
- $5,000 on ABP, S.A., the Company used a discount rate of 23.3%;
- $19,171 on Marigold Projects Jamaica Limited ("Marigold"), the Company used a discount rate of 38.5%; and
- $35,000 on ColCanna S.A.S., the Company used a discount rate of 40.0% .

For the year ended May 31, 2020, the Company recorded impairment losses of $63,971 (2019 - $58,039). This impairment loss consisted of $52,000 in goodwill, $6,600 in capital assets, $19,363 in intangible assets offset by $5,131 of net liabilities and $8,861 of NCI portion of the impairment.

11. Convertible notes receivable

	May 31, 2020	May 31, 2019
HydRx Farms Ltd. (d/b/a Scientus Pharma)	**$ 6,000**	$ 11,500
Fire & Flower Inc.	**—**	11,166
10330698 Canada Ltd. (d/b/a Starbuds)	**4,728**	5,204
High Tide Inc.	**3,898**	4,360
	14,626	32,230
Deduct - current portion	**(14,626)**	(11,500)
	$ —	$ 20,730

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

On August 14, 2017, Aphria purchased $11,500 in secured convertible debentures of Scientus Pharma ("SP"). The convertible debentures bore interest at 8%, paid semi-annually, matured in two years and included the right to convert the debentures into common shares of SP at $2.75 per common share at any time before maturity. The Company agreed with SP to extend the due date to January 16, 2020. The Company maintains a first security position on all of SP's assets. At year-end, the convertible debentures remain unpaid as the Company is in the process of enforcing its security against the assets of SP.

As at May 31, 2020, the fair value of the Company's secured convertible debentures was $6,000 (May 31, 2019 - $11,500), which resulted in a fair value loss for the year ended May 31, 2020 of $(5,500) (2019 - $(4,629)). The Company determined the fair value based on expected net realizable value of the securitized assets available for realization.

Fire & Flower Inc.

On July 26, 2018, Aphria purchased $10,000 in unsecured convertible debentures of Fire & Flower Inc. ("F&F"). The convertible debentures bore interest at 8% per annum compounded, accrued and paid semi-annually in arrears. The debentures were to mature on July 31, 2020, at which point, they were to automatically convert into common shares of F&F at the lower of $1.15 and the share price on July 31, 2020. The debentures may also have been converted into a loan on July 31, 2020 bearing interest at 12%, at the holder's option.

During the year the company converted the convertible notes receivable into 8,695,651 common shares of F&F (Note 13). The fair value of the unsecured convertible debentures was $10,112 prior to conversion (May 31, 2019 - $11,166), which resulted in a fair value loss for the year ended May 31, 2020 of $(1,054) (2019 - $(1,166)).

10330698 Canada Ltd. (d/b/a Starbuds)

On December 28, 2018, Aphria purchased $5,000 in secured convertible debentures of Starbuds. The convertible debentures bear interest at 8.5% per annum accruing daily due until maturity on December 28, 2020. The debentures are secured against the assets of Starbuds. The debentures and any accrued and unpaid interest are convertible into common shares for $0.50 per common share and mature on December 28, 2020.

As at May 31, 2020, the fair value of the Company's secured convertible debentures was $4,728 (May 31, 2019 - $5,204), which includes $216 (May 31, 2019 - $nil) of accrued interest. The remaining decrease resulted in a fair value loss for the year ended May 31, 2020 of $(692) (2019 - $(204)).

High Tide Inc.

On April 10, 2019, Aphria purchased $4,500 in unsecured convertible debentures of High Tide Inc. ("High Tide"). The convertible debentures bear interest at 10% per annum, payable annually up front in common shares of High Tide based on the 10-day volume weighted average price (the "Debentures"). The debentures mature on April 10, 2021 and are convertible into common shares of High Tide at a price of $0.75 at the option of the holder. In addition to the debentures, the Company received 6,000,000 warrants in High Tide as part of the purchase of the unsecured convertible debentures (Note 13).

During the year, the Company agreed to settle $367 required payment of the convertible note receivable against other transactions with High Tide.

As at May 31, 2020, the fair value of the unsecured convertible debentures was $3,898 (May 31, 2019 - $4,360), which resulted in a fair value loss for the three and twelve months ended May 31, 2020 of $(95) (2019 - $(140)).

Convertible notes receivable

During the year ended May 31, 2020, the Company purchased a total of $nil (2019 - $19,500) in convertible notes. The unrealized loss on convertible notes receivable recognized in the results of operations amounts to $(7,341) for the year ended May 31, 2020 (2019 - $(3,399)).

The fair value was determined using the Black-Scholes option pricing model using the following assumptions: the risk-free rate of 1.25%; 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.

12. Interest in equity investees

Althea Group Holdings Ltd. ("Althea")

As at May 31, 2020 the Company held 12,250,000 common shares of Althea (May 31, 2019 - 50,750,000) representing an ownership interest of below 10% (May 31, 2019 - 25%).

On July 25, 2019 Althea issued 30,000,000 common shares for gross proceeds of $30,000 AUD. During the first quarter of the 2020 fiscal year, the Company sold 652,094 common shares in Althea reducing the Company's ownership interest in Althea to 21.5% (Note 27). The Company also relinquished its board representation and ability to participate in Althea's policy making process. As a result of these transactions, the Company ceased to account for this investment as an equity investee. In accordance with IAS 28, the Company recognized a gain on the change from equity accounting to fair value through profit and loss of $24,255 and reclassified its ownership interest to long-term investments (Note 13 and 27).

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

13. Long-term investments

	Cost May 31, 2019	Fair value May 31, 2019	Investment	Divesture/ Transfer	Subtotal May 31, 2020	Change in fair value	Fair value May 31, 2020
Level 1 on fair value hierarchy							
Tetra Bio-Pharma Inc.	19,057	17,216	—	—	17,216	(11,432)	**5,784**
National Access Cannabis Corp.	11,574	7,147	—	(7,147)	—	—	**—**
Aleafia Health Inc.	10,000	8,445	—	—	8,445	(5,125)	**3,320**
Rapid Dose Therapeutics Inc.	5,400	5,832	—	(228)	5,604	(3,874)	**1,730**
Fire & Flower Inc.	3,416	2,823	10,979	(13,413)	389	(152)	**237**
High Tide Inc.	450	340	—	—	340	(175)	**165**
Althea Group Holdings Ltd.	—	—	—	2,206	2,206	2,060	**4,266**
	49,897	41,803	10,979	(18,582)	34,200	(18,698)	**15,502**
Level 3 on fair value hierarchy							
Resolve Digital Health Inc.	718	1,100	—	—	1,100	(1,100)	**—**
Resolve Digital Health Inc.	282	282	—	—	282	(282)	**—**
Green Acre Capital Fund I	2,000	4,290	—	—	4,290	(1,917)	**2,373**
Weekend Holdings Corp.	1,890	5,334	—	—	5,334	(3,955)	**1,379**
IBBZ Krankenhaus GmbH	1,956	1,965	—	—	1,965	28	**1,993**
Greenwell Brands GmbH	152	153	—	—	153	2	**155**
HighArchy Ventures Ltd.	9,995	9,995	—	—	9,995	(4,998)	**4,997**
Schroll Medical ApS	—	—	605	—	605	12	**617**
	16,993	23,119	605	—	23,724	(12,210)	**11,514**
	66,890	64,922	11,584	(18,582)	57,924	(30,908)	**27,016**

Tetra Bio-Pharma Inc.

The Company owns 26,900,000 common shares and 6,900,000 warrants at a cost of $19,057, with a fair value of $5,784 as at May 31, 2020. Each warrant is exercisable at $1.29 per warrant expiring November 1, 2021.

National Access Cannabis ("NAC")

During the year, the Company sold 11,344,505 common shares in NAC, for proceeds of $2,532 resulting in a loss of $4,615 (Note 27).

Aleafia Health Inc. (formerly Emblem Corp.) ("Aleafia")

The Company owns 5,823,831 common shares in Aleafia at a cost of $10,000, with a fair value of $3,320 as at May 31, 2020.

Rapid Dose Therapeutics Inc. ("RDT")

During the year, the Company sold 281,500 common shares in RDT, for proceeds of $139 resulting in a loss of $89 (Note 27). The Company owns 6,918,500 common shares, for a total cost of $5,189, with a fair value of $1,730 as at May 31, 2020.

Fire & Flower Inc.

During the year, the Company received stock dividends of 716,304 shares with an allocated cost of $867.

During the year, the Company converted its convertible notes receivable in Fire & Flower Inc. and received 8,695,651 common shares with an allocated cost of $10,112 (Note 11). The Company sold 11,354,430 common shares in Fire & Flower Inc. for proceeds of $8,760 resulting in a loss of $4,653 (Note 27). The Company owns 334,525 common shares, for a total cost of $389 with a fair value of $237 as at May 31, 2020.

High Tide Inc.

The Company owns 943,396 common shares and 6,000,000 warrants in High Tide Inc. at a cost of $450, with a fair value of $165 as at May 31, 2020. Each warrant is exercisable at $0.85 per warrant expiring April 18, 2021.

Althea Group Holdings Ltd. (“Althea”)

During the first quarter, the Company reclassified the common shares held in Althea from equity investee to long-term (Note 12). During the year, the Company sold 38,500,000 common shares in Althea, for proceeds of $14,802, resulting in a gain of $7,697 (Note 27). The Company owns 12,250,000 common shares of Althea at a cost of $2,348 AUD ($2,206 CAD) with a fair value of $4,655 AUD ($4,266 CAD) as at May 31, 2020.

Resolve Digital Health Inc. (“Resolve”)

The Company owns 2,200,026 common shares and 2,200,026 warrants in Resolve at a total cost of $1,000, with a fair value of $nil as at May 31, 2020. The Company determined the fair value of its investment based on its net realizable value. Each warrant is exercisable at $0.65 per warrant expiring December 1, 2021.

Green Acre Capital Fund I

The Company invested $2,000 to Green Acre Capital Fund I. The Company determined the fair value of its investment, based on its proportionate share of net assets, to be $2,373 as at May 31, 2020. The Company has received $1,400 return of capital since its initial contribution.

Weekend Holdings Corp. (formerly Green Tank Holdings Corp.)

During the year the company received 859,118 shares at no cost. As at May 31, 2020, the Company owns 2,040,218 shares in Weekend Holdings Corp. for a total cost of $1,420 USD ($1,890 CAD), with a fair value of $1,000 USD ($1,379 CAD) as at May 31, 2020. The Company determined the fair value of its investment based on its net realizable value.

IBBZ Krankenhaus GmbH Klinik Hygiea (“Krankenhaus”)

The Company owns 25.1% of 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. The Company recognized a gain from the change in fair value of $28 due to changes in the foreign exchange rate.

Greenwell Brands GmbH (“Greenwell”)

In September 2018, the Company entered into an investment and shareholder agreement with Greenwell for the purchase of 1,250 common shares, for a total cost of €100 ($152 CAD). The Company determined that the fair value of its investment, based on the most recent financing at the same price, is equal to its carrying value. The Company recognized a gain from the change in fair value of $2 due to changes in the foreign exchange rate.

HighArchy Ventures Ltd. (“HighArchy”)

In October 2018, the Company entered into a subscription agreement with HighArchy for the purchase of 1,999 Class A shares and 1,999 Class B shares, for a total cost of $9,995 and a fair value of $4,997. During the year, HighArchy completed a share split of 10,000 to 1. The Company determined the fair value of its investment based on its net realizable value.

During the year, the Company relinquished control of 10,536,832 of the shares it previously owned in HighArchy. The Company maintains an option to re-acquire control of the shares for a nominal value for the next two years. The Company holds 9,453,168 common shares as at May 31, 2020.

Schroll Medical ApS

The Company has contributed capital of €403 ($605 CAD) and owns 3,000 shares in Schroll Medical ApS. The Company determined that the fair value of its investment, based on the most recent financing at the same price, is equal to its carrying value. The Company recognized a gain from the change in fair value of $12 due to changes in the foreign exchange rate.

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

14. Promissory notes receivable

	May 31, 2019	Additions	Repayment/ Impairment	May 31, 2020
May 15, 2019 – $39,000 – 3%, due July 15, 2020	$39,000	$ —	$ (39,000)	$—
November 1, 2018 – $200 – interest free, due May 1, 2020	200	—	(200)	—
	$39,200	$ —	$ (39,200)	$—

During the year, the Company agreed to settle the May 15, 2019 promissory notes receivable in full for $19,500 USD ($26,000 CAD), resulting in a write-down on promissory notes of $13,000 recognized in non-operating income (Note 26).

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, 2020	2019
Loss before income taxes (recovery)	**$(80,717)**	$(15,645)
Statutory rate	**26.5%**	26.5%
Expected income tax recovery at combined basic federal and provincial tax rate	**(21,390)**	(4,146)
Effect on income taxes of:		
Foreign tax differential	**(408)**	(539)
Permanent differences	**574**	1,137
Non-deductible share-based compensation and other expenses	**5,963**	20,161
Non-deductible impairment	**14,951**	—
Non-taxable portion of loss (gains)	**2,885**	(15,504)
Other	**(85)**	(648)
Tax assets not recognized	**1,427**	393
	$ 3,917	$ 854
Income tax expense (recovery) is comprised of:		
Current	**$ 7,599**	$ 4,944
Future	**(3,682)**	(4,090)
	$ 3,917	$ 854

The following table summarized the movement in deferred tax:

	Amount
Balance at May 31, 2018	$ 59,253
Future income tax recovery	(4,090)
Income tax recovery on share issuance costs	(3,426)
Acquired through business acquisition	35,896
Balance at May 31, 2019	$ 87,633
Future income tax recovery	(3,682)
Income tax recovery on share issuance costs	(483)
Balance at May 31, 2020	**$ 83,468**

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

The following table summarizes the components of deferred tax:

	May 31, 2020	May 31, 2019
Deferred tax assets		
Non-capital loss carry forward	**$ 40,792**	$ 20,133
Capital loss carry forward	**2,556**	—
Share issuance and financing fees	**6,924**	9,689
Other	**2,483**	1,102
Deferred tax liabilities		
Net book value in excess of undepreciated capital cost	**(11,523)**	(2,751)
Intangible assets in excess of tax costs	**(95,928)**	(101,271)
Unrealized gain	**(5,592)**	(6,534)
Biological assets and inventory in excess of tax costs	**(23,180)**	(8,001)
Net deferred tax liabilities	**$(83,468)**	**$ (87,633)**

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 at May 31, 2020, 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.

