# Aphria Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2016 and AUGUST 31, 2015

(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 Professional Accountants.

| | Note | August 31, 2016 | May 31, 2016 |
|---|---|---|---|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | $ 53,452,414 | $ 16,472,664 |
| Accounts receivable | | 2,539,510 | 1,778,679 |
| Other receivables | 5 | 193,051 | 126,952 |
| Inventory | 6 | 2,729,699 | 2,088,850 |
| Biological assets | 7 | 502,854 | 697,997 |
| Prepaid assets | | 316,880 | 160,156 |
| Promissory notes receivable | 8 | 191,019 | 567,588 |
| | | 59,925,427 | 21,892,886 |
| Capital assets | 9 | 13,222,974 | 7,309,220 |
| Intangible assets | 4,10 | 5,443,259 | 4,317,680 |
| Long-term investments | | 2,685,200 | 1,560,200 |
| Goodwill | | 1,200,000 | 1,200,000 |
| | | $ 82,476,860 | $ 36,279,986 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | $ 2,679,847 | $ 1,266,492 |
| Current portion of long-term debt | 12 | 731,929 | -- |
| | | 3,411,776 | 1,266,492 |
| Long-term liabilities | | | |
| Long-term debt | 12 | 6,995,067 | -- |
| | | 10,406,843 | 1,266,492 |
| Shareholders' equity | | | |
| Share capital | 14 | 77,050,144 | 40,916,880 |
| Warrants | 15 | 588,141 | 693,675 |
| Share-based payment reserve | 16 | 1,857,427 | 1,723,903 |
| Deficit | | (7,425,695) | (8,320,964) |
| | | 72,070,017 | 35,013,494 |
| | | $ 82,476,860 | $ 36,279,986 |

Nature of operations (Note 1)
Commitments (Note 21)
Subsequent events (Note 22)

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 Income (Loss) and Comprehensive Income (Loss) (Unaudited)

| | Note | For the three months ended August 2016 | 2015 |
|---|---|---|---|
| Revenue | | $4,375,512 | $ 950,740 |
| Cost of sales: | | | |
| Cost of goods sold | | 800,708 | 288,531 |
| Amortization | 9,10 | 253,208 | 108,694 |
| Net effect of unrealized changes in fair value of biological assets | 7 | (460,549) | (125,040) |
| | | 593,367 | 272,185 |
| Gross profit | | 3,782,145 | 678,555 |
| Expenses: | | | |
| General and administrative | 19 | 959,592 | 423,932 |
| Share-based compensation | 16 | 203,095 | 47,013 |
| Selling, marketing and promotion | | 1,380,647 | 615,648 |
| Amortization | 9,10 | 201,670 | 30,025 |
| Research and development | | 249,313 | 86,499 |
| | | 2,994,317 | 1,203,117 |
| Income (loss) from operations | | 787,828 | (524,562) |
| Finance income | | 144,626 | 47,737 |
| Finance expense | | (48,552) | |
| Gain on sale of capital assets | | 11,367 | -- |
| Net income (loss) and comprehensive income (loss) | | 895,269 | $ (476,825) |
| Weighted average number of common shares – basic | | 73,784,801 | 52,479,587 |
| Weighted average number of common shares – diluted | | 82,075,224 | 52,479,587 |
| Earnings (loss) per share – basic | | $ 0.01 | $ (0.01) |
| Earnings (loss) per share – diluted | | $ 0.01 | $ (0.01) |

