Aphria Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED AUGUST 31, 2015 and 2014

(Unaudited, Expressed in Canadian Dollars, unless otherwise noted)

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying condensed interim consolidated financial statements of the company have been prepared by and are the responsibility of the company's management.

The company's independent auditor has not performed an audit or review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants.

Aphria Inc.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

	Note		August 31, 2015		May 31, 2015
Assets					
Current assets:					
Cash and cash equivalents		$	**5,139,091**	$	7,051,909
Accounts receivable			**375,817**		**-**
Other receivables			**948,706**		759,528
Inventory	**4**		**2,056,892**		1,724,247
Biological assets	**5**		**273,546**		288,858
Prepaid expenses			**156,733**		167,270
Current portion of promissory notes receivable	**7**		**448,106**		346,255
			9,398,891		10,338,067
Property and equipment	**6**		**4,857,246**		3,626,161
Intangible assets	**6**		**61,025**		74,598
Promissory notes receivable	**7**		**191,020**		253,745
		$	**14,508,182**	$	14,292,571
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable and accrued liabilities		$	**1,472,277**	$	947,223
Due to related parties	**8**		**120,369**		-
			1,592,646		947,223
Shareholders' equity (deficit):					
Share capital			**20,246,095**		20,246,095
Warrants			**556,589**		556,589
Share-based payment reserve	**9**		**1,308,602**		1,261,589
Deficit			**(9,195,750)**		(8,718,925)
			12,915,536		13,345,348
		$	**14,508,182**	$	14,292,571

Nature of operations (Note 1)
Commitments (Note 11)
Subsequent events (Note 13)

Approved on behalf of the Board

"John Cervini"
Signed: Director

"Cole Cacciavillani"
Signed: Director

The accompanying notes are an integral part of these financial statements

Aphria Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)

	Note		Three months ended August 31, 2015		2014
Revenue		$	**950,740**	$	-
Cost of sales:					
Cost of goods sold	**4**		**605,350**		-
Pre-distribution growing costs			**-**		187,570
Change in biological assets	**5**		**(333,165)**		-
Gross profit			**678,555**		(187,570)
Expenses:					
General and administrative	**12**		**423,932**		570,954
Share-based compensation	**9**		**47,013**		545,606
Selling, marketing and promotion			**615,648**		37,227
Amortization and depreciation	**6**		**30,025**		2,747
Research and development			**86,499**		-
Loss from operations			**(524,562)**		(1,344,104)
Listing costs			**-**		(256,000)
Finance income			**47,737**		-
Net loss and comprehensive loss		**$**	**(476,825)**	$	(1,600,104)
Weighted average number of common shares			**52,479,587**		38,181,194
Loss per share - basic and diluted		**$**	**(0.01)**	$	(0.04)

The accompanying notes are an integral part of these financial statements

Aphria Inc.

Condensed Interim Consolidated Statements of Changes in Equity (Deficiency)
(Unaudited)

	Number of common shares	Share capital	Subscription receipts	Warrants	Share-based payment reserve	Deficit	Total
Balance at May 31, 2014	26,666,667	$ 2,500	$ -	$ -	$ -	$ (2,175,481)	$ (2,172,981)
Shares issued, net of issuance costs	10,346,253	5,535,748	-	216,261	-	-	5,752,009
Conversion of due to related parties	1,666,667	1,000,000	-	-	-	-	1,000,000
Subscription receipts, net of issuance costs	-	-	11,518,175	-	-	-	11,518,175
Share-based payments	-	-	-	-	545,606	-	545,606
Net loss for the period	-	-	-	-	-	(1,600,104)	(1,600,104)
Balance at August 31, 2014	**38,679,587**	**$ 6,538,248**	**$ 11,518,175**	**$ 216,261**	**$ 545,606**	**$ (3,775,585)**	**$ 15,042,705**