The Company’s subsidiary, CC Pharma, has two operating lines of credit for €3,500 each, which bear interest at Euro Over Night Index Average plus 1.79% and Euro Interbank Offered Rate plus 3.682% . As at May 31, 2020, a total of €351 ($537 CAD) was drawn down from the available credit of €7,000. The operating lines of credit are secured by a first charge on the inventory held by CC Pharma.

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

17. Long-term debt

	May 31, 2020	May 31, 2019
Credit facility - $80,000 - Canadian prime interest rate plus an applicable margin, 3-year term, with a 10-year amortization, repayable in blended monthly payments, due in November 2022	$ 80,000	$ —
Term loan - $25,000 - Canadian Five Year Bond interest rate plus 2.73% with a minimum 4.50%, 5 year term, with a 15-year amortization, repayable in blended monthly payments, due in July 2023	18,241	24,022
Term loan - $25,000 - 3.95%, compounded monthly, 5 year term with a 15-year amortization, repayable in equal monthly instalments of $188 including interest, due in April 2022	21,975	23,352
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	830	946
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	3,239	3,380
Vendor take-back mortgage - $2,850 - 6.75%, 5-year term, repayable in equal monthly instalments of $56 including interest, due in June 2021	701	1,305
Term loan - €5,000 - Euro Interbank Offered Rate + 1.79%, 5-year term, repayable in quarterly instalments of €250 plus interest, due in December 2023	5,740	7,169
Term loan - €5,000 - Euro Interbank Offered Rate + 2.68%, 5-year term, repayable in quarterly instalments of €250 plus interest, due in December 2023	5,740	7,169
Term loan - €1,500 - Euro Interbank Offered Rate + 2.00%, 5-year term, repayable in quarterly instalments of €98 including interest, due in April 2025	2,296	—
	138,762	67,343
Deduct - unamortized financing fees	**(658)**	(116)
- principal portion included in current liabilities	**(8,467)**	(6,332)
	$129,637	$60,895

Total long-term debt repayments are as follows:

Next 12 months	**$ 8,467**
2 years	**14,569**
3 years	**76,636**
4 years	**5,993**
5 years	**3,512**
Thereafter	**29,585**
Balance of obligation	**$138,762**

The credit facility of $80,000 was entered into on November 29, 2019 by 51% owned subsidiary Aphria Diamond and is secured by a first charge on the property at 620 County Road 14, Leamington, Ontario, owned by Aphria Diamond, and a guarantee from Aphria Inc. Principal payments start on the credit facility in March 2021.

The term loan of $18,241 was entered into on July 27, 2018 and is secured by a first charge on the property at 223, 231, 239, 265, 269, 271 and 275 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 August 2018. The effective interest rate during the year was 4.68%.

The term loan of $21,975 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.

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

The term loan of $830 and mortgage payable of $3,239 were entered into on July 22, 2016 and are secured by a first charge on the property at 265 Talbot Street West, Leamington, Ontario and a first position on a general security agreement.

The vendor take-back mortgage payable of $701 was entered into on June 30, 2016 in conjunction with the acquisition of the property at 265 Talbot Street West. The mortgage is secured by a second charge on the property at 265 Talbot Street West, Leamington, Ontario.

The Company acquired term loans initially up to €17,000 ($25,460 CAD) as part of the acquisition of CC Pharma (Note 10). During the year, the Company entered into a term loan for €1,500 ($2,296 CAD) through wholly owned subsidiary CC Pharma. As at May 31, 2020, the Company had amounts outstanding of €9,000 ($13,776 CAD). These term loans are secured against the distribution inventory held by CC Pharma.

18. Convertible debentures

	May 31, 2020	**May 31, 2019**
Opening balance	**$421,366**	$ —
Principal amount issued	**—**	469,805
Debt settlement	**(91,169)**	—
Fair value adjustment	**(59,414)**	(48,439)
Closing balance	**$270,783**	$421,366

The unsecured convertible debentures were entered into in April 2019, in the principal amount of $350,000 USD, are due in five years from issuance (the “Notes”). The Notes bear interest at a rate of 5.25% per annum, payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2019. The Notes are an unsecured obligation and ranked senior in right of payment to all indebtedness that is expressly subordinated in right of payment to the Notes. The Notes will rank equal in right of payment with all liabilities that are not subordinated. The Notes are effectively junior to any secured indebtedness to the extent of the value of the assets securing such indebtedness.

Holders of the Notes may convert all or any portion of their Notes, in multiples of $1 USD principal amount, at their option at any time between December 1, 2023 to the maturity date. The initial conversion rate for the Notes will be 106.5644 common shares of Aphria per $1 USD principal amount of Notes, which will be settled in cash, common shares of Aphria or a combination thereof, at Aphria’s election. This is equivalent to an initial conversion price of approximately $9.38 per common share, subject to adjustments in certain events. In addition, holders of the Notes may convert all or any portion of their Notes, in multiples of $1 USD principal amount, at their option at any time preceding December 1, 2023, if:

(a) the last reported sales price of the common shares for at least 20 trading days during a period of 30 consecutive trading days immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

(b) during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per $1 USD principal amount of the Notes for each trading day of the measurement period is less than 98% of the product of the last reported sale price of the Company’s common shares and the conversion rate on each such trading day;

(c) the Company calls any or all of the Notes for redemption or;

(d) upon occurrence of specified corporate event.

The Company may not redeem the Notes prior to June 6, 2022, except upon the occurrence of certain changes in tax laws. On or after June 6, 2022, the Company may redeem for cash all or part of the Notes, at its option, if the last reported sale price of the Company’s common shares has been at least 130% of the conversion price then in effect for at least 20 trading days during any 30 consecutive trading day period ending on and including trading day immediately preceding the date on which the Company provides notice of redemption. The redemption of Notes will be equal to 100% of the principal amount plus accrued and unpaid interest to, but excluding, the redemption date.

During the year, the company entered into an agreement to repurchase $90,800 USD of the Notes for 18,742,250 common shares of the Company. The Company recognized a gain of $12,452 on the settlement of the Notes (Note 26), none of the terms of the remaining Notes were changed. As at May 31, 2020 there was $259,200 USD principal outstanding.

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

19. Share capital

The Company is authorized to issue an unlimited number of common shares. As at May 31, 2020, the Company has issued 286,520,265 shares.

Common Shares	Number of shares	Amount
Balance at May 31, 2019	250,989,120	$1,655,273
January 2020 bought deal, net of issuance costs	14,044,944	99,727
Debt settlement	18,860,505	78,063
Options exercised	1,293,745	6,950
RSUs exercised	667,529	4,428
DSUs exercised	398,050	1,962
Warrants exercised	766,372	1,150
Shares cancelled	(500,000)	(615)
	286,520,265	**$1,846,938**

a) In January 2020, the Company closed a bought deal financing in which it issued 14,044,944 common shares and 7,022,472 warrants to purchase common shares for $9.26 per share (Note 20) expiring in two years. The Company received net proceeds of $99,727 from the financing.

b) In May 2020, the Company completed a settlement of a portion of its outstanding convertible debentures for which it issued 18,742,250 common shares (Note 18). The Company issued an additional 118,255 common shares to settle other outstanding debts, the total shares issued for debt settlement during the year was 18,860,505 for a total value of $78,063.

c) Throughout the year, 1,293,745 shares were issued from the exercise of stock options with exercise prices ranging from $0.85 to $7.92 for a value of $6,950, including any cash consideration;

d) Throughout the year, 667,529 shares were issued in accordance with the restricted share unit plan to employees, 398,050 shares were issued in accordance with the deferred share unit plan to former directors and 766,372 shares were issued from the exercise of warrants with exercise price of $1.50 for a value of $1,150, including any cash consideration; and,

e) During the year, the Company cancelled 500,000 common shares which were previously held and subject to various escrow agreements.

20. Warrants

The warrant details of the Company are as follows:

Type of warrant	Expiry date	Number of warrants	Weighted average price	Amount
Warrant	September 26, 2021	200,000	$ 3.14	$ 360
Warrant	January 30, 2022	7,022,472	9.26	—
		7,222,472	**$ 9.09**	**$ 360**

	May 31, 2020		May 31, 2019	
	Number of warrants	Weighted average price	Number of warrants	Weighted average price
Outstanding, beginning of the year	**2,292,800**	**$ 12.25**	2,843,138	$ 10.52
Exercised during the year	**(766,372)**	**1.50**	(550,335)	3.29
Issued during the year	**7,022,472**	**9.26**	—	—
Expired during the year	**(1,326,428)**	**19.84**	(3)	1.75
Outstanding, end of the year	**7,222,472**	**$ 9.09**	2,292,800	$ 12.25

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 $10,402 during the year ended May 31, 2020 (2019 - $24,078), related to stock options (Note 24). The total fair value of options granted during the year was $6,842 (2019 - $21,952).

	May 31, 2020		May 31, 2019	
	Number of options	Weighted average price	Number of options	Weighted average price
Outstanding, beginning of the year	**7,814,996**	**$ 11.05**	8,956,195	$ 7.60
Exercised during the year	**(1,566,331)**	**3.86**	(3,164,174)	4.05
Issued during the year	**1,894,128**	**7.98**	3,005,000	13.05
Forfeited during the year	**(2,260,322)**	**11.10**	(982,025)	8.27
Outstanding, end of the year	**5,882,471**	**$ 11.95**	7,814,996	$ 11.05
Exercisable, end of the year	**3,873,497**	**$ 12.26**	4,474,966	$ 9.54

In June 2019, the Company issued 350,000 stock options at an exercise price between $9.15 and $9.70 per share, exercisable for 5 years to officers of the Company. Nil options vested immediately and the remainder vest over 3 years.

In August 2019, the Company issued 736,146 stock options at an exercise price of $9.13 per share, exercisable for 5 years to officers and employees of the Company. Nil options vested immediately and the remainder vest over 3 years.

In October 2019, the Company issued 300,000 stock options at an exercise price of $6.63 per share, exercisable for 5 years to officers of the Company. All options vested immediately.

In November 2019, the Company issued 507,982 stock options at an exercise price of $6.26 per share, exercisable for 5 years to officers and employees of the Company. 183,333 options vested immediately and the remainder vest over 3 years.

(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
June 2020	$ 5.44	50,000	50,000
July 2020	$ 5.24	213,027	213,027
October 2020	$ 6.90	20,000	20,000
November 2020	$ 9.05	20,000	20,000
December 2020	$ 5.25	300,000	50,000
December 2020	$ 14.06	100,000	100,000
January 2021	$ 21.70	10,000	10,000
January 2021	$ 22.89	110,000	80,000
March 2021	$ 14.39	20,000	20,000
March 2021	$ 9.98	200,000	200,000
March 2021	$ 12.39	50,000	50,000
April 2021	$ 11.40	333,334	283,334
May 2021	$ 20.19	858,500	575,164
June 2021	$ 1.40	1,668	1,668
June 2021	$ 11.78	50,000	33,333
August 2021	$ 1.64	65,000	65,000
September 2021	$ 19.38	50,000	33,333
October 2022	$ 6.90	37,000	37,000
July 2023	$ 11.51	60,000	19,998
July 2023	$ 11.85	328,000	101,332
September 2023	$ 19.38	113,334	59,998
October 2023	$ 19.70	40,000	13,332
February 2024	$ 12.77	125,000	74,996
February 2024	$ 13.31	1,000,000	1,000,000
April 2024	$ 11.45	60,000	19,998
June 2024	$ 9.15	300,000	—
June 2024	$ 9.70	50,000	—
August 2024	$ 9.13	467,642	—
October 2024	$ 6.63	300,000	300,000
November 2024	$ 6.26	291,315	183,333
July 2027	$ 2.52	59,689	59,689
November 2027	$ 6.29	39,792	39,792
March 2028	$ 12.29	119,378	119,378
March 2028	$ 14.38	39,792	39,792
Outstanding, end of the year	**$ 11.95**	**5,882,471**	**3,873,497**

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 1.20 - 2.08% on the date of grant; expected life of 3 – 5 years; volatility of 70% based on comparable companies; forfeiture rate of 0% -20%; dividend yield of nil; and, the exercise price of the respective option.

22. Non-controlling interests

The following tables summarise the information relating to the Company’s subsidiaries, Aphria Diamond, Marigold Projects Jamaica Limited (“Marigold”), and ColCanna S.A.S. before intercompany eliminations.