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 (Note 14) | Warrants (Note 15) | Share-based payment reserve (Note 16) | 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 |

| | Number of common shares | Share capital (Note 14) | Warrants (Note 15) | Share-based payment reserve (Note 16) | Deficit | Total |
|---|---|---|---|---|---|---|
| Balance at May 31, 2016 | 70,053,933 | $ 40,916,880 | $ 693,675 | $ 1,723,903 | $ (8,320,964) | $ 35,013,494 |
| Warrants exercised | 2,626,253 | 3,874,568 | (105,534) | -- | -- | 3,769,034 |
| Share issued on Bought Deal | 17,250,000 | 31,968,824 | -- | -- | -- | 31,968,824 |
| Options exercised | 266,353 | 289,872 | -- | (69,571) | -- | 220,301 |
| Share-based payments | -- | -- | -- | 203,095 | -- | 203,095 |
| Net income for the period | -- | -- | -- | -- | 895,269 | 895,269 |
| Balance at August 31, 2016 | 90,196,539 | $ 77,050,144 | $ 588,141 | $ 1,857,427 | $ (7,425,695) | $72,070,017 |

The accompanying notes are an integral part of these financial statements

| | Note | Three months ended August 31, 2016 | Three months ended August 31, 2015 |
|---|---|---|---|
| **Cash provided by (used in) operating activities:** | | | |
| Net income(loss) for the period | | $ 895,269 | $ (476,825) |
| Adjustments for: | | | |
| Amortization | 9,10 | 454,878 | 138,719 |
| Amortization of finance fees on long-term debt | | 833 | |
| Gain on sale of capital assets | | (11,367) | -- |
| Share-based compensation | 16 | 203,095 | 47,013 |
| Change in fair value of biological assets | 7 | (460,549) | (125,040) |
| Change in non-cash working capital | | 444,544 | (221,697) |
| | | 1,526,703 | (637,830) |
| **Cash provided by financing activities:** | | | |
| Share capital issued, net of cash issuance costs | 14 | 31,968,824 | -- |
| Share capital issued on warrants exercised | 14 | 3,769,034 | -- |
| Share capital issued on stock options exercised | 14 | 220,301 | -- |
| Increase in long-term debt | 12 | 7,825,000 | -- |
| Repayment of long-term debt | 12 | (98,837) | -- |
| Advances from related parties | 13 | (195,368) | 245,381 |
| Repayment of amounts due to related parties | 13 | 195,368 | (125,012) |
| | | 43,684,322 | 120,369 |
| **Cash used in investing activities:** | | | |
| Investment in capital assets | 9 | (6,230,625) | (1,356,231) |
| Investment in intangible assets | 10 | (1,285,042) | -- |
| Proceeds from disposal of capital assets | | 32,823 | -- |
| Issuance of promissory notes receivable | 8 | -- | (100,000) |
| Repayment of promissory notes receivable | 8 | 376,569 | 60,874 |
| Long term investment in third party | | (1,125,000) | -- |
| | | (8,231,275) | (1,395,357) |
| **Increase (decrease) in cash and cash equivalents** | | 36,979,750 | (1,912,818) |
| Cash and cash equivalents, beginning of period | | 16,472,664 | 7,051,909 |
| **Cash and cash equivalents, end of period** | | $ 53,452,414 | $ 5,139,091 |

The accompanying notes are an integral part of these financial statements

## 1. Nature of operations

Aphria Inc. (the "Company" or “Aphria”)is incorporated in Ontario.

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”) and under the symbol “APHQF” on the United States OTCQB Venture Market exchange.

These financial statements were approved by the Company’s board of directors on October 6, 2016.

## 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, 2016, 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 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 subsidiaries’ functional currency, as determined by management is Canadian dollars. These financial statements are presented in Canadian dollars.

(d) Basis of consolidation

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

| Subsidiaries | Jurisdiction of incorporation |
|---|---|
| Pure Natures Wellness Inc. | Ontario |
| CannWay Pharmaceuticals Ltd | New Brunswick |

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

## 3. Significant accounting policies

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, 2016.

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

*Changes in accounting policy*

Effective June 1, 2016, the Company adopted 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 were effective for annual periods beginning on or after January 1, 2016, with earlier application being permitted. These amendments did not require any significant changes to the Company`s accounting practices.

*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.

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.

IFRS 16 – Leases In January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and a lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. Early adoption is permitted if IFRS 15 has also been adopted. The Company is assessing the potential impact of IFRS 16.