	Number of common shares	Share capital	Subscription receipts	Warrants	Share-based payment reserve	Deficit	Total
Balance at May 31, 2015	52,479,587	$ 20,246,095	$ -	$ 556,589	$ 1,261,589	$ (8,718,925)	$ 13,345,348
Share-based payments	-	-	-	-	47,013	-	47,013
Net loss for the period	-	-	-	-	-	(476,825)	(476,825)
Balance at August 31, 2015	**52,479,587**	**$ 20,246,095**	**$ -**	**$ 556,589**	**$ 1,308,602**	**$ (9,195,750)**	**$ 12,915,536**

The accompanying notes are an integral part of these financial statements

Aphria Inc.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

	Note	Three months ended August 31, 2015	2014
Cash flows from operating activities:			
Net loss for the period		**$ (476,825)**	$ (1,600,104)
Adjustments for			
Amortization and depreciation	**6**	**138,719**	30,898
Share-based compensation	**9**	**47,013**	545,606
Change in biological assets	**5**	**(333,165)**	-
Change in non-cash operating working capital			
Accounts receivable		**(375,817)**	-
Other receivables		**(189,178)**	(125,853)
Inventory		**520**	(12,453)
Biological assets		**15,312**	-
Prepaid expenses		**10,537**	(84,534)
Accounts payable and accrued liabilities		**525,054**	(246,951)
		(637,830)	(1,493,391)
Cash flows from financing activities:			
Share capital issued, net of cash issuance costs		**-**	5,752,009
Increase in due to related parties	**8**	**245,381**	212,029
Repayment of due to related parties	**8**	**(125,012)**	(2,111,129)
		120,369	3,852,909
Cash flows from investing activities:			
Investment in property and equipment	**6**	**(1,356,231)**	(653,053)
Investment in promissory notes receivable	**7**	**(100,000)**	-
Receipt of repayment on promissory notes receivable	**7**	**60,874**	-
		(1,395,357)	(653,053)
Increase in cash and cash equivalents during the period		**(1,912,818)**	1,706,465
Cash and cash equivalents, beginning of period		**7,051,909**	170,455
Cash and cash equivalents, end of period		**$ 5,139,091**	$ 1,876,920

The accompanying notes are an integral part of these financial statements

1. Nature of operations

Aphria Inc. (the "Company" or "Aphria") was incorporated under the Business Corporations Act (Alberta) on June 22, 2011 as Black Sparrow Capital Corp. ("Black Sparrow") and was continued in Ontario on December 1, 2014. Pure Natures Wellness Inc. doing business as Aphria ("PNW"), a wholly-owned subsidiary of the Company, is licensed to produce and sell medical marijuana under the provisions of the Marihuana for Medical Purposes Regulations ("MMPR"). The registered office is located at 5300 Commerce Court West, 199 Bay Street, Toronto, Ontario.

The Company's common shares are listed under the symbol "APH" on the TSX Venture Exchange ("TSX-V").

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

These financial statements were approved by the Company's board of directors on October 23, 2015.

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 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, 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC").

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value and biological assets that are measured at fair value less costs to sell, as detailed in the Company's accounting policies.

(c) Functional currency

The Company and its subsidiary's functional currency, as determined by management is Canadian dollars. These financial statements are presented in Canadian dollars.

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, 2015.

The Company has reclassified certain items on the statement of loss and comprehensive loss to improve clarity.

New standards and interpretations issued but not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective and have not been applied in preparing these financial statements.

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

IFRS 9 - Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.

IFRS 15 - Revenue from Contracts with Customers, effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, specifies how and when to recognize revenue and enhances relevant disclosures to be applied to all contracts with customers.

The Company is assessing the impact of these new and revised standards.

4. Inventory

		August 31, 2015		May 31, 2015
Harvested cannabis	**$**	**1,988,684**	$	1,655,259
Packaging and supplies		**68,208**		68,988
	$	**2,056,892**	$	1,724,247

The cost of inventories recognized as an expense in cost of sales was $448,622 during the period ended August 31, 2015 (2014 - $nil), with the remainder related to the sale of biological assets.