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

Non-controlling interests as at May 31, 2020:

	Aphria Diamond	Marigold	ColCanna S.A.S.	May 31, 2020
Current assets	$ 51,521	$ —	$ 754	**$ 52,275**
Non-current assets	176,507	—	115,614	**292,121**
Current liabilities	(15,630)	—	(378)	**(16,008)**
Non-current liabilities	(176,516)	—	(33,738)	**(210,254)**
Net assets	35,882	—	82,252	**118,134**
Non-controlling interests %	49%	5%	10%	
Non-controlling interests	$ 17,582	$ —	$ 8,225	**$ 25,807**

Non-controlling interests as at May 31, 2019:

	Aphria Diamond	CannInvest Africa Ltd.	Verve Dynamics	Nuuvera Malta Ltd.	Marigold	ColCanna S.A.S.	May 31, 2019
Current assets	$ 2,598	$ 2	$ 185	$ 1,813	$ 441	$ 5,078	$ 10,117
Non-current assets	171,314	—	14,635	741	7,872	112,953	307,515
Current liabilities	(5,743)	(3)	(2,155)	(178)	(16)	(78)	(8,173)
Non-current liabilities	(150,892)	(9)	—	(3,196)	(1,654)	(9,638)	(165,389)
Net assets (liabilities)	17,277	(10)	12,665	(820)	6,643	108,315	144,070
Non-controlling interests %	49%	50%	70%	10%	5%	10%	
Non-controlling interests	$ 8,466	$ (5)	$ 8,866	$ (82)	$ 332	$ 10,832	$ 28,409

Non-controlling interests for the year ended May 31, 2020:

	Aphria Diamond	Marigold	ColCanna S.A.S.	May 31, 2020
Revenue	$ 52,306	$ 53	$ —	**$ 52,359**
Total expenses	33,701	6,696	26,069	**66,466**
Net comprehensive income (loss)	18,605	(6,643)	(26,069)	**(14,107)**
Non-controlling interests %	49%	5%	10%	
	$ 9,116	$ (332)	$ (2,607)	**$ 6,177**

Non-controlling interests for the year ended May 31, 2019:

	Aphria Diamond	CannInvest Africa Ltd.	Verve Dynamics	Nuuvera Malta Ltd.	Marigold	ColCanna S.A.S.	May 31, 2019
Revenue	$ —	$ —	$ —	$ 230	$ —	$ —	$ 230
Total expenses	2,274	$ 10	$ 839	1,046	757	1,246	6,172
Net comprehensive loss	(2,274)	(10)	(839)	(816)	(757)	(1,246)	(5,942)
Non-controlling interests %	49%	50%	70%	10%	5%	10%	
	$ (1,114)	$ (5)	$ (587)	$ (82)	$ (38)	$ (125)	$(1,951)

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

23. General and administrative expenses

	For the year ended May 31, 2020	2019
Executive compensation	**$ 9,084**	$ 5,821
Consulting fees	**12,429**	6,517
Office and general	**16,556**	16,511
Professional fees	**6,592**	11,790
Salaries and wages	**37,873**	19,627
Insurance	**12,561**	5,356
Travel and accommodation	**3,751**	3,116
Rent	**1,131**	1,014
	$ 99,977	$ 69,752

24. Share-based compensation

Share-based compensation is comprised of:

	For the year ended May 31, 2020	2019
Amounts charged to share-based payment reserve in respect of share-based compensation	**$ 10,402**	$24,078
Share-based compensation accrued	**—**	187
Deferred share units vested in the year	**1,030**	3,489
Deferred share units revalued in the year	**(341)**	(2,902)
Restricted share units vested in the year	**10,558**	1,740
Restricted share units revalued in the year	**851**	(512)
	$ 22,500	$26,080

During the year, the Company issued 165,100 deferred share units to directors of the Company under the terms of the Company's Omnibus Long-Term Incentive Plan.

During the year, the Company issued 2,601,979 restricted share units to employees, consultants and officers under the terms of the Company's Omnibus Long-Term Incentive Plan. 543,229 vested immediately, 86,746 vest June 1, 2020, 1,127,698 vest upon achievement of specified performance metrics and the remaining vest over two years.

During the year, the Company issued 1,894,128 stock options to officers and employees of the Company, under the terms of the Company's Omnibus Long-Term Incentive Plan.

As at May 31, 2020, the Company had 196,716 deferred share units and 1,740,752 restricted share units outstanding, of which 30,000 deferred share units and 134,825 restricted share units were vested.

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

25. Finance Income (expense), net

Finance income (expense), net is comprised of:

	For the year ended May 31, 2020	For the year ended May 31, 2019
Interest income	**$ 8,029**	$ 14,350
Interest expense	**(34,376)**	(7,775)
	$(26,347)	$ 6,575

26. Non-operating income

Non-operating income is comprised of:

	For the year ended May 31, 2020	For the year ended May 31, 2019
Non-operating income (loss):		
Foreign exchange gain	**$ 8,237**	$ 915
Loss on marketable securities	**(338)**	(178)
(Loss) gain on sale of capital assets	**(10,824)**	55
Gain from equity investees	**—**	58,438
Deferred gain on sale of intellectual property	**—**	340
Loss on promissory notes receivable	**(13,000)**	—
Unrealized loss on convertible notes	**(7,341)**	(3,399)
(Loss) gain on long-term investments	**(32,568)**	19,651
Unrealized gain on convertible debentures	**59,414**	48,439
Realized gain on settlement of convertible debentures	**12,452**	—
Legal settlement	**(4,345)**	—
Unrealized loss on financial liabilities	**—**	(1,326)
	$ 11,687	$122,935

During a prior quarter, the Company ceased accounting for its investment in Althea from equity accounting to fair value through profit and loss, and recognized a gain of $24,255 in gain on long-term investments.

27. Gain (loss) on long-term investments

Gain (loss) on long-term investments for the year ended May 31, 2020 is comprised of:

Investment	Proceeds	Opening fair value / cost	Gain (loss) on disposal	Change in fair value	Total
Level 1 on fair value hierarchy					
Althea Group Holdings Ltd.	$ 14,802	$ 7,105	$ 7,697	$ —	**$ 7,697**
National Access Cannabis Corp.	2,532	7,147	(4,615)	—	**(4,615)**
Rapid Dose Therapeutics Inc.	139	228	(89)	—	**(89)**
Fire & Flower Inc.	8,760	13,413	(4,653)	—	**(4,653)**
Long-term investments (Note 13)	—	—	—	(30,908)	**(30,908)**
For the year ended May 31, 2020	26,233	27,893	(1,660)	(30,908)	**(32,568)**

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

28. Earnings per share

The calculation of earnings per share for the year ended May 31, 2020 was based on the net loss of $(84,634) (2019 – $ (16,499)) and a weighted average number of common shares outstanding of 257,914,589 (2019 – 242,763,558) calculated as follows:

	2020	2019
Basic loss per share:		
Net loss for the year	**$ (84,634)**	$ (16,499)
Average number of common shares outstanding during the year	**257,914,589**	242,763,558
Loss per share—basic	**$ (0.33)**	**$ (0.07)**

	2020	2019
Diluted loss per share:		
Net loss for the year	**$ (84,634)**	$ (16,499)
Average number of common shares outstanding during the year	**257,914,589**	242,763,558
"In the money" warrants outstanding during the year	**—**	—
"In the money" options outstanding during the year	**—**	—
	257,914,589	242,763,558
Loss per share—diluted	**$ (0.33)**	**$ (0.07)**

29. Change in non-cash working capital

Change in non-cash working capital is comprised of:

	For the year ended May 31, 2020	2019
Decrease (increase) in:		
Accounts receivable	$ (34,308)	$ 12,458
Other current assets	(19,004)	5,715
Inventory, net of fair value adjustment	(119,678)	(22,151)
Biological assets, net of fair value adjustment	(5,511)	(17,322)
Increase (decrease) in:		
Accounts payable and accrued liabilities	59,765	(10,998)
Income taxes payable	3,688	(882)
Deferred revenue	(20)	11,689
	$(115,068)	$(21,491)

30. Financial risk management and financial instruments

Financial instruments

The Company has classified its financial instruments as described in Note 3.

The carrying values of accounts receivable, prepaids and other current assets, bank indebtedness and accounts payable and accrued liabilities approximate their fair values due to their short periods to maturity.

The Company's long-term debt of $26,745 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, 2020 was $26,714.

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

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, 2020
Financial assets at FVTPL				
Cash and cash equivalents	**$497,222**	$ —	$ —	**$ 497,222**
Convertible notes receivable	—	—	**14,626**	**14,626**
Long-term investments	**15,502**	—	**11,514**	**27,016**
Financial liabilities at FVTPL				
Convertible debentures	—	—	**(270,783)**	**(270,783)**
Outstanding, end of the year	**$512,724**	**$ —**	**$(244,643)**	**$ 268,081**

	Level 1	Level 2	Level 3	May 31, 2019
Financial assets at FVTPL				
Cash and cash equivalents	$550,797	$ —	$ —	$ 550,797
Marketable securities	20,199	—	—	20,199
Convertible notes receivable	—	—	32,230	32,230
Long-term investments	41,803	—	23,119	64,922
Financial liabilities at FVTPL				
Convertible debentures	—	—	(421,366)	(421,366)
Outstanding, end of the year	$612,799	$ —	$(366,017)	$ 246,782

The following table presents the changes in level 3 items for the year ended May 31, 2020:

	Unlisted equity securities	Long-term investments	Convertible debentures	Total
Closing balance May 31, 2019	$ 23,119	$ 32,230	$(421,366)	**$(366,017)**
Acquisitions	605	216	—	**821**
Disposals	—	(10,479)	91,169	**80,690**
Unrealized gain (loss) on fair value	(12,210)	(7,341)	59,414	**39,863**
Closing balance May 31, 2020	**$ 11,514**	**$ 14,626**	**$(270,783)**	**$(244,643)**

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

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, 2020 is the carrying amount of cash and cash equivalents, accounts receivable, prepaids and other current assets, promissory notes receivable and convertible notes receivable. All cash and cash equivalents are placed with major financial institutions.

	Total	0-30 days	31-60 days	61-90 days	90+ days
Trade receivables	$55,796	$42,560	$4,752	$ 398	$8,086
		76%	8%	1%	14%

(b) Liquidity risk

As at May 31, 2020, the Company's financial liabilities consist of bank indebtedness and accounts payable and accrued liabilities, which have contractual maturity dates within one-year, long-term debt, and convertible debentures which have contractual maturities over the next five years.

Aphria maintains a debt service charge covenant on certain loans secured by its Aphria One facilities that is measured at year-end only. The Company was in breach of its debt service ratio loan covenant for the year, as of year-end. The Company was in breach of its debt service ratio loan covenant at year end related to one lender; however, it obtained a waiver from the lender with respect to this breach in the next twelve month period and expects to meet the covenant in the next year. 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 going forward.

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, 2020, management regards liquidity risk to be low.

(c) Currency rate risk

As at May 31, 2020, a portion of the Company's financial assets and liabilities held in United States Dollars ("USD") and Euros consist of cash and cash equivalents, convertible notes receivable, and long-term investments. 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 the functional currency. The Company is exposed to currency rate risk in other comprehensive income, relating to foreign subsidiaries which operate in a foreign currency. 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 cash and cash equivalents. As at May 31, 2020, approximately $297,500 USD ($410,000 CAD) of the Company's cash and cash equivalents was in United States dollars. A 1% change in the foreign exchange rate would result in an unrealized gain or loss of approximately $4,000.

(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.

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

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.

31. Commitments and contingencies

The Company has committed purchase orders outstanding at May 31, 2020 related to capital asset expansion of $21,916, all of which are expected to be paid within the next year.

The following table presents the future undiscounted payment associated with capital asset expansion and lease liabilities as of May 31, 2020:

	Years ending May 31,
2021	$23,530
2022	1,272
2023	1,172
2024	1,109
2025	982
Thereafter	2,193
	$30,258

From time to time, the Company and/or its subsidiaries may become defendants in legal actions arising out of the ordinary course and conduct of its business.

As of May 31, 2020, the Company was served statements of claims in class action lawsuits against the Company and certain of its officers and former officers. These claims relate to alleged misconduct in connection with the Company's acquisitions of LATAM Holdings Inc. ("LATAM") and Nuuvera Inc., and the Company's June 2018 securities offering. At the present time, the representative claimants have been identified and selected in both the U.S. and Canada. The U.S. claims include alleged violations of Section 10(b) of the Exchange Act, Rule 10b-5 under the Exchange Act and Section 20(a) of the Exchange Act. The Canadian claims include alleged statutory and common law misrepresentation and oppression. The Company intends to vigorously defend itself in each of these actions. With respect to the cases commenced in the United States, the Company is self-insured for the costs associated with any award or damages arising from such actions and has entered into indemnity agreements with each of the directors and officers and, subject to certain exemptions, will cover any costs incurred by them in connection with any of the class action claims. With respect to the cases commenced in Canada, the Company's insurance policies may not be sufficient to cover any judgments against the Company. As at May 31, 2020, the Company has not recorded any uninsured amount related to this contingency.

On December 9, 2019, the Company was served with a statement of claim commenced by Emblem Cannabis Corporation ("Emblem") recently acquired by Aleafia Health Inc. in respect of a supply agreement whereby the Company would provide Emblem with certain cannabis product over a period of five years pursuant to the terms of the supply agreement. Emblem has terminated this supply agreement on the basis of, among other things, alleged failure by the Company to provide the requisite cannabis product pursuant to the terms of the supply agreement. Subsequent to year-end the Company entered into a settlement agreement for total consideration of a cash payment of $15,500 and a share payment of $10,000. The Company recorded a loss on the settlement of $4,345 (Note 26) and included an accrual for the payment of $25,500 in accounts payable and accrued liabilities. Subsequent to year-end the Company issued 1,658,375 shares as part of this settlement.

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

32. Segment reporting

Information reported to the Chief Operating Decision Maker ("CODM") for the purpose of resource allocation and assessment of segment performance focuses on the nature of the operations. The Company operates in three segments. 1) cannabis operations, which encompasses the production, distribution and sale of both medical and adult-use cannabis, 2) distribution operations, which encompasses the purchase and resale of products to customers. The distribution operations are carried out through the Company's wholly owned subsidiaries ABP, FL Group and CC Pharma, and 3) businesses under development which encompass operations in which the Company has not received final licensing or has not commenced commercial sales from operations. Factors considered in determining the operating segments include the Company's business activities, the management structure directly accountable to the CODM, availability of discrete financial information and strategic priorities within the organizational structure.