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

## 4. Disclosure of Business Transaction

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

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

The shares held in escrow are recorded as equity and will be continuously evaluated and adjusted based on the probability of the operating metrics being achieved, as of August 31, 2016 management expects 100% of milestones to be achieved by December 31, 2018.

Purchase price allocation was as follows:

| | |
|---|---|
| Net tangible assets acquired | $ -- |
| Intangible asset – CannWay brand | 4,428,000 |
| Goodwill | 1,200,000 |
| Deferred tax liability | (1,200,000) |
| **Total purchase price recorded** | **$ 4,428,000** |

Net tangible assets acquired included the following:

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

The CannWay brand is being amortized over 10 years on a straight line basis. Amortization began in January 2016.

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

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

## 5. Other receivables

Other receivables are comprised of:

| | August 31, 2016 | May 31, 2016 |
|---|---|---|
| HST (payable) receivable | (34,440) | $ (35,909) |
| Accrued interest | 141,955 | 98,197 |
| Credit card receivable | 84,446 | 64,621 |
| Other | 1,090 | 43 |
| | $ 193,051 | $ 126,952 |

## 6. Inventory

Inventory is comprised of:

| | August 31, 2016 | May 31, 2016 |
|---|---|---|
| Harvested cannabis | $ 1,954,273 | $ 1,714,897 |
| Cannabis oil | 575,103 | 165,060 |
| Packaging and supplies | 200,323 | 208,893 |
| | $2,729,699 | $ 2,088,850 |

Cost of inventory is recognized as expense and included in cost of sales

## 7. Biological assets

Biological assets are comprised of:

| | Amount |
|---|---|
| Balance as at May 31, 2016 | $ 697,997 |
| Increase in fair value less costs to sell due to biological transformation | 3,122,426 |
| Transferred to inventory upon harvest | (3,276,208) |
| Transferred to capital assets | (41,361) |
| **Balance as at August 31, 2016** | **$ 502,854** |

The net effect of the fair value less cost to sell over and above historical cost was a decrease in non-cash value of inventory of $460,549 during the three months ended August 31, 2016 (2015 - $125,040). 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.

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

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

## 8. Promissory notes receivable

| | May 31, 2016 | Additions | Payments | Aug. 31, 2016 |
|---|---|---|---|---|
| Note receivable - $100,000, bearing interest at prime + 3%, one-year term, collected in the period | $ 93,039 | $ -- | $ 93,039 | **$ --** |
| Note receivable - $500,000, bearing interest at 3%, repayable in 24 equal blended monthly instalments, due in May 2017 | 274,549 | -- | 83,530 | **191,019** |
| Note receivable - $100,000, non-interest bearing, one-year term, collected in the period | 100,000 | -- | 100,000 | **--** |
| Note receivable - $100,000, non-interest, one-year term, collected in the period | 100,000 | -- | 100,000 | **--** |
| | $ 567,588 | $ -- | $376,569 | **$191,019** |