5. Biological assets

		Amount
Balance at May 31, 2015	**$**	**288,858**
Increase in fair value less costs to sell due to biological transformation		2,430,269
Transferred to inventory upon harvest		(2,437,306)
Sale of biological assets		(8,275)
Balance at August 31, 2015	**$**	**273,546**

The increase in fair value less costs to sell over and above historical cost was $333,165 during the three months ended August 31, 2015 (2014 - $nil). In determining the fair value of biological assets, management is required to make a number of estimates, including the expected cost required to grow the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, and expected yields for the cannabis plant. These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

6. Property and equipment and intangible assets

		Production equipment		Office equipment		Leasehold improvements		Construction in process		**Total Property and equipment**		**Intangible assets**
Cost												
At May 31, 2014	$	686,549	$	32,002	$	862,927	$	-	**$**	**1,581,478**	$	-
Additions		539,818		191,642		1,368,685		304,701		**2,404,846**		107,995
At May 31, 2015		1,226,367		223,644		2,231,612		304,701		**3,986,324**		**107,995**
Additions		100,404		41,935		27,193		1,186,699		**1,356,231**		-
At August 31, 2015	**$**	**1,326,771**	**$**	**265,579**	**$**	**2,258,805**	**$**	**1,491,400**	**$**	**5,342,555**	**$**	**107,995**
Accumulated depreciation												
At May 31, 2014	$	8,725	$	1,241	$	2,716	$	-	**$**	**12,682**	$	-
Expense for the period		139,584		23,310		184,587		-		**347,481**		33,397
At May 31, 2015		148,309		24,551		187,303		-		**360,163**		**33,397**
Expense for the period		47,337		16,452		61,357		-		**125,146**		13,573
At August 31, 2015	$	195,646	$	41,003	$	248,660	$	-	**$**	**485,309**	**$**	**46,970**
Net book value												
At May 31, 2014	$	677,824	$	30,761	$	860,211	$	-	**$**	**1,568,796**	$	-
At May 31, 2015	$	1,078,058	$	199,093	$	2,044,309	$	304,701	**$**	**3,626,161**	$	74,598
At August 31, 2015	**$**	**1,131,125**	**$**	**224,576**	**$**	**2,010,145**	**$**	**1,491,400**	**$**	**4,857,246**	**$**	**61,025**

Amortization and depreciation is recorded within cost of sales and amortization and depreciation on the statement of loss and comprehensive loss.

7. Promissory notes receivable

The Company advanced a total of $700,000 to two organizations affiliated with the medical marijuana industry. One promissory note of $500,000 bears interest at 3% per annum, repayable in blended monthly instalments until May 2017. $60,874 of principal was repaid during the three months ended August 31, 2015 (2014 - $nil), with $3,598 of interest income recognized.

Another promissory note of $100,000 is non-interest bearing and is repayable in March 2016. The remaining promissory note of $100,000 is non-interest bearing and is repayable in July 2016.

8. Due to/from related parties and related party transactions

Prior to going public, the Company funded operations through the support of related parties. Since going public, the Company has continued to leverage the purchasing power of these related parties for certain of its growing related expenditures. The Company owed $120,369 to related parties as at August 31, 2015 (May 31, 2015 - $nil). These amounts were due upon demand and are non-interest bearing. These parties are related as they are corporations that are controlled by certain officers and directors of the Company.

During the three months ended August 31, 2015, the Company repaid $125,012 due to related parties (2014 - received $800,000 of cash from related parties and repaid $631,864 due to related parties). The Company transacts with related parties in the normal course of business. These transactions are measured at their exchange amounts.