Segment net revenue:

	For the year ended May 31,	
	2020	**2019**
Cannabis operations	**$173,617**	$ 78,853
Distribution operations	**368,897**	157,931
Business under development	**825**	326
Total	**$543,339**	$237,110

Segment net income (loss):

	For the year ended May 31,	
	2020	**2019**
Cannabis operations	**$ (8,289)**	$ (691)
Distribution operations	**(589)**	1,824
Business under development	**(75,756)**	(17,632)
Total	**$(84,634)**	$(16,499)

Geographic net revenue:

	For the year ended May 31,	
	2020	**2019**
North America	**$173,813**	$ 78,853
Europe	**363,666**	154,163
Latin America	**5,860**	4,094
Africa	**—**	—
Total	**$543,339**	$237,110

Geographic capital assets:

	May 31, 2020	**May 31, 2019**
North America	**$519,768**	$471,391
Europe	**61,143**	25,817
Latin America	**6,252**	3,758
Africa	**—**	2,932
Total	**$587,163**	$503,898

Major customers are defined as customers that each individually account for greater than 10% of the Company's annual revenues and greater than 10% of accounts receivable. For the year ended May 31, 2020, the Company did not have a customer that accounted for greater than 10% of the Company's revenue (2019 – nil).

Aphria Inc.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2020 AND NOVEMBER 30, 2019
(Unaudited, expressed in Canadian Dollars, unless otherwise noted)

Aphria Inc.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited - in thousands of Canadian dollars)

	Note	November 30, 2020	May 31, 2020
Assets			
Current assets			
Cash and cash equivalents		**$ 187,997**	$ 497,222
Accounts receivable		**96,177**	55,796
Prepaids and other current assets	**4**	**48,162**	42,983
Inventory	**5**	**321,484**	264,321
Biological assets	**6**	**28,952**	28,341
Current portion of convertible notes receivable	**11**	**9,371**	14,626
		692,143	**903,289**
Capital assets	**8**	**655,114**	587,163
Intangible assets	**9**	**686,440**	363,037
Promissory notes receivable		**3,000**	—
Long-term investments	**12**	**21,815**	27,016
Goodwill	**10**	**752,289**	617,934
		$ 2,810,801	$ 2,498,439
Liabilities			
Current liabilities			
Bank indebtedness	**14**	**$ 5,111**	$ 537
Accounts payable and accrued liabilities	**15**	**254,318**	152,750
Income taxes payable		**16,576**	6,410
Deferred revenue		**—**	902
Current portion of lease liabilities		**1,767**	1,315
Current portion of long-term debt	**16**	**15,210**	8,467
		292,982	170,381
Long-term liabilities			
Lease liabilities		**44,896**	5,828
Long-term debt	**16**	**122,533**	129,637
Convertible debentures	**17**	**358,008**	270,783
Deferred tax liability	**13**	**45,391**	83,468
		863,810	660,097
Shareholders’ equity			
Share capital	**18**	**2,078,343**	1,846,938
Warrants	**19**	**360**	360
Share-based payment reserve		**29,600**	27,721
Accumulated other comprehensive loss		**(211)**	(1,269)
Deficit		**(215,739)**	(61,215)
		1,892,353	1,812,535
Non-controlling interests	**21**	**54,638**	25,807
		1,946,991	1,838,342
		$ 2,810,801	$ 2,498,439

Nature of operations (Note 1),
Commitments and contingencies (Note 32),
Subsequent events (Note 34)
Approved on behalf of the Board:

“Renah Persofsky”	“Irwin Simon”
Signed: Director	Signed: Director

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

Aphria Inc.
Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

	Note	For the three months ended November 30, 2020	2019	For the six months ended November 30, 2020	2019
Net revenue	22	**160,532**	120,600	**306,221**	246,712
Cost of goods sold	23	**116,779**	90,112	**219,136**	188,670
Gross profit before fair value adjustments		**43,753**	30,488	**87,085**	58,042
Fair value adjustment on sale of inventory	5	**30,353**	12,391	**57,556**	19,677
Fair value adjustment on growth of biological assets	6	**(26,092)**	(21,492)	**(85,242)**	(46,645)
Gross profit		**39,492**	39,589	**114,771**	85,010
Operating expenses:					
General and administrative	24	**27,791**	22,076	**56,144**	44,381
Share-based compensation	25	**13,595**	7,563	**17,856**	12,519
Selling		**7,538**	5,662	**14,751**	7,642
Amortization		**5,647**	5,896	**11,056**	10,904
Marketing and promotion		**5,273**	6,592	**11,380**	12,426
Research and development		**279**	672	**428**	1,282
Transaction costs		**22,576**	691	**25,624**	1,426
		82,699	49,152	**137,239**	90,580
Operating loss		**(43,207)**	(9,563)	**(22,468)**	(5,570)
Finance income (expense), net	26	**(6,074)**	(5,006)	**(13,277)**	(10,263)
Non-operating income (expense), net	27	**(89,796)**	4,568	**(107,119)**	24,871
(Loss) income before income taxes		**(139,077)**	(10,001)	**(142,864)**	9,038
Income taxes (recovery)	13	**(18,479)**	(2,072)	**(17,171)**	526
Net (loss) income		**(120,598)**	(7,929)	**(125,693)**	8,512
Other comprehensive (loss) income					
Other comprehensive (loss) income		**(1,418)**	(310)	**1,058**	(1,996)
Comprehensive (loss) income		**$ (122,016)**	$ (8,239)	**$ (124,635)**	$ 6,516
Total comprehensive income (loss) attributable to:					
Shareholders of Aphria Inc.		**(135,224)**	(7,876)	**(153,466)**	7,050
Non-controlling interests	21	**13,208**	(363)	**28,831**	(534)
		$ (122,016)	$ (8,239)	**$ (124,635)**	$ 6,516
Weighted average number of common shares - basic		**290,511,461**	251,833,217	**288,995,810**	251,468,984
Weighted average number of common shares - diluted		**290,511,461**	251,833,217	**288,995,810**	252,427,777
(Loss) income per share - basic	**29**	**$ (0.42)**	$ (0.03)	**$ (0.43)**	$ 0.03
(Loss) income per share - diluted	**29**	**$ (0.42)**	$ (0.03)	**$ (0.43)**	$ 0.03

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

Aphria Inc.

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited - in thousands of Canadian dollars, except share amounts)

	Number of common shares	Share capital (Note 18)	Warrants (Note 19)	Share-based payment reserve	Accumulated other comprehensive loss	Retained earnings	Non-controlling interests (Note 21)	Total
Balance at May 31, 2019	250,989,120	$ 1,655,273	$ 1,336	$36,151	$ (119)	$12,103	$ 28,409	$ 1,733,153
Share issuance - options exercised	1,099,858	6,571	—	(2,470)	—	—	—	4,101
Share issuance - RSUs exercised	568,488	3,803	—	—	—	—	—	3,803
Share issuance - warrants exercised	474,545	712	—	—	—	—	—	712
Cancelled shares	(500,000)	(615)	—	—	—	615	—	—
Share-based payments	—	—	—	7,061	—	—	—	7,061
Comprehensive income (loss) for the period	—	—	—	—	(1,996)	9,046	(534)	6,516
Balance at November 30, 2019	252,632,011	$ 1,665,744	$ 1,336	$40,742	$ (2,115)	$21,764	$ 27,875	$ 1,755,346

	Number of common shares	Share capital (Note 18)	Warrants (Note 19)	Share-based payment reserve	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Non-controlling interests (Note 21)	Total
Balance at May 31, 2020	286,520,265	$1,846,938	$ 360	$27,721	$ (1,269)	$ (61,215)	$ 25,807	$1,838,342
Share issuance - legal settlement	2,259,704	12,963	—	—	—	—	—	12,963
Share issuance - equity financing	17,432,879	128,459	—	—	—	—	—	128,459
Share issuance - SweetWater acquisition	9,823,183	85,796	—	—	—	—	—	85,796
Share issuance - options exercised	137,695	1,023	—	(911)	—	—	—	112
Share issuance - RSUs exercised	522,733	3,164	—	—	—	—	—	3,164
Share-based payments	—	—	—	2,790	—	—	—	2,790
Comprehensive income (loss) for the period	—	—	—	—	1,058	(154,524)	28,831	(124,635)
Balance at November 30, 2020	316,696,459	$2,078,343	$ 360	$29,600	$ (211)	$(215,739)	$ 54,638	$1,946,991

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

Aphria Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited - in thousands of Canadian dollars)

	Note	For the six months ended November 30, 2020	2019
Cash used in operating activities:			
Net (loss) income for the period		**$(125,693)**	$ 8,512
Adjustments for:			
Future income taxes	**13**	**(37,208)**	(2,175)
Fair value adjustment on sale of inventory	**5**	**57,556**	19,677
Fair value adjustment on growth of biological assets	**6**	**(85,242)**	(46,645)
Loss on marketable securities		**—**	338
Unrealized foreign exchange loss		**8,245**	7,688
Amortization	**8,9**	**29,252**	21,531
Unrealized loss on convertible notes receivable	**11**	**468**	6,939
Transaction costs associated with business acquisitions		**17,233**	—
Other non-cash items		**(166)**	14
Share-based compensation	**25**	**17,856**	12,519
Loss on long-term investments	**28**	**1,883**	22,741
Loss (gain) on convertible debentures		**87,225**	(63,285)
Change in non-cash working capital	**30**	**(37,342)**	(52,322)
		(65,933)	(64,468)
Cash provided by (used in) financing activities:			
Share capital issued, net of cash issuance costs		**127,174**	—
Proceeds from warrants and options exercised		**112**	8,616
Proceeds from long-term debt		**2,332**	79,400
Repayment of long-term debt		**(2,740)**	(8,285)
Repayment of lease liabilities		**(697)**	(542)
Increase in bank indebtedness		**4,574**	2,443
		130,755	81,632
Cash used in investing activities:			
Proceeds from disposal of marketable securities		**—**	19,861
Investment in capital and intangible assets		**(37,030)**	(66,050)
Proceeds from disposal of capital and intangible assets		**8,193**	886
Promissory notes advances		**(3,000)**	—
Repayment of convertible notes receivable	**11**	**5,000**	—
Proceeds from disposal of long-term investments and equity investees	**28**	**3,318**	16,515
Net cash paid on business acquisitions		**(341,751)**	(34,722)
		(365,270)	(63,510)
Effect of foreign exchange on cash and cash equivalents		**(8,777)**	(6,757)
Net decrease in cash and cash equivalents		**(309,225)**	(53,103)
Cash and cash equivalents, beginning of period		**497,222**	550,797
Cash and cash equivalents, end of period		**$ 187,997**	$497,694
Cash and cash equivalents are comprised of:			
Cash in bank		**$ 49,671**	$497,491
Short-term deposits		**138,326**	203
Cash and cash equivalents		**$ 187,997**	$497,694

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

1. Nature of operations

Aphria Inc. (the "Company" or "Aphria") is a leading global cannabis company inspiring and empowering the worldwide community to live their very best life. The Company exists under the laws of the *Business Corporations Act* (Ontario), is licensed to produce and sell medical and adult-use cannabis, cannabis-derived extracts, and derivative cannabis products in Canada under the provisions of *The Cannabis Act.*

Broken Coast Cannabis Ltd. ("Broken Coast") is a wholly-owned subsidiary of the Company licensed to produce and sell cannabis under *The Cannabis Act.* 1974568 Ontario Ltd. ("Aphria Diamond") is a 51% majority-owned subsidiary of the Company. In November 2019, Aphria Diamond received its cultivation licence under the provisions of *The Cannabis Act*.

SweetWater Brewing Company, LLC ("SweetWater") is a wholly-owned subsidiary operating in the beverage alcohol industry in the United States.

The registered office of the Company is located at 1 Adelaide Street East, Suite 2310, Toronto, Ontario.

The Company's common shares are listed under the symbol "APHA" on the Toronto Stock Exchange ("TSX") in Canada and the National Association of Securities Dealers Automated Quotations Exchange ("NASDAQ") in the United States.

These condensed interim consolidated financial statements were approved by the Company's Board of Directors on January 12, 2020.

2. Basis of preparation

(a) Statement of compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting". These condensed interim consolidated financial statements do not include all notes of the type normally included within the annual financial report and should be read in conjunction with the audited financial statements of the Company for the year ended May 31, 2020, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and Interpretations of the IFRS Interpretations Committee.

(b) Basis of measurement

These condensed interim 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

All figures presented in the consolidated financial statements are reflected in Canadian dollars; however, the functional currency of the Company includes the Canadian dollar, United States dollar and the Euro.

Foreign currency transactions are translated to the respective functional currencies of the Company's entities at the exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate applicable at the statement of financial position date. Non-monetary items carried at historical cost denominated in foreign currencies are translated to the functional currency at the date of the transactions. Non-monetary items carried at fair value denominated in foreign currencies are translated to the functional currency at the date when the fair value was determined. Realized and unrealized exchange gains and losses are recognized through profit and loss.

On consolidation, the assets and liabilities of foreign operations reported in their functional currencies are translated into Canadian dollars, the Group's presentation currency, at period-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. The Company and all of its subsidiaries' functional currency is Canadian dollars, with the exception of Sweet Water Brewing Company, LLC and CC Pharma GmbH whose functional currency is the United States Dollar and Euro respectively.