## 9. Capital assets

| | Land | Greenhouse infrastructure | Bearer plants | Equipment | Leasehold improvements | Construction in process | **Total capital assets** |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| At May 31, 2015 | $ -- | $ -- | $ -- | $ 1,450,011 | $ 2,231,612 | $ 304,701 | **$ 3,986,324** |
| Additions | -- | -- | -- | 1,051,980 | 221,204 | 3,152,875 | **4,426,059** |
| Transfers | -- | -- | -- | 1,033,433 | 2,359,337 | (3,392,770) | **--** |
| Disposals | -- | -- | -- | (35,896) | -- | -- | **(35,896)** |
| At May 31, 2016 | -- | -- | -- | 3,499,528 | 4,812,153 | 64,806 | **8,376,487** |
| Additions | 1,300,000 | 3,734,083 | 55,382 | 190,081 | 16,129 | 948,971 | **6,244,646** |
| Transfers | -- | 4,565,987 | -- | -- | (4,565,987) | -- | **--** |
| Disposals | -- | -- | (14,021) | (32,823) | -- | - | **(46,844)** |
| **At August 31, 2016** | **$ 1,300,000** | **$ 8,300,070** | **$ 41,361** | **$ 3,656,786** | **$ 262,295** | **$ 1,013,777** | **$ 14,574,289** |
| **Accumulated amortization** | | | | | | | |
| At May 31, 2015 | $ -- | $ -- | $ -- | $ 172,860 | $ 187,303 | -- | **$ 360,163** |
| Amortization | -- | -- | -- | 387,992 | 325,563 | -- | **713,555** |
| Disposals | -- | -- | -- | (6,451) | | -- | **(6,451)** |
| At May 31, 2016 | -- | -- | -- | 554,401 | 512,866 | -- | **1,067,267** |
| Amortization | -- | 88,586 | -- | 154,731 | 52,098 | -- | **295,415** |
| Transfers | | 524,749 | | | (524,749) | | **--** |
| Disposals | -- | -- | -- | (11,367) | -- | -- | **(11,367)** |
| **At Aug. 31, 2016** | | **$ 613,335** | **$ --** | **$ 697,765** | **$ 40,215** | $ -- | **$ 1,351,315** |
| **Net book value** | | | | | | | |
| At May 31, 2015 | -- | -- | -- | $ 1,277,151 | $ 2,044,309 | $ 304,701 | **$ 3,626,161** |
| At May 31, 2016 | -- | -- | -- | $ 2,945,127 | $ 4,299,287 | $ 64,806 | **$ 7,309,220** |
| **At Aug. 31, 2016** | **$ 1,300,000** | **$ 7,686,735** | **$ 41,361** | **$ 2,959,021** | **$ 222,080** | **$ 1,013,777** | **$ 13,222,974** |

Included in cost of goods sold, net is 14,021 of expense related to the disposition and usage of bearer plants.

## 10. Intangible Assets

| | Other intangibles | CannWay brand | Total intangible assets |
|---|---|---|---|
| **Cost** | | | |
| At May 31, 2015 | $ 107,995 | $ -- | **$ 107,995** |
| Additions | 53,705 | 4,428,000 | **4,481,705** |
| At May 31, 2016 | 161,700 | 4,428,000 | **4,589,700** |
| Additions | 1,285,042 | -- | **1,285,042** |
| **At August 31, 2016** | **$ 1,446,742** | **$ 4,428,000** | **$ 5,874,742** |
| **Accumulated amortization** | | | |
| At May 31, 2015 | $ 33,397 | $ -- | **$ 33,397** |
| Amortization | 54,123 | 184,500 | **238,623** |
| At May 31, 2016 | 87,520 | 184,500 | **272,020** |
| Amortization | 48,763 | 110,700 | **159,463** |
| **At August 31, 2016** | **$ 136,283** | **$ 295,200** | **$ 431,483** |
| **Net book value** | | | |
| At May 31, 2015 | $ 74,598 | $ -- | **$ 74,598** |
| At May 31, 2016 | $ 74,180 | $ 4,243,500 | **$ 4,317,680** |
| **At August 31, 2016** | **$ 1,310,459** | **$ 4,132,800** | **$ 5,443,259** |

## 11. Bank Indebtedness

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

## 12. Long term debt

| | August 31, 2016 | May 31, 2016 |
|---|---|---|
| Term loan – $1,250,000 – 3.99%, 5-year term, with a 10-year amortization, repayable in equal monthly instalments of $12,630 including interest, due in July 2026. | $ 1,241,605 | $ -- |
| Mortgage Payable – $3,750,000 – 3.95%, 5-year term, with a 20-year amortization, repayable in equal monthly instalments of $22,562 including interest, due in July 2036. | 3,739,916 | -- |
| Vendor take-back mortgage owed to related party – $2,850,000 – 6.75%, 5-year term due in June 2021, repayable in equal monthly instalments of $56,097 | 2,769,642 | -- |
| | 7,751,163 | -- |
| Deduct – unamortized finance fees | 24,167 | -- |
| – principal portion included in current liabilities | 731,929 | -- |
| | $ 6,995,067 | -- |