During the three months ended August 31, 2015, related party corporations charged or incurred expenditures on behalf of the Company (including rent) totalling $245,381 (2014 - $212,029) which were or are to be reimbursed. Included in this amount was rent of $34,662 charged during the three months ended August 31, 2015 (2014 - $42,000).

9. Share capital

The Company is authorized to issue an unlimited number of common shares.

Stock options

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

The option details of the Company are as follows:

Expiry date	Weighted Average Exercise Price	Number of Options	Vested and Exercisable
November 2017	$1.10	480,000	170,000
December 2017	$1.10	1,020,000	164,320
March 2018	$0.90	205,000	25,000
April 2018	$1.18	165,000	5,000
August 2018	$0.93	30,000	10,000
June 2019	$0.60	2,600,000	2,600,000
August 2019	$1.10	50,000	50,000
Balance at August 31, 2015	**$0.81**	**4,550,000**	**3,024,320**

The Company recognized a share-based compensation expense of $47,013 during the three months ended August 31, 2015 (2014 - $545,606). The total fair value of options granted during the period was $12,812 (2014 - $941,375).

9. Share capital (continued)

Stock options – continued

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

The Company used the Black Scholes option pricing model to determine the fair value of options granted using the following assumptions: risk-free rate of 0.44%, expected life of 3 years, volatility of 70% based on comparable companies, forfeiture rate of nil, dividend yield of nil, exercise price of $0.93 and share price of $0.93.

Warrants

The warrant details of the Company are as follows:

Expiry date	Number of warrants	Weighted average exercise price
June 3, 2016	5,173,127	$1.20
December 2, 2019	11,500,000	$1.50
Balance at August 31, 2015	**16,673,127**	**$1.41**

The compensation warrant/option details of the Company are as follows:

Expiry date	Number of broker options	Weighted average exercise price
June 3, 2019	618,333	$0.60
December 2, 2016	802,268	$1.10
Balance at August 31, 2015	**1,420,601**	**$0.88**

10. Financial risk management and financial instruments

Financial instruments

The Company has classified its cash and cash equivalents as FVTPL, accounts receivable and other receivables and promissory notes receivable as loans and receivables, and accounts payable and accrued liabilities and amounts due to related parties as other financial liabilities.

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

10. Financial risk management and financial instruments (continued)

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

Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk; and
- liquidity risk.

(a) Credit risk

The maximum credit exposure at August 31, 2015 is the carrying amount of cash and cash equivalents, accounts receivable and other receivables and promissory notes receivable. The Company does not have significant credit risk with respect to customers. All cash and cash equivalents are placed with major Canadian financial institutions. The majority of other receivables relate to HST input tax credits.

(b) Liquidity risk

As at August 31, 2015, the Company's financial liabilities consist of accounts payable and accrued liabilities and amounts due to related parties, which have contractual maturity dates within one year. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company's working capital position at August 31, 2015, management regards liquidity risk to be low.

(c) Capital management

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. As at August 31, 2015, the Company has not entered into any debt financing. The Company is not subject to externally imposed capital requirements.

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

11. Commitments

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

Fiscal year ending May 31,		
2016	$	158,834
2017		232,673
2018		232,673
2019		174,903
Total	**$**	**799,083**

The Company has a commitment to fund additional sponsorships of patient studies over the next 2 years of up to $260,000, based on minimum patient enrollments in the study.

12. General and administrative expenses

	Three months ended August 31,			
		2015		2014
Executive compensation	**$**	**122,954**	$	306,500
Consulting fees		**9,900**		138,200
Office and general		**120,511**		26,423
Professional fees		**35,826**		53,234
Salaries and wages		**66,090**		-
Travel and accomodation		**58,811**		4,597
Rent		**9,840**		42,000
	$	**423,932**	$	570,954

13. Subsequent events

Subsequent to the period, the Company granted 200,000 stock options at an exercise price of $0.85 per share, expiring 5 years from the date of grant. The options vest upon achievement of certain service metrics.