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

(d) Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The following is a list of the Company's operating subsidiaries:

Subsidiaries	Jurisdiction of incorporation	Ownership interest
Broken Coast Cannabis Ltd.	British Columbia, Canada	100%
SweetWater Brewing Company, LLC	United States of America	100%
ARA – Avanti Rx Analytics Inc.	Ontario, Canada	100%
FL Group S.r.l.	Italy	100%
ABP, S.A.	Argentina	100%
Aphria Germany GmbH	Germany	100%
Aphria RX GmbH	Germany	100%
CC Pharma GmbH	Germany	100%
CC Pharma Research and Development GmbH	Germany	100%
Aphria Wellbeing GmbH	Germany	100%
Marigold Projects Jamaica Limited	Jamaica	95%[1]
ASG Pharma Ltd.	Malta	100%
ColCanna S.A.S.	Colombia	90%
CC Pharma Nordic ApS	Denmark	75%
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.

3. Significant accounting policies

These condensed interim consolidated financial statements have been prepared following the same accounting policies used in the preparation of the audited financial statements of the Company for the year ended May 31, 2020. For comparative purposes, the Company has reclassified certain immaterial items on the condensed interim consolidated statements of financial position and the condensed interim consolidated statements of income (loss) and comprehensive income (loss) to conform with the current period's presentation.

1 The Company holds 49% of the issued and outstanding shares of Marigold Projects Jamaica Limited through wholly-owned subsidiary Marigold Acquisitions Inc. The Company holds rights through a licensing agreement to 95% of the results of operations of Marigold Projects Jamaica Limited.

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

4. Prepaids and other current assets

Prepaids and other current assets are comprised of:

	November 30, 2020	May 31, 2020
Sales tax receivable	**$ 2,938**	$11,670
Prepaid assets	**30,975**	23,365
Other	**14,249**	7,948
	$ 48,162	$42,983

5. Inventory

Inventory is comprised of:

	Capitalized cost	Fair value adjustment	November 30, 2020	May 31, 2020
Cannabis	**$ 106,058**	**$ 104,940**	**$ 210,998**	$151,715
Cannabis trim	**7,154**	**—**	**7,154**	4,023
Cannabis oil	**25,968**	**1,279**	**27,247**	43,082
Cannabis vapes	**7,784**	**223**	**8,007**	7,551
Packaging and other inventory items	**23,090**	**—**	**23,090**	22,609
Beverage alcohol inventory	**6,622**	**—**	**6,622**	—
Distribution inventory	**38,366**	**—**	**38,366**	35,341
	$215,042	**$106,442**	**$ 321,484**	$264,321

The Company incurred cannabis costs of $36,744 and $68,705 (2019 - $14,629 and $30,083) for the three and six months ended November 30, 2020. The Company recorded $30,353 and $57,556 (2019 - $12,391 and $19,677) of fair value adjustments on the growth of biological assets included in inventory sold for the three and six months ended November 30, 2020.

The Company's capitalized cost increased by $8,669 and $29,267 for the three and six months ended November 30, 2020. The increase in capitalized costs is made up of the following: cannabis related inventory increased by $4,599 and $19,620, beverage alcohol inventory increased by $6,622 and $6,622 and distribution inventory increased (decreased) by $(2,552) and $3,025 for the three and six months ended November 30, 2020.

6. Biological assets

Biological assets are comprised of:

	Amount
Balance at May 31, 2019	$ 18,725
Changes in fair value less costs to sell due to biological transformation	115,255
Production costs capitalized	131,561
Transferred to inventory upon harvest	(237,200)
Balance at May 31, 2020	$ 28,341
Changes in fair value less costs to sell due to biological transformation	85,242
Production costs capitalized	72,477
Transferred to inventory upon harvest	(157,108)
Balance at November 30, 2020	**$ 28,952**

The Company values 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 cannabis to be between $2.40 and $2.90 per gram, upon harvest for greenhouse produced cannabis (May 31, 2020 – $3.00 per gram) and between $3.50 and $4.00 per gram (May 31, 2020 - $4.00 per gram), upon harvest for indoor produced cannabis. The Company has determined the fair value increment on cannabis trim to be $nil per gram (May 31, 2020 - $0.01 per gram).

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 $26,092 and $85,242 during the three and six months ended November 30, 2020 (2019 - $21,492 and $46,645).

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 period, the Company amended the fair value based on an expected lower average selling price with the release of the Company’s economy brands, which the Company is using to create demand for lower potency harvested cannabis.

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

- The harvest yield is between 20 grams and 60 grams per plant;
- The selling price is between $1.50 and $6.50 per gram of cannabis;
- 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 $1.50 per gram;

Sales prices 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 $822 (May 31, 2020 - $682) and inventory decreasing by $12,312 (May 31, 2020 - $9,895)
- Harvest yield per plant – a decrease in the harvest yield per plant of 5% would result in the biological asset value decreasing by $490 (May 31, 2020 - $439)

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.

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

7. Related party transactions

Key management personnel compensation for the three and six months ended November 30, 2020 and 2019 was comprised of:

	For the three months ended November 30,		For the six months ended November 30,	
	2020	2019	**2020**	2019
Salaries	**$ 3,361**	$ 1,850	**$ 6,980**	$ 3,161
Amounts charged to share-based payment reserve in respect of share-based compensation	**181**	827	**1,173**	1,118
Deferred share units vested in the year	**493**	286	**1,365**	586
Deferred share units revalued in the year	**136**	(343)	**250**	(342)
Restricted share units vested in the year	**3,599**	373	**5,140**	143
Restricted share units revalued in the year	**5,237**	(200)	**5,485**	17
	$ 13,008	$ 2,793	**$ 20,393**	$ 4,683

Directors and officers of the Company control 0.10% or 332,377 of the voting shares of the Company.

As at November 30, 2020, a balance paid to an officer and director of the Company of $445 is included within prepaid and other current assets. During the period, the Company issued 150,000 deferred share units to directors of the Company under the terms of the Company's Omnibus Long-Term Incentive Plan.

During the period, the Company issued 866,190 restricted share units to officers and directors of the Company under the terms of the Company's Omnibus Long-Term Incentive Plan, all of which vest over two years.

During the period, the Company issued 50,000 stock options to officers of the Company, under the terms of the Company's Omnibus Long-Term Incentive Plan.

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

8. Capital assets

	Land	Production facility	Equipment	Leasehold improvements	Construction in process	Right-of-use assets	**Total capital assets**
Cost							
At May 31, 2019	$33,153	$232,468	$ 79,627	$ 1,236	$ 174,182	$ —	**$520,666**
IFRS 16 Adjustment	—	—	—	—	—	8,606	**8,606**
Additions	—	4,480	21,034	1,240	101,284	677	**128,715**
Transfers	72	37,491	108,730	16,081	(162,414)	40	**—**
Disposals	—	—	(7,157)	—	(5,559)	—	**(12,716)**
Impairment	(15)	(3,433)	(46)	(119)	(2,147)	(840)	**(6,600)**
Effect of foreign exchange	—	14	22	—	114	107	**257**
At May 31, 2020	33,210	271,020	202,210	18,438	105,460	8,590	**638,928**
Business Acquisition	—	—	13,502	523	2,017	39,992	**56,034**
Additions	263	3,221	3,921	260	26,173	225	**34,063**
Transfers	—	47,475	399	—	(47,825)	(49)	**—**
Effect of foreign exchange	5	48	13	(1)	77	4	**146**
At November 30, 2020	**$33,478**	**$321,764**	**$220,045**	**$ 19,220**	**$ 85,902**	**$48,762**	**$729,171**
Accumulated depreciation							
At May 31, 2019	$ —	$ 7,660	$ 8,919	$ 189	$ —	$ —	**$ 16,768**
Amortization	—	13,584	19,508	450	—	1,455	**34,997**
At May 31, 2020	—	21,244	28,427	639	—	1,455	**51,765**
Amortization	—	8,589	12,768	215	—	720	**22,292**
At November 30, 2020	**$ —**	**$ 29,833**	**$ 41,195**	**$ 854**	**$ —**	**$ 2,175**	**$ 74,057**
Net book value							
At May 31, 2019	$33,153	$224,808	$ 70,708	$ 1,047	$ 174,182	$ —	**$503,898**
At May 31, 2020	$33,210	$249,776	$173,783	$ 17,799	$ 105,460	$ 7,135	**$587,163**
At November 30, 2020	**$33,478**	**$291,931**	**$178,850**	**$ 18,366**	**$ 85,902**	**$46,587**	**$655,114**

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

9. Intangible assets

	Customer relationships	Corporate website	Licences, permits & applications	Non-compete agreements	Intellectual property, trademarks & brands	**Total intangible assets**
Cost						
At May 31, 2019	$ 33,030	$ 905	$ 275,880	$ 3,330	$ 98,530	**$ 411,675**
Additions	112	557	2,893	2	1,944	**5,508**
Impairment	—	—	(19,363)	—	—	**(19,363)**
Effect of foreign exchange	(540)	(5)	68	(55)	(358)	**(890)**
At May 31, 2020	32,602	1,457	259,478	3,277	100,116	**396,930**
Business acquisition	201,547	—	—	13,003	119,628	**334,178**
Additions	—	46	2,261	—	885	**3,192**
Disposals	—	—	—	—	(8,193)	**(8,193)**
Effect of foreign exchange	541	5	144	41	455	**1,186**
At November 30, 2020	**$ 234,690**	**$ 1,508**	**$ 261,883**	**$ 16,321**	**$ 212,891**	**$ 727,293**
Accumulated depreciation						
At May 31, 2019	$ 6,003	$ 417	$ 859	$ 1,490	$ 10,850	**$ 19,619**
Amortization	6,040	437	176	1,348	6,273	**14,274**
At May 31, 2020	12,043	854	1,035	2,838	17,123	**33,893**
Amortization	3,004	147	245	350	3,214	**6,960**
At November 30, 2020	**$ 15,047**	**$ 1,001**	**$ 1,280**	**$ 3,188**	**$ 20,337**	**$ 40,853**
Net book value						
At May 31, 2019	$ 27,027	$ 488	$ 275,021	$ 1,840	$ 87,680	**$ 392,056**
At May 31, 2020	$ 20,559	$ 603	$ 258,443	$ 439	$ 82,993	**$ 363,037**
At November 30, 2020	**$ 219,643**	**$ 507**	**$ 260,603**	**$ 13,133**	**$ 192,554**	**$ 686,440**

Included in Licences, permits & applications is $254,216 of indefinite lived intangible assets. During the period, the Company disposed of $8,193 of trademarks for proceeds of $8,193.

10. Business Acquisition

Acquisition of SW Brewing Company, LLC

On November 25, 2020, the Company, through its wholly-owned subsidiary Four Twenty Corpora on, completed the purchase of all the shares of SW Brewing Company, LLC which is the holding company of 100% of the common shares of SweetWater. The purchase price consisted of cash consideration of $256,559 USD ($333,604 CAD), share consideration of 9,823,183 shares, and additional cash consideration of up to $66,000 USD contingent on SweetWater achieving specified EBITDA targets. The fair value of the shares on the date the Company closed the acquisition was $85,796, the fair value of the contingent consideration on the date the Company closed the acquisition was $58,959 USD ($76,664 CAD).

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 preliminary estimated fair value of the assets acquired and the liabilities assumed at the effective acquisition date.

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

	Amount
Consideration	
Cash	$333,604
Shares	85,796
Contingent consideration	76,664
Total consideration	**$496,064**
Net assets acquired	
Current assets	
Cash and cash equivalents	9,086
Accounts receivable	4,954
Prepaids and other current assets	894
Inventory	6,632
Long-term assets	
Capital assets	56,034
Customer relationships	201,547
Intellectual property, trademarks & brands	119,628
Non-compete agreements	13,003
Goodwill	134,097
Total assets	**545,875**
Current liabilities	
Accounts payable and accrued liabilities	9,819
Current portion of lease liabilities	564
Long-term liabilities	
Lease liabilities	39,428
Total liabilities	**49,811**
Total net assets acquired	**$496,064**

Revenue and net income and comprehensive net income for the Company would have been higher by approximately $20,000 and $6,000 for the three months ended November 30, 2020, if the acquisition had taken place on June 1, 2020.

Revenue and net income and comprehensive net income for the Company would have been higher by approximately $40,000 and $16,000 for the six months ended November 30, 2020 if the acquisition had taken place on June 1, 2020. In connection with this transaction, the Company expensed transaction costs of $15,732

Goodwill is comprised of:

	November 30, 2020	May 31, 2020
CannWay Pharmaceuticals Inc. acquisition	**$ 1,200**	$ 1,200
Broken Coast Cannabis Ltd. acquisition	**146,091**	146,091
Nuuvera Corp. acquisition	**377,221**	377,221
LATAM Holdings Inc. acquisition	**87,188**	87,188
CC Pharma GmbH acquisition	**6,146**	6,146
SweetWater acquisition	**134,097**	—
Effect of foreign exchange	**346**	88
	$ 752,289	$617,934

During the period ended November 30, 2020, the Company completed its quarterly assessment of indicators of impairment of the Company’s cash-generating units (“CGUs”). The Company determined there were no indicators of impairment and did not estimate the recoverable amount of the CGUs.

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

11. Convertible notes receivable

	November 30 2020	May 31, 2020
HydRx Farms Ltd. (d/b/a Scientus Pharma)	$ —	$ 6,000
10330698 Canada Ltd. (d/b/a Starbuds)	**5,348**	4,728
High Tide Inc.	**4,023**	3,898
	9,371	14,626
Deduct - current portion	**(9,371)**	(14,626)
	$ —	$ —

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

On August 14, 2017, Aphria purchased $11,500 in secured convertible debentures of Scientus Pharma (“SP”). The convertible debentures bore interest at 8%, paid semi-annually, matured in two years and included the right to convert the debentures into common shares of SP at $2.75 per common share at any time before maturity. During the period, the Company settled the note receivable for $5,000.