Total long-term debt repayments are as follows:

| | Period ending August 31, |
|---|---|
| Next 12 months | $ 731,929 |
| 2 years | 776,118 |
| 3 years | 823,112 |
| 4 years | 872,642 |
| 5 years | 814,383 |
| Thereafter | 3,732,979 |
| Balance of obligation | $ 7,751,163 |

The vendor take-back mortgage payable of $2,769,642, owed to a director of the Company, was entered into on June 30, 2016 in conjunction with the acquisition of the property at 265 Talbot St West. The mortgage is secured by a second charge on the property at 265 Talbot St West.

The mortgage payable of $3,739,916 and term loan of $1,241,605 were entered into on July 22, 2016 and are secured by a first charge on the property at 265 Talbot St West and a first position on a general security agreement.

## 13. Related party transactions

Prior to going public, the Company funded operations through the support of related parties. Since going public, the Company has continued to leverage the purchasing power of these related parties for certain of its growing related expenditures. The balance owing to related parties as at August 31, 2016 was $nil (May 31, 2016 - $nil). These parties are related as they are corporations that are controlled by certain officers and directors of the Company.

| | Amount |
|---|---|
| Balance as at May 31, 2016 | $ -- |
| Related party charges in period | 195,368 |
| Payments to related parties in period | (195,368) |
| **Balance as at August 31, 2016** | **$ --** |

During the three months ended August 31, 2016, related party corporations charged or incurred expenditures on behalf of the Company (including rent) totalling $195,368 (2015 - $245,381). Included in this amount was rent of $24,855 charged during the three months ended August 31, 2016 (2015 - $34,662).

Key management personnel compensation was comprised of:

| | **August 31, 2016** | August 31, 2015 |
|---|---|---|
| Salaries | **$212,309** | $ 122,954 |
| Short-term employment benefits (included in office and general) | **11,015** | 3,498 |
| Share-based compensation | **95,979** | 12,744 |
| | **$319,303** | $ 139,196 |

Directors and officers of the Company control 24.1% of the voting shares of the Company.

## 14. Share capital

The Company is authorized to issue an unlimited number of common shares. As at August 31, 2016, the Company has issued 90,196,539 shares.

| Common Shares | Number of Shares | Amount |
|---|---|---|
| Balance at May 31, 2016 | 70,053,933 | $ 40,916,880 |
| Warrants exercised | 2,626,253 | 3,874,568 |
| Bought deal, net of issuance | 17,250,000 | 31,968,824 |
| Options exercised | 266,353 | 289,872 |
| **Balance at August 31, 2016** | **90,196,539** | **$ 77,050,144** |

a) Throughout the quarter, 2,626,253 warrants with exercise prices ranging from $1.20 to $1.75 were exercised for $3,874,568.

b) In August 2016, the Company closed a bought deal financing in which it issued 17,250,000 common shares at a purchase price of $2.00 per share.

c) Throughout the quarter, 266,353 stock options with exercise prices ranging from $0.60 to $1.18 were exercised for $289,872

The following table presents the maximum number of shares that would be outstanding if all the dilutive "in the money" instruments outstanding as at August 31, 2016 were exercised:

| | |
|---|---|
| Common shares outstanding at August 31, 2016 | 90,196,539 |
| Warrants outstanding and "in the money" | 16,045,429 |
| Options outstanding and "in the money" | 5,083,454 |
| **Fully diluted balance at August 31, 2016** | **111,325,422** |