10330698 Canada Ltd. (d/b/a Starbuds)

On December 28, 2018, Aphria purchased $5,000 in secured convertible debentures of Starbuds. The convertible debentures bear interest at 8.5% per annum accruing daily due until maturity on December 28, 2020. The debentures are secured against the assets of Starbuds. The debentures and any accrued and unpaid interest are convertible into common shares for $0.50 per common share and matured on December 28, 2020.

As at November 30, 2020, the fair value of the Company’s secured convertible debentures was $5,348 (May 31, 2020 - $4,728), which includes $429 (May 31, 2020 - $216) of accrued interest. The remaining change resulted in a fair value gain (loss) for the three and six months ended November 30, 2020 of $224 and $407 (2019 - $(1,413) and (1,025)).

High Tide Inc.

On April 10, 2019, Aphria purchased $4,500 in unsecured convertible debentures of High Tide Inc. (“High Tide”). The convertible debentures bear interest at 10% per annum, payable annually up front in common shares of High Tide based on the 10-day volume weighted average price (the “Debentures”). The debentures mature on April 10, 2021 and are convertible into common shares of High Tide at a price of $0.75 at the option of the holder. In addition to the debentures, the Company received 6,000,000 warrants in High Tide as part of the purchase of the unsecured convertible debentures (Note 12).

As at November 30, 2020, the fair value of the unsecured convertible debentures was $4,023 (May 31, 2020 - $3,898), which resulted in a fair value gain (loss) for the three and six months ended November 30, 2020 of $66 and $125 (2019 - $(252) and (174)).

Convertible notes receivable

The unrealized gain (loss) on convertible notes receivable recognized in the results of operations amounts to $290 and $(468) for the three and six months ended November 30, 2020 (2019 - $(8,094) and $(6,939)).

The fair value was determined using the Black-Scholes option pricing model using the following assumptions: the risk-free rate of 1.25%; 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.

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

12. Long-term investments

	Cost May 31, 2020	Fair value May 31, 2020	Investment	Divesture/ Transfer	Subtotal November 30, 2020	Change in fair value	Fair value November 30, 2020
Level 1 on fair value hierarchy							
Tetra Bio-Pharma Inc.	19,057	5,784	—	—	5,784	(942)	**4,842**
Aleafia Health Inc.	10,000	3,320	—	(3,320)	—	—	**—**
Rapid Dose Therapeutics Inc.	5,189	1,730	—	—	1,730	346	**2,076**
Fire & Flower Inc.	389	237	—	(237)	—	—	**—**
High Tide Inc.	450	165	—	—	165	14	**179**
Althea Group Holdings Ltd.	2,206	4,266	—	—	4,266	551	**4,817**
	37,291	15,502	—	(3,557)	11,945	(31)	**11,914**
Level 3 on fair value hierarchy							
Resolve Digital Health Inc.	718	—	—	—	—	—	**—**
Resolve Digital Health Inc.	282	—	—	—	—	—	**—**
Green Acre Capital Fund I	2,000	2,373	—	—	2,373	(173)	**2,200**
Weekend Holdings Corp.	1,890	1,379	—	—	1,379	(80)	**1,299**
IBBZ Krankenhaus GmbH	1,956	1,993	—	—	1,993	(1,372)	**621**
Greenwell Brands GmbH	152	155	—	—	155	2	**157**
HighArchy Ventures Ltd.	9,995	4,997	—	—	4,997	—	**4,997**
Schroll Medical ApS	605	617	—	—	617	10	**627**
	17,598	11,514	—	—	11,514	(1,613)	**9,901**
	54,889	27,016	—	(3,557)	23,459	(1,644)	**21,815**

Tetra Bio-Pharma Inc.

The Company owns 26,900,000 common shares and 6,900,000 warrants at a cost of $19,057, with a fair value of $4,842 as at November 30, 2020. Each warrant is exercisable at $1.29 per warrant expiring November 1, 2021.

Aleafia Health Inc. (formerly Emblem Corp.) (“Aleafia”)

During the period, the Company sold 5,823,831 common shares in Aleafia, for proceeds of $3,066 resulting in a loss of $254 (Note 28).

Rapid Dose Therapeutics Inc. (“RDT”)

The Company owns 6,918,500 common shares, for a total cost of $5,189, with a fair value of $2,076 as at November 30, 2020.

Fire & Flower Inc.

During the period, the Company sold 334,525 common shares, for proceeds of $252 resulting in a gain of $15 (Note 28).

High Tide Inc.

The Company owns 943,396 common shares and 6,000,000 warrants in High Tide Inc. at a cost of $450, with a fair value of $179 as at November 30, 2020. Each warrant is exercisable at $0.85 per warrant expiring April 18, 2021.

Althea Group Holdings Ltd. (“Althea”)

The Company owns 12,250,000 common shares of Althea at a cost of $2,348 AUD ($2,206 CAD) with a fair value of $5,022 AUD ($4,817 CAD) as at November 30, 2020. Subsequent to quarter-end, the Company sold the remaining shares in Althea for proceeds of $5,022 AUD.

Resolve Digital Health Inc. (“Resolve”)

The Company owns 2,200,026 common shares and 2,200,026 warrants in Resolve at a total cost of $1,000, with a fair value of $nil as at November 30, 2020. The Company determined the fair value of its investment based on its net realizable value. Each warrant is exercisable at $0.65 per warrant expiring December 1, 2021.

Green Acre Capital Fund I

The Company invested $2,000 to Green Acre Capital Fund I. The Company determined the fair value of its investment, based on its proportionate share of net assets, to be $2,200 as at November 30, 2020. The Company has received $1,560 return of capital since its initial contribution.

Weekend Holdings Corp. (formerly Green Tank Holdings Corp.)

The Company owns 2,040,218 shares in Weekend Holdings Corp. for a total cost of $1,420 USD ($1,890 CAD), with a fair value of $1,000 USD ($1,299 CAD) as at November 30, 2020. The Company determined the fair value of its investment based on its net realizable value. The Company recognized a loss from the change in fair value of $80 due to changes in the foreign exchange rate.

IBBZ Krankenhaus GmbH Klinik Hygiea (“Krankenhaus”)

The Company owns 25.1% of 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. Subsequent to quarter end, the Company sold its ownership of Krankenhaus for €400. The Company determined that the fair value of its investment, based on its recoverable value. The Company recognized a loss from the change in fair value of $1,372.

Greenwell Brands GmbH (“Greenwell”)

In September 2018, the Company entered into an investment and shareholder agreement with Greenwell for the purchase of 1,250 common shares, for a total cost of €100 ($152 CAD). The Company determined that the fair value of its investment, based on the most recent financing at the same price, is equal to its carrying value. The Company recognized a gain from the change in fair value of $2 due to changes in the foreign exchange rate.

HighArchy Ventures Ltd. (“**HighArchy**”)

The Company owns 9,453,168 shares, and has an option to re-acquire control of 10,536,832 shares in HighArchy for a total cost of $9,995, with a fair value of $4,997 as at November 30, 2020. The Company determined the fair value of its investment based on its net realizable value.

Schroll Medical ApS

The Company has contributed capital of €403 ($605 CAD) and owns 3,000 shares in Schroll Medical ApS. The Company determined that the fair value of its investment, based on the most recent financing at the same price, is equal to its carrying value. The Company recognized a gain from the change in fair value of $10 due to changes in the foreign exchange rate.

(Unaudited- in thousands of Canadian dollars, except share and per share amounts)

13. Income taxes and deferred income taxes

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

	For the six months ended November 30, 2020	2019
Net (loss) income before income taxes (recovery)	**$(142,864)**	$ 9,038
Statutory rate	**26.5%**	26.5%
Expected income tax (recovery) at combined basic federal and provincial tax rate	**(37,859)**	2,395
Effect on income taxes of:		
Foreign tax differential	**(341)**	53
Permanent differences	**159**	295
Non-deductible share-based compensation and other expenses	**4,732**	3,246
Non-taxable portion of loss (gains)	**13,715**	(6,535)
Other	**979**	475
Tax assets not recognized	**1,444**	597
	$ (17,171)	$ 526
Income tax expense (recovery) is comprised of:		
Current	**$ 20,037**	$ 2,701
Future	**(37,208)**	(2,175)
	$ (17,171)	$ 526

The following table summarized the movement in deferred tax:

	Amount
Balance at May 31, 2019	$ 87,633
Future income tax recovery	(3,682)
Income tax recovery on share issuance costs	(483)
Balance at May 31, 2020	$ 83,468
Future income tax recovery	(37,208)
Income tax recovery on share issuance costs	(869)
Balance at November 30, 2020	**$ 45,391**

The following table summarizes the components of deferred tax:

	November 30, 2020	May 31, 2020
Deferred tax assets		
Non-capital loss carry forward	**$ 81,233**	$ 40,792
Capital loss carry forward	**2,082**	2,556
Share issuance and financing fees	**7,005**	6,924
Unrealized loss	**1,704**	—
Other	**3,467**	2,483
Deferred tax liabilities		
Net book value in excess of undepreciated capital cost	**(16,492)**	(11,523)
Intangible assets in excess of tax costs	**(93,531)**	(95,928)
Unrealized gain	**—**	(5,592)
Biological assets and inventory in excess of tax costs	**(30,859)**	(23,180)
Net deferred tax liabilities	**$ (45,391)**	$(83,468)

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

14. 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 at November 30, 2020, 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 Street West, Leamington, Ontario and a first ranking position on a general security agreement.

The Company's subsidiary, CC Pharma, has two operating lines of credit for €3,500 each, which bear interest at Euro Over Night Index Average plus 1.79% and Euro Interbank Offered Rate plus 3.682% . As at November 30, 2020, a total of €3,286 ($5,110 CAD) was drawn down from the available credit of €7,000. The operating lines of credit are secured by a first charge on the inventory held by CC Pharma.

15. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of:

	November 30, 2020	May 31, 2020
Trade payables	**$ 81,411**	$ 56,749
Contingent consideration	**76,664**	—
RSU and DSU accruals	**19,880**	3,758
Other accruals	**76,363**	92,243
	$ 254,318	$152,750

The contingent consideration is a fair value measurement and as such is carried at fair value. The fair value has been determined by discounting future expected cash outflows at a discount rate of 5%. The inputs into the future expected cash outflows are level 3 on the fair value hierarchy and are subject to volatility and uncertainty, which could significantly affect the fair value of the contingent consideration in future periods.

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

16. Long-term debt

	November 30, 2020	May 31, 2020
Credit facility - $80,000 - Canadian prime interest rate plus an applicable margin, 3- year term, with a 10-year amortization, repayable in blended monthly payments, due in November 2022	**$ 80,000**	$ 80,000
Term loan - $25,000 - Canadian Five Year Bond interest rate plus 2.73% with a minimum 4.50%, 5 year term, with a 15-year amortization, repayable in blended monthly payments, due in July 2023	**17,821**	18,241
Term loan - $25,000 - 3.95%, compounded monthly, 5 year term with a 15-year amortization, repayable in equal monthly instalments of $188 including interest, due in April 2022	**21,386**	21,975
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	**770**	830
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	**3,167**	3,239
Vendor take-back mortgage - $2,850 - 6.75%, 5-year term, repayable in equal monthly instalments of $56 including interest, due in June 2021	**438**	701
Term loan - €5,000 - Euro Interbank Offered Rate + 1.79%, 5-year term, repayable in quarterly instalments of €250 plus interest, due in December 2023	**5,054**	5,740
Term loan - €5,000 - Euro Interbank Offered Rate + 2.68%, 5-year term, repayable in quarterly instalments of €250 plus interest, due in December 2023	**5,054**	5,740
Term loan - €1,500 - Euro Interbank Offered Rate + 2.00%, 5-year term, repayable in quarterly instalments of €98 including interest, due in April 2025	**2,332**	2,296
Term loan - €1,500 - Euro Interbank Offered Rate + 2.00%, 5-year term, repayable in quarterly instalments of €98 including interest, due in June 2025	**2,332**	—
	138,354	138,762
Deduct - unamortized financing fees	**(611)**	(658)
- principal portion included in current liabilities	**(15,210)**	(8,467)
	$ 122,533	$129,637

Total long-term debt repayments are as follows:

Next 12 months	**$ 15,210**
2 years	**33,143**
3 years	**85,647**
4 years	**2,488**
5 years	**933**
Thereafter	**933**
Balance of obligation	**$138,354**

The credit facility of $80,000 was entered into on November 29, 2019 by 51% owned subsidiary Aphria Diamond and is secured by a first charge on the property at 620 County Road 14, Leamington, Ontario, owned by Aphria Diamond, and a guarantee from Aphria Inc. Principal payments start on the credit facility in March 2021.

The term loan of $17,821 was entered into on July 27, 2018 and is secured by a first charge on the property at 223, 231, 239, 265, 269, 271 and 275 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 August 2018. The effective interest rate during the year was 4.68%.

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

The term loan of $21,386 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 $770 and mortgage payable of $3,167 were entered into on July 22, 2016 and are secured by a first charge on the property at 265 Talbot Street West, Leamington, Ontario and a first position on a general security agreement.

The vendor take-back mortgage payable of $438 was entered into on June 30, 2016 in conjunction with the acquisition of the property at 265 Talbot Street West. The mortgage is secured by a second charge on the property at 265 Talbot Street West, Leamington, Ontario.

During the period, the Company entered into a term loan for €1,500 ($2,332 CAD) through wholly-owned subsidiary CC Pharma. The term loans for €9,500 ($14,772 CAD) are held through wholly-owned subsidiary CC Pharma. These term loans are secured against the distribution inventory held by CC Pharma.

17. Convertible debentures

	November 30, 2020	May 31, 2020
Opening balance	**$ 270,783**	$421,366
Debt settlement	**—**	(91,169)
Fair value adjustment	**87,225**	(59,414)
Closing balance	**$ 358,008**	$270,783

The unsecured convertible debentures were entered into in April 2019, in the principal amount of $350,000 USD, are due in five years from issuance (the "Notes"). The Notes bear interest at a rate of 5.25% per annum, payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2019. The Notes are an unsecured obligation and ranked senior in right of payment to all indebtedness that is expressly subordinated in right of payment to the Notes. The Notes will rank equal in right of payment with all liabilities that are not subordinated. The Notes are effectively junior to any secured indebtedness to the extent of the value of the assets securing such indebtedness.

Holders of the Notes may convert all or any portion of their Notes, in multiples of $1 USD principal amount, at their option at any time between December 1, 2023 to the maturity date. The initial conversion rate for the Notes will be 106.5644 common shares of Aphria per $1 USD principal amount of Notes, which will be settled in cash, common shares of Aphria or a combination thereof, at Aphria's election. This is equivalent to an initial conversion price of approximately $9.38 per common share, subject to adjustments in certain events. In addition, holders of the Notes may convert all or any portion of their Notes, in multiples of $1 USD principal amount, at their option at any time preceding December 1, 2023, if:

(a) the last reported sales price of the common shares for at least 20 trading days during a period of 30 consecutive trading days immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

(b) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price per $1 USD principal amount of the Notes for each trading day of the measurement period is less than 98% of the product of the last reported sale price of the Company's common shares and the conversion rate on each such trading day;

(c) the Company calls any or all of the Notes for redemption or;

(d) upon occurrence of specified corporate event.

The Company may not redeem the Notes prior to June 6, 2022, except upon the occurrence of certain changes in tax laws. On or after June 6, 2022, the Company may redeem for cash all or part of the Notes, at its option, if the last reported sale price of the Company's common shares has been at least 130% of the conversion price then in effect for at least 20 trading days during any 30 consecutive trading day period ending on and including trading day immediately preceding the date on which the Company provides notice of redemption. The redemption of Notes will be equal to 100% of the principal amount plus accrued and unpaid interest to, but excluding, the redemption date.

As at November 30, 2020 there was $259,240 USD principal outstanding (May 31, 2020 - $259,240 USD).

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

18. Share capital

The Company is authorized to issue an unlimited number of common shares. As at November 30, 2020, the Company has issued 316,696,459 shares.

Common Shares	Number of shares	Amount
Balance at May 31, 2020	286,520,265	$1,846,938
Legal settlement	2,259,704	12,963
Equity financing	17,432,879	128,459
SweetWater acquisition	9,823,183	85,796
Options exercised	137,695	1,023
RSUs exercised	522,733	3,164
	316,696,459	**$2,078,343**

a) In June 2020 and September 2020, the Company issued 1,658,375 and 601,329 shares as part of legal settlements;

b) In November 2020, the Company completed its at-the-market financing for net proceeds of $128,459 and issued 17,432,879 shares.

c) In November 2020, the Company completed the acquisition of SweetWater (Note 10) in which it issued 9,823,183 shares.

d) Throughout the period, 48,998 shares were issued from the exercise of stock options with exercise prices ranging from $5.24 to $5.44 for a value of $1,023, including any cash consideration; and,

e) Throughout the period, 522,733 shares were issued in accordance with the restricted share unit plan to employees.

19. Warrants

The warrant details of the company are as follows:

Type of warrant	**Expiry date**	**Number of warrants**	**Weighted average price**	**Amount**
Warrant	September 26, 2021	200,000	$ 3.14	$ 360
Warrant	January 30, 2022	7,022,472	9.26	—
		7,222,472	**$ 9.09**	**$ 360**

	November 30, 2020		May 31, 2020	
	Number of warrants	**Weighted average price**	Number of warrants	Weighted average price
Outstanding, beginning of the period	**7,222,472**	**$ 9.09**	2,292,800	$ 12.25
Exercised during the period	—	—	(766,372)	1.50
Issued during the period	—	—	7,022,472	9.26
Expired during the period	—	—	(1,326,428)	19.84
Outstanding, end of the period	**7,222,472**	**$ 9.09**	7,222,472	$ 9.09

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

20. 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 $1,090 and $2,790 during the three and six months ended November 30, 2020 (2019 - $4048 and $7,061), related to stock options (Note 25). The total fair value of options granted during the period was $111 (2019 - $6,842).

	November 30, 2020		May 31, 2020	
	Number of options	**Weighted average price**	Number of options	Weighted average price
Outstanding, beginning of the period	**5,882,471**	**$ 11.95**	7,814,996	$ 11.05
Exercised during the period	**(413,527)**	**4.70**	(1,566,331)	3.86
Issued during the period	**50,000**	**6.00**	1,894,128	7.98
Forfeited during the period	**(40,258)**	**6.75**	(2,260,322)	11.10
Expired during the period	**(142,000)**	**12.22**	—	—
Outstanding, end of the period	**5,336,686**	**$ 12.49**	5,882,471	$ 11.95
Exercisable, end of the period	**4,194,413**	**$ 13.23**	3,873,497	$ 12.26

In June 2020, the Company issued 50,000 stock options at an exercise price of $6.00 per share, exercisable for 5 years to officers of the Company. Nil options vested immediately and the remainder vest over 3 years.

(Unaudited - 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
December 2020	$ 5.25	212,500	75,000
January 2021	$ 21.70	10,000	10,000
January 2021	$ 22.89	110,000	80,000
March 2021	$ 14.39	20,000	20,000
March 2021	$ 9.98	200,000	200,000
March 2021	$ 12.39	50,000	50,000
April 2021	$ 11.40	333,334	283,334
May 2021	$ 20.19	858,500	858,500
June 2021	$ 1.40	1,668	1,668
June 2021	$ 11.78	50,000	50,000
September 2021	$ 19.38	50,000	50,000
October 2022	$ 6.90	37,000	37,000
July 2023	$ 11.51	60,000	40,000
July 2023	$ 11.85	328,000	214,666
September 2023	$ 19.38	113,334	86,666
October 2023	$ 19.70	40,000	26,666
February 2024	$ 12.77	125,000	74,996
February 2024	$ 13.31	1,000,000	1,000,000
April 2024	$ 11.45	60,000	19,998
June 2024	$ 9.15	300,000	100,000
June 2024	$ 9.70	50,000	16,666
August 2024	$ 9.13	460,717	154,609
October 2024	$ 6.63	300,000	300,000
November 2024	$ 6.26	257,982	185,993
June 2025	$ 6.00	50,000	—
July 2027	$ 2.52	59,689	59,689
November 2027	$ 6.29	39,792	39,792
March 2028	$ 12.29	119,378	119,378
March 2028	$ 14.38	39,792	39,792
Outstanding, end of the period	**$ 12.49**	**5,336,686**	**4,194,413**

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 0.39% on the date of grant; expected life of 5 years; volatility of 70% based on comparable companies; forfeiture rate of 35%; dividend yield of nil; and, the exercise price of the respective option.

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

21. Non-controlling interests

The following tables summarise the information relating to the Company's subsidiaries, CC Pharma Nordic ApS, Aphria Diamond, Marigold Projects Jamaica Limited ("Marigold"), and ColCanna S.A.S. before intercompany eliminations.

Non-controlling interests as at November 30, 2020:

	CC Pharma Nordic ApS	Aphria Diamond	Marigold	ColCanna S.A.S.	**November 30, 2020**
Current assets	$ 814	$ 77,057	$ —	$ 695	**$ 78,566**
Non-current assets	$ 47	191,435	—	116,002	**307,483**
Current liabilities	$ (811)	(25,832)	—	(331)	**(26,974)**
Non-current liabilities	$ (465)	(147,601)	—	(34,737)	**(182,802)**
Net assets	(415)	95,059	—	81,629	**176,273**
Non-controlling interests %	25%	49%	5%	10%	
Non-controlling interests	$ (104)	$ 46,579	$ —	$ 8,163	**$ 54,638**

Non-controlling interests as at May 31, 2020:

	Aphria Diamond	Marigold	ColCanna S.A.S.	May 31, 2020
Current assets	$ 51,521	$ —	$ 754	$ 52,275
Non-current assets	176,507	—	115,614	292,121
Current liabilities	(15,630)	—	(378)	(16,008)
Non-current liabilities	(176,516)	—	(33,738)	(210,254)
Net assets	35,882	—	82,252	118,134
Non-controlling interests %	49%	5%	10%	
Non-controlling interests	$ 17,582	$ —	$ 8,225	$ 25,807

Non-controlling interests for the six months ended November 30, 2020:

	CC Pharma Nordic ApS	Aphria Diamond	Marigold	ColCanna S.A.S.	**November 30, 2020**
Revenue	$ 456	$98,599	$ —	$ —	**$ 99,055**
Total expenses (recovery)	$ 872	$39,421	—	$ 620	**40,913**
Net comprehensive income	(416)	59,178	—	(620)	**58,142**
Non-controlling interests %	25%	49%	5%	10%	
	$ (104)	$28,997	$ —	$ (62)	**$ 28,831**

Non-controlling interests for the six months ended November 30, 2019:

	Aphria Diamond	CannInvest Africa Ltd.	Verve Dynamics	Nuuvera Malta Ltd.	Marigold	ColCanna S.A.S.	November 30, 2019
Revenue	$ —	$ —	$ —	$ 42	$ 31	$ —	$ 73
Total expenses (recovery)	502	$ (12)	$ 544	720	(126)	(1,473)	155
Net comprehensive loss	(502)	12	(544)	(678)	157	1,473	(82)
Non-controlling interests %	49%	50%	70%	10%	5%	10%	
	$ (246)	$ 6	$ (381)	$ (68)	$ 8	$ 147	$ (534)

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

22. Net revenue

Net revenue is comprised of:

	For the three months ended November 30,		For the six months ended November 30,	
	2020	2019	**2020**	2019
Cannabis revenue	**$ 86,993**	$ 40,222	**$170,222**	$ 75,301
Cannabis excise taxes	**(19,082)**	(6,064)	**(38,820)**	(10,358)
Net cannabis revenue	**67,911**	34,158	**131,402**	64,943
Beverage alcohol revenue	**935**	—	**935**	—
Beverage alcohol excise taxes	**(54)**	—	**(54)**	—
Net beverage alcohol revenue	**881**	—	**881**	—
Distribution revenue	**91,740**	86,442	**173,938**	181,769
	$160,532	$120,600	**$306,221**	$246,712

23. Cost of goods sold

Cost of goods sold is comprised of:

	For the three months ended November 30,		For the six months ended November 30,	
	2020	2019	**2020**	2019
Cannabis costs	**$ 36,744**	$ 14,629	**$ 68,705**	$ 30,083
Beverage alcohol costs	**348**	—	**348**	—
Distribution costs	**79,687**	75,483	**150,083**	158,587
	$116,779	$90,112	**$219,136**	$188,670

24. General and administrative expenses

	For the three months ended November 30,		For the six months ended November 30,	
	2020	2019	**2020**	2019
Executive compensation	**$ 3,362**	$ 2,410	**$ 6,152**	$ 4,247
Consulting fees	**2,484**	4,140	**4,885**	7,905
Office and general	**5,017**	2,394	**10,180**	6,601
Professional fees	**1,448**	1,421	**2,687**	3,933
Salaries and wages	**10,938**	7,329	**22,523**	13,611
Insurance	**3,601**	2,700	**7,577**	5,195
Travel and accommodation	**651**	1,328	**1,552**	2,369
Rent	**290**	354	**588**	520
	$ 27,791	$ 22,076	**$ 56,144**	$ 44,381

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

25. Share-based compensation

Share-based compensation is comprised of:

	For the three months ended November 30,		For the six months ended November 30,	
	2020	2019	**2020**	2019
Amounts charged to share-based payment reserve in respect of share-based compensation	**$ 1,090**	$ 4,048	**$ 2,790**	$ 7,061
Deferred share units vested in the year	**493**	286	**1,365**	586
Deferred share units revalued in the year	**136**	(343)	**250**	(342)
Restricted share units vested in the year	**4,968**	3,785	**6,408**	4,650
Restricted share units revalued in the year	**6,908**	(213)	**7,043**	564
	$ 13,595	$ 7,563	**$ 17,856**	$ 12,519

During the period, the Company issued 150,000 deferred share units to directors of the Company under the terms of the Company's Omnibus Long-Term Incentive Plan.

During the period, the Company issued 2,574,986 restricted share units to employees, consultants and officers under the terms of the Company's Omnibus Long-Term Incentive Plan. Nil vested immediately and the remaining vest over two years.

During the period, the Company issued 50,000 stock options to officers of the Company, under the terms of the Company's Omnibus Long-Term Incentive Plan.

As at November 30, 2020, the Company had 346,716 deferred share units and 3,734,687 restricted share units outstanding, of which 234,216 deferred share units and 919,561 restricted share units were vested.