## 15. Warrants

The warrant details of the Company are as follows:

| Type of warrant | Expiry date | Number of warrants | Weighted average price | Amount |
|---|---|---|---|---|
| Compensation warrant / option | December 11, 2017 | 318,469 | $ 1.30 | 158,300 |
| Warrant | December 11, 2018 | 3,978,180 | $ 1.75 | -- |
| Compensation warrant / option | June 3, 2019 | 618,333 | $ 0.60 | 216,261 |
| Warrant | December 2, 2019 | 10,328,179 | $ 1.50 | -- |
| Compensation warrant / option | December 2, 2019 | 802,268 | $ 1.50 | 213,580 |
| **Balance at August 31, 2016** | | **16,045,429** | **$ 1.52** | **$ 588,141** |

| | August 31, 2016 | | May 31, 2016 | |
|---|---|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Outstanding, beginning of the period | 18,721,987 | $ 1.51 | 18,093,728 | 1.37 |
| Expired during the period | (50,305) | 1.20 | -- | -- |
| Issued during the period | -- | -- | 5,756,235 | 1.67 |
| Exercised during the period | (2,626,253) | 1.44 | (5,127,976) | 1.18 |
| Cancelled during the period | -- | -- | -- | -- |
| Outstanding, end of period | 16,045,429 | $ 1.52 | 18,721,987 | $ 1.51 |

## 16. Share based payment reserve

Share based payment reserve is comprised of:

| | August 31, 2016 | August 31, 2015 |
|---|---|---|
| Balance, beginning of year | $ 1,723,903 | $ 1,261,589 |
| Amounts deducted from share-based payment reserve in respect of stock options exercised during the period | (69,571) | -- |
| Amounts charged to share-based payment reserve in respect of stock based compensation | 203,095 | 47,013 |
| **Balance, end of year** | $1,857,427 | $1,308,602 |

## 17. 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 Company recognized a share-based compensation expense of $203,095 during the three months ended August 31, 2016 (2015 - $47,013). The total fair value of options granted during the period was $354,669 (2015 - $12,812).

| | August 31, 2016 | | May 31, 2016 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of the period | 4,975,000 | $ 0.84 | 4,520,000 | 0.81 |
| Exercised during the period | (294,546) | $ 0.93 | -- | -- |
| Issued during the period | 423,000 | $ 1.47 | 565,000 | $ 1.13 |
| Cancelled during the period | (20,000) | $ 1.12 | (110,000) | 1.08 |
| Outstanding, end of period | 5,083,454 | $ 0.89 | 4,975,000 | $ 0.84 |
| Exercisable, end of period | 3,917,436 | $ 0.79 | 3,906,454 | $ 0.76 |

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

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

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

The option details of the Company are as follows:

| Expiry date | Exercise price | Number of options | Vested and exercisable |
|---|---|---|---|
| November 2017 | $ 1.10 | 420,454 | 280,454 |
| December 2017 | $ 1.10 | 940,000 | 214,320 |
| March 2018 | $ 0.90 | 45,000 | 35,000 |
| April 2018 | $ 1.18 | 150,000 | 150,000 |
| October 2018 | $ 1.17 | 20,000 | 6,667 |
| November 2018 | $ 1.49 | 20,000 | 20,000 |
| December 2018 | $ 1.30 | 195,000 | 195,000 |
| June 2019 | $ 0.60 | 2,570,000 | 2,570,000 |
| September 2020 | $ 0.85 | 200,000 | 200,000 |
| November 2020 | $ 1.19 | 50,000 | 50,000 |
| April 2019 | $ 1.67 | 50,000 | 36,666 |
| June 2021 | $ 1.40 | 283,000 | 94,329 |
| June 2021 | $ 1.48 | 30,000 | 15,000 |
| August 2021 | $ 1.64 | 110,000 | 50,000 |
| Balance at August 31, 2016 | $ 0.88 | 5,083,454 | 3,917,436 |

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 0.44-0.68% on the date of grant; expected life of 3 and 5 years; volatility of 70% based on comparable companies; forfeiture rate of nil; dividend yield of nil; and, exercise price of the respective options.

## 18. Earnings (loss) per share

The calculation of earnings (loss) per share at August 31, 2016 was based on the net income (loss) attributable to common shareholders of $895,269 (2015 loss of: $476,825) and a weighted average number of common shares outstanding of 73,784,801 calculated as follows:

| | 2016 | 2015 |
|---|---|---|
| **Basic earnings (loss) per share:** | | |
| Net income (loss) | **$ 895,269** | $ (476,825) |
| Average number of common shares outstanding during the year | **73,784,801** | 52,479,587 |
| **Earnings (loss) per share** | **$ 0.01** | **$ (0.01)** |

| | 2016 | 2015 |
|---|---|---|
| **Diluted earnings (loss) per share:** | | |
| Net income (loss) | **$ 895,269** | $ (476,825) |
| | | |
| Average number of common shares outstanding during the year | **73,784,801** | 52,479,587 |
| "in the money" warrants outstanding during the period | **5,133,469** | -- |
| "in the money" options outstanding during the period | **3,156,954** | -- |
| | **82,075,224** | 52,479,587 |
| **Earnings (loss) per share** | **$ 0.01** | **$ (0.01)** |

## 19. General and administrative expenses

| | For the three months ended August 31 | |
|---|---|---|
| | **2016** | 2015 |
| Executive compensation | **$ 212,309** | $ 122,954 |
| Consulting fees | **44,765** | 9,900 |
| Office and general | **291,144** | 120,511 |
| Professional fees | **106,007** | 35,826 |
| Salaries and wages | **224,648** | 66,090 |
| Travel and accommodation | **72,566** | 58,811 |
| Rent | **8,153** | 9,840 |
| | **$ 959,592** | $ 423,932 |

## 20. Financial risk management and financial instruments

### Financial instruments

The Company has classified its cash and cash equivalents and long-term investments as fair value through profit or loss, accounts receivable and other receivables and promissory notes receivable as loans and receivables, and accounts payable and accrued liabilities, and long-term debt as other financial liabilities.

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

The Company's long-term debt of $7,496,196 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.

### 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 | August 31,2016 |
|---|---|---|---|---|
| **Financial assets at FVTPL** | | | | |
| Cash and cash equivalents | $ 53,452,414 | $ -- | $ -- | $ 53,452,414 |
| Long-term investments | -- | -- | 2,685,200 | 2,685,200 |
| | $ 53,452,414 | $ -- | $ 2,685,200 | $ 56,137,614 |
| **Financial liabilities at amortized cost** | | | | |
| Accounts payable and accrued liabilities | $ 2,679,846 | $ -- | $ -- | 2,679,846 |
| Current portion of long-term debt | 731,929 | -- | -- | 731,929 |
| Long-term debt | 6,995,067 | -- | -- | 6,995,067 |
| | $ 10,406,842 | $ -- | $ -- | $ 10,406,842 |

| | Level 1 | Level 2 | Level 3 | May 31, 2016 |
|---|---|---|---|---|
| **Financial assets at FVTPL** | | | | |
| Cash | $ 16,472,664 | $ -- | $ -- | $ 16,472,664 |
| Long-term investments | -- | -- | 1,560,200 | 1,560,200 |
| | $ 16,472,664 | $ -- | $ 1,560,200 | $ 18,032,864 |
| **Financial liabilities at amortized cost** | | | | |
| Accounts payable and accrued liabilities | $ 1,266,492 | $ -- | $ -- | $ 1,266,492 |
| | $ 1,266,492 | $ -- | $ -- | $ 1,266,492 |

### Fair value versus carrying amounts

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

| As at August 31, 2016 | FVTPL | Loans and receivables | Carrying amount | Fair value |
|---|---|---|---|---|
| FINANCIAL ASSETS | | | | |
| Cash and cash equivalents | $ 53,452,414 | $ -- | $ 53,452,414 | $ 53,452,414 |
| Accounts receivable | -- | 2,539,510 | 2,539,510 | 2,539,510 |
| Other receivables | -- | 193,051 | 193,051 | 193,051 |
| Promissory note receivable | -- | 191,019 | 191,019 | 191,019 |
| Long-term investments | 2,685,200 | -- | 2,685,200 | 2,685,200 |
| | $ 56,137,614 | $ 2,923,580 | $ 59,061,194 | $ 59,061,194 |