26. Finance Income (expense), net

Finance income (expense), net is comprised of:

	For the three months ended November 30,		For the six months ended November 30,	
	2020	2019	**2020**	2019
Interest income	**$ 406**	$ 2,744	**$ 832**	$ 6,640
Interest expense	**(6,480)**	(7,750)	**(14,109)**	(16,903)
	$ (6,074)	$ (5,006)	**$ (13,277)**	$ (10,263)

27. Non-operating income

Non-operating income is comprised of:

	For the three months ended November 30,		For the six months ended November 30,	
	2020	2019	**2020**	2019
Non-operating income (loss):				
Foreign exchange (loss) gain	**$ (4,180)**	$ 286	**$ (24,430)**	$ (8,396)
Gain (loss) on long-term investments	**(494)**	(36,449)	**(1,883)**	(22,741)
Unrealized (loss) gain on convertible debentures	**(87,646)**	49,078	**(87,225)**	63,285
Other non-operating items, net	**2,524**	(8,347)	**6,419**	(7,277)
	$ (89,796)	$ 4,568	**$ (107,119)**	$ 24,871

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

28. Gain (loss) on long-term investments

Gain (loss) on long-term investments for the three and six months ended November 30, 2020 is comprised of:

Investment	Proceeds	Opening fair value / cost	Gain (loss) on disposal	Change in fair value	Total
Level 1 on fair value hierarchy					
Aleafia Health Inc.	$ 3,066	$ 3,320	$ (254)	$ —	**$ (254)**
Fire & Flower Inc.	252	237	15	—	**15**
Long-term investments (Note 12)	—	—	—	(1,644)	**(1,644)**
For the period ended November 30, 2020	3,318	3,557	(239)	(1,644)	**(1,883)**
Less transactions in previous quarter:					
August 31, 2020	3,318	3,557	(239)	(1,150)	**(1,389)**
Three months ended November 30, 2020	$ —	$ —	$ —	$ (494)	**$ (494)**

29. Earnings per share

The calculation of earnings per share for the three months ended November 30, 2020 was based on the net (loss) income of $(120,598) (2019 – $(7,929)) and a weighted average number of common shares outstanding of 290,511,461 (2019 – 251,833,217) calculated as follows:

	2020	2019
Basic earnings (loss) per share:		
Net income (loss) for the period	**$ (120,598)**	$ (7,929)
Average number of common shares outstanding during the year	**290,511,461**	251,833,217
Earnings (loss) per share - basic	**$ (0.42)**	$ (0.03)

	2020	2019
Diluted earnings (loss) per share:		
Net income (loss) for the period	**$ (120,598)**	$ (7,929)
Average number of common shares outstanding during the year	**290,511,461**	251,833,217
“In the money” warrants outstanding during the year	**—**	—
“In the money” options outstanding during the year	**—**	—
	290,511,461	251,833,217
Earnings (loss) per share - diluted	**$ (0.42)**	$ (0.03)

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

The calculation of earnings per share for the six months ended November 30, 2020 was based on the net (loss) income of $(125,693) (2019 – $8,512) and a weighted average number of common shares outstanding of 288,995,810 (2019 – 251,468,984) calculated as follows:

	2020	2019
Basic (loss) earnings per share:		
Net (loss) income for the period	**$ (125,693)**	$ 8,512
Average number of common shares outstanding during the period	**288,995,810**	251,468,984
(Loss) earnings per share - basic	**$ (0.43)**	$ 0.03

	2020	2019
Diluted (loss) income per share:		
Net (loss) income for the period	**$ (125,693)**	$ 8,512
Average number of common shares outstanding during the period	**288,995,810**	251,468,984
"In the money" warrants outstanding during the period	—	579,056
"In the money" options outstanding during the period	—	379,737
	288,995,810	252,427,777
(Loss) income per share - diluted	**$ (0.43)**	$ 0.03

30. Change in non-cash working capital

Change in non-cash working capital is comprised of:

	For the six months ended November 30,	
	2020	2019
Decrease (increase) in:		
Accounts receivable	**$(35,427)**	$(35,207)
Other current assets	**(4,984)**	(3,567)
Inventory, net of fair value adjustment	**(22,635)**	(38,195)
Biological assets, net of fair value adjustment	**(122)**	(11,530)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**16,562**	36,612
Income taxes payable	**10,166**	(542)
Deferred revenue	**(902)**	107
	$(37,342)	$(52,322)

31. Financial risk management and financial instruments

Financial instruments

The Company has classified its financial instruments as described in Note 3 of the Company's audited financial statements for the year ended May 31, 2020.

The carrying values of accounts receivable, prepaids and other current assets, bank indebtedness and accounts payable and accrued liabilities approximate their fair values due to their short periods to maturity.

The Company's long-term debt of $25,761 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 November 30, 2020 was $25,506.

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

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**	**November 30, 2020**
Financial assets at FVTPL				
Cash and cash equivalents	**$187,997**	**$ —**	**$ —**	**$ 187,997**
Convertible notes receivable	**—**	**—**	**9,371**	**9,371**
Long-term investments	**11,914**	**—**	**9,901**	**21,815**
Financial liabilities at FVTPL				
Convertible debentures	**—**	**—**	**(358,008)**	**(358,008)**
Outstanding, end of the period	**$199,911**	**$ —**	**$(338,736)**	**$ (138,825)**

	Level 1	Level 2	Level 3	May 31, 2020
Financial assets at FVTPL				
Cash and cash equivalents	$497,222	$ —	$ —	$ 497,222
Convertible notes receivable	—	—	14,626	14,626
Long-term investments	15,502	—	11,514	27,016
Financial liabilities at FVTPL				
Convertible debentures	—	—	(270,783)	(270,783)
Outstanding, end of the period	$512,724	$ —	$(244,643)	$ 268,081

The following table presents the changes in level 3 items for the three months ended November 30, 2020:

	Unlisted equity securities	**Convertible notes receivable**	**Convertible debentures**	**Total**
Closing balance May 31, 2019	$11,514	$ 14,626	$(270,783)	**$(244,643)**
Additions	—	213	—	**213**
Disposals	—	(5,000)	—	**(5,000)**
Unrealized gain (loss) on fair value	(1,613)	(468)	(87,225)	**(89,306)**
Closing balance November 30, 2020	**$ 9,901**	**$ 9,371**	**$(358,008)**	**$(338,736)**

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

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 November 30, 2020 is the carrying amount of cash and cash equivalents, accounts receivable, prepaids and other current assets, promissory notes receivable and convertible notes receivable. All cash and cash equivalents are placed with major financial institutions.

	Total	0-30 days	31-60 days	61-90 days	90+ days
Trade receivables	**96,177**	87,444	5,607	815	2,311
		91%	6%	1%	2%

(b) Liquidity risk

As at November 30, 2020, the Company's financial liabilities consist of bank indebtedness and accounts payable and accrued liabilities, which have contractual maturity dates within one-year, long-term debt, and convertible debentures which have contractual maturities over the next five years.

Aphria maintains a debt service charge covenant on certain loans secured by its Aphria One facilities that is measured at year-end only. 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.

The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company's working capital position at November 30, 2020, management regards liquidity risk to be low.

(c) Currency rate risk

As at November 30, 2020, a portion of the Company's financial assets and liabilities held in United States Dollars ("USD") and Euros consist of cash and cash equivalents, convertible notes receivable, and long-term investments. 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 the functional currency. The Company is exposed to currency rate risk in other comprehensive income, relating to foreign subsidiaries which operate in a foreign currency. 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 cash and cash equivalents. As at November 30, 2020, approximately $105,000 USD ($135,000 CAD) of the Company's cash and cash equivalents was in United States dollars. A 1% change in the foreign exchange rate would result in an unrealized gain or loss of approximately $1,400.

(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.

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

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

32. Commitments and contingencies

The Company has committed purchase orders outstanding at November 30, 2020 related to capital asset expansion of $12,463, all of which are expected to be paid within the next year.

The following table presents the future undiscounted payment associated with lease liabilities as of November 30, 2020:

	Years ending November 30,
2020	4,050
2021	3,819
2022	3,835
2023	3,795
2024	3,610
Thereafter	54,672
	$ 73,781

The Company incurred interest expense associated with its lease liabilities of $172 and $90 (2020 - $161 and $80) for the three and six months ended November 30, 2020.

From time to time, the Company and/or its subsidiaries may become defendants in legal actions arising out of the ordinary course and conduct of its business.

As of November 30, 2020, the Company was served statements of claims in class action lawsuits against the Company and certain of its officers and former officers. These claims relate to alleged misconduct in connection with the Company's acquisitions of LATAM Holdings Inc. ("LATAM") and Nuuvera Inc., and the Company's June 2018 securities offering. At the present time, the representative claimants have been identified and selected in both the U.S. and Canada. The U.S. claims include alleged violations of Section 10(b) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), Rule 10b-5 under the Exchange Act and Section 20(a) of the Exchange Act. The Canadian claims include alleged statutory and common law misrepresentation and oppression. The Company intends to vigorously defend itself in each of these actions. With respect to the cases commenced in the U.S., the Company pursued a motion to dismiss the U.S. claim. The Company's motion was denied and the claim was maintained against the Company and certain of its former and current senior officers. The Company is currently pursuing a motion to reconsider during which time, the primary action is stayed pending the decision on the motion to reconsider. In the U.S. action, the Company is self-insured for the costs associated with any award or damages arising from such actions and has entered into indemnity agreements with each of the directors and officers and, subject to certain exemptions, will cover any costs incurred by them in connection with any of the class action claims. Canadian insurance coverage may not be sufficient to fully cover any judgments against the Company. As at November 30, 2020, the Company has not recorded any uninsured amount related to this contingency.

As of July 20, 2020, a proposed class action (the "Langevin Class Action") has been commenced against a number of Canadian licensed producers including the Company and its subsidiary, Broken Coast (collectively, the "Defendants") by Lisa Marie Langevin (the "Plaintiff") on behalf of all persons in Canada who purchased cannabis products that were manufactured, sold, promoted, or distributed by the Defendants and consumed prior to the labelled expiry date of such products on or after June 16, 2010, if such products were used for medicinal purposes and on or after October 17, 2018, if such products were used for recreational purposes (the "Proposed Class"). The Plaintiff specifically alleges that (i) the Defendants marketed medicinal and recreational cannabis products with an advertised content of THC and CBD that was "drastically different" (higher and lower percentages) from the actual amount in the cannabis products and (ii) the Plaintiff suggests that the plastic bottles or caps used to store the cannabis products may have absorbed or degraded the THC or CBD content. The Plaintiff seeks recovery of the money the Proposed Class spent on the Defendants' products that did not contain what they were advertised to contain and compensatory damages for those who suffered physical or mental injuries as a result of the Defendants' mislabeling of the products. Amended pleadings were served on the company on December 12, 2020 adding a new plaintiff to the action. The Company intends to vigorously defend itself in each of these actions. Canadian insurance coverage may not be sufficient to fully cover any judgments against the Company. As at November 30, 2020, the Company has not recorded any uninsured amount related to this contingency.

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

33. Segment reporting

Information reported to the Chief Operating Decision Maker ("CODM") for the purpose of resource allocation and assessment of segment performance focuses on the nature of the operations. The Company operates in four segments. 1) cannabis operations, which encompasses the production, distribution and sale of both medical and adult-use cannabis, 2) beverage alcohol operations, which encompasses production, distribution and sale of beverage alcohol products, 3) distribution operations, which encompasses the purchase and resale of products to customers and 4) businesses under development which encompass operations in which the Company has not received final licensing or has not commenced commercial sales from operations. Factors considered in determining the operating segments include the Company's business activities, the management structure directly accountable to the CODM, availability of discrete financial information and strategic priorities within the organizational structure.

Segment net revenue:

	For the three months ended November 30,		For the six months ended November 30,	
	2020	2019	**2020**	2019
Cannabis business	**$ 67,911**	$ 33,984	**$131,402**	$ 64,769
Distribution business	**91,035**	86,442	**172,702**	181,769
Beverage alcohol business	**881**	—	**881**	—
Business under development	**705**	174	**1,236**	174
Total	**$ 160,532**	$ 120,600	**$306,221**	$ 246,712

Segment net income (loss):

	For the three months ended November 30,		For the six months ended November 30,	
	2020	2019	**2020**	2019
Cannabis business	**$ (121,303)**	$ (1,967)	**$(113,530)**	$ 17,920
Distribution business	**(963)**	(3,246)	**(2,418)**	(1,385)
Beverage alcohol business	**299**	—	**299**	—
Business under development	**1,369**	(2,716)	**(10,044)**	(8,023)
Total	**$ (120,598)**	$ (7,929)	**$(125,693)**	$ 8,512

Geographic net revenue:

	For the three months ended November 30,		For the six months ended November 30,	
	2020	2019	**2020**	2019
North America	**$ 67,548**	$ 33,984	**$131,027**	$33,673
Europe	**91,409**	85,146	**172,105**	141
Latin America	**1,575**	1,470	**3,089**	1,146
Africa	**—**	—	**—**	—
Total	**$160,532**	$120,600	**$306,221**	$34,960

(Unaudited - in thousands of Canadian dollars, except share and per share amounts)

Geographic capital assets:

	November 30, 2020	May 31, 2020
North America	**$ 564,771**	$519,768
Europe	**84,050**	61,143
Latin America	**6,293**	6,252
Africa	**—**	—
Total	**$ 655,114**	$587,163

Major customers are defined as customers that each individually account for greater than 10% of the Company's annual revenues. As of November 30, 2020, there was a total of 1 major customer within the cannabis business segment (2019 – nil) that represented over $33,000 in the Company's net revenue.

34. Subsequent events

The following events occurred subsequent to November 30, 2020:

a) The Company entered into a definitive agreement to combine with Tilray Inc. Under the terms of the agreement, shareholders of the Company will receive 0.8381 shares of Tilray, Inc. for each Aphria common share. Upon the completion of the agreement, the Company's shareholders will own approximately 62% of the outstanding Tilray shares on a fully diluted basis, resulting in a reverse acquisition of Tilray, Inc.

b) The Company, through wholly owned subsidiary Four Twenty Corporation ("420"), entered into a secured credit agreement for term loan of $100,000 USD and a revolving credit facility of $20,000 USD. The Company drew the full amount of the term loan but has not drawn any amount on the revolving line of credit. 420 provided all of its and SweetWater's assets as security for the loan and the Company provided a corporate guarantee. The term loan is due in three years, has repayments of $7,500 USD in its first twelve months and $10,000 USD in the each of the next two years, repayable in quarterly instalments beginning March 31, 2021. The term loan bears interest at the EUROBIR rate plus an applicable margin based on 420's leverage.