| As at May 31, 2016 | FVTPL | Loans and receivables | Carrying amount | Fair value |
|---|---|---|---|---|
| FINANCIAL ASSETS | | | | |
| Cash and cash equivalents | $ 16,472,664 | $ -- | $ 16,472,664 | $ 16,472,664 |
| Accounts receivable | -- | 1,778,679 | 1,778,679 | 1,778,679 |
| Other receivables | -- | 126,952 | 126,952 | 126,952 |
| Promissory note receivable | -- | 567,588 | 567,588 | 567,588 |
| Long-term investments | 1,560,200 | -- | 1,560,200 | 1,560,200 |
| | $ 18,032,864 | $ 2,473,219 | $ 20,506,083 | $ 20,506,083 |

## 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, 2016 is the carrying amount of cash and cash equivalents, accounts receivable and other receivables and promissory notes receivable. The Company does not have significant credit risk with respect to customers. All cash and cash equivalents are placed with major Canadian financial institutions.

| | **Total** | 0-30 days | 31-60 days | 60-90 days | 90+ days |
|---|---|---|---|---|---|
| Trade receivables | **$ 2,539,510** | $ 1,156,949 | $ 911,690 | $ 245,409 | $ 225,462 |
| | | 46% | 36% | 10% | 8% |

(b) Liquidity risk

As at August 31, 2016, the Company's financial liabilities consist of accounts payable and accrued liabilities which has contractual maturity dates within one year and long-term debt which has contractual maturities over the next five years. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company's working capital position at August 31, 2016, management regards liquidity risk to be low.

(c) Capital management

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. 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.

## 21. Commitments

The Company has a lease commitment until December 31, 2018 for rental of office space from a related party. The Company has an option to extend this lease for two additional 5 year periods. In July of 2016, the Company terminated its lease of greenhouse and warehouse property in conjunction with the acquisition of the 265 Talbot Street West property. The Company has a lease commitment until March 2019 for the rental of a motor vehicle in the amount of $19,599 annually. Minimum payments payable over the next five years are as follows:

| | Periods ending May 31, |
|---|---|
| 2017 | $ 44,260 |
| 2018 | 52,311 |
| 2019 | 38,681 |
| 2020 | 19,599 |
| 2021 | 3,267 |
| | $ 158,118 |

## 22. Subsequent events

Subsequent to the end of the quarter, the Company closed on the previously announced purchase and sale agreement with DiNiro Farms Inc. acquiring 11 acres of additional property adjacent to its existing campus for a $2,100,000 cash payment. The 11 acres of abutting property includes 345,000 square feet of existing greenhouses. Concurrent with this transaction, the abutting property will be merged into Aphria’s existing municipal address, thereby avoiding the need to apply for a new Health Canada site licence.

Subsequent to the end of the quarter, the Company announced a licensing deal with Tokyo Smoke, a premium cannabis-oriented lifestyle brand. The deal allows Aphria to ship Tokyo Smoke branded cannabis in Canada to registered patients through the *Access to Cannabis for Medical Purposes Regulations* (“ACMPR”) system. As part of the deal, the Company issued 38,759 common shares and 200,000 common share purchase warrants exercisable for 5 years at an exercise price of $3.14 per warrant. The warrants will be held in escrow subject to the achievement of certain sales thresholds.

Subsequent to the end of the quarter, the Company announced that its Board of Directors approved a fully funded $24,500,000 capital project as the first phase of its Part III expansion. The project will increase Aphria’s capacity under the ACMPR from 100,000 square feet to 300,000 square feet.

Subsequent to the end of the quarter, the Company issued 75,000 stock options to employees and consultants of the Company. 25,000 of the options vest immediately and the remainder vest based on achievement of certain operating metrics. The options were issued at an exercise price of $3.00 per options and expire on September 8, 2019.