CONSOLIDATED FINANCIAL STATEMENTS
FOR THE TWELVE MONTHS ENDED MAY 31, 2015
AND THIRTEEN MONTHS ENDED MAY 31, 2014

(Expressed in Canadian Dollars, unless otherwise noted)

To the Shareholders of Aphria Inc.

We have audited the accompanying consolidated financial statements of Aphria Inc., which comprise the consolidated statements of financial position as at May 31, 2015 and 2014, and the consolidated statements of loss and comprehensive loss, changes in equity (deficiency), and cash flows for the year mended May 31, 2015 and the thirteen month period ended May 31, 2014, and a summary of significant maccounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aphria Inc. as at May 31, 2015 and 2014, and its financial performance and its cash flows for the year ended May 31, 2015 and the thirteen month period ended May 31, 2014 in accordance with International Financial Reporting Standards.

Toronto, Ontario
September 8, 2015

"MNP LLP"

Chartered Professional Accountants
Licensed Public Accountants

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Toronto On, M9c 1A3
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	Note		May 31, 2015		May 31, 2014
Assets					
Current assets:					
Cash and cash equivalents		$	7,051,909	$	170,455
Other receivables	11		759,528		-
Inventory	5		1,724,247		-
Biological assets	6		288,858		-
Prepaid expenses			167,270		-
Current portion of promissory notes receivable	8		346,255		-
			10,338,067		170,455
Property and equipment	7		3,626,161		1,568,796
Intangible assets	7		74,598		-
Promissory notes receivable	8		253,745		-
		$	14,292,571	$	1,739,251
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable and accrued liabilities		$	947,223	$	1,000,172
Due to related parties	9		-		2,912,060
			947,223		3,912,232
Shareholders' equity (deficit):					
Share capital	10		20,246,095		2,500
Warrants	10		556,589		-
Share-based payment reserve	10		1,261,589		-
Deficit			(8,718,925)		(2,175,481)
			13,345,348		(2,172,981)
		$	14,292,571	$	1,739,251

Nature of operations (Note 1)
Commitments (Note 12)
Subsequent events (Note 15)

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

	Note	Year ended May 31, 2015	13 months ended May 31, 2014
Revenue		$ 551,430	$ -
Cost of sales:			
Cost of goods sold	5	433,262	-
Pre-distribution growing costs		321,028	463,343
Change in biological assets	6	(997,711)	-
Gross profit		794,851	(463,343)
Expenses:			
General and administrative	13	2,082,417	985,985
Share-based compensation	10	1,261,589	-
Selling, marketing and promotion		720,217	105,000
Amortization and depreciation	7	56,707	12,309
Research and development		69,528	-
Loss from operations		(3,395,607)	(1,566,637)
Listing costs	4	(3,278,068)	-
Finance income		130,231	-
Net loss and comprehensive loss		$ (6,543,444)	$ (1,566,637)
Weighted average number of common shares		45,386,330	21,328,485
Loss per share - basic and diluted		$ (0.14)	$ (0.07)

	Note	Number of common shares	Share capital	Warrants	Share-based payment reserve	Deficit	Total
Balance at April 30, 2013		106,667	$ 10	$ -	$ -	$ (608,844)	$ (608,834)
Shares issued		26,560,000	2,490	-	-	-	2,490
Net loss for the period		-	-	-	-	(1,566,637)	(1,566,637)
Balance at May 31, 2014		26,666,667	$2,500	$ -	$ -	$(2,175,481)	$(2,172,981)
Shares issued, net of issuance costs	10	10,346,253	5,535,748	216,261	-	-	5,752,009
Conversion of due to related parties	10	1,666,667	1,000,000	-	-	-	1,000,000
Subscription receipt shares, net of issuance costs	10	11,500,000	11,177,847	340,328	-	-	11,518,175
Shares retained by Black Sparrow shareholders	4	2,300,000	2,530,000	-	-	-	2,530,000
Share-based payments		-	-	-	1,261,589	-	1,261,589
Net loss for the year		-	-	-	-	(6,543,444)	(6,543,444)
Balance at May 31, 2015		52,479,587	$ 20,246,095	$ 556,589	$ 1,261,589	$ (8,718,925)	$ 13,345,348

	Note	Year ended May 31, 2015	13 months ended May 31, 2014
Cash flows from operating activities:			
Net loss for the period		$ (6,543,444)	$ (1,566,637)
Adjustments for			
Amortization and depreciation	7	380,878	12,309
Share-based compensation	10	1,261,589	-
Change in biological assets	6	(997,711)	-
Non-cash listing costs	4	2,468,020	-
Change in non-cash operating working capital			
Other receivables		(743,170)	-
Inventory		(726,536)	-
Biological assets		(288,858)	-
Prepaid expenses		(167,270)	-
Accounts payable and accrued liabilities		(86,515)	1,000,172
		(5,443,017)	(554,156)
Cash flows from financing activities:			
Share capital issued, net of cash issuance costs	10	17,270,184	2,490
Increase in due to related parties	9	574,951	2,920,120
Repayment of due to related parties	9	(2,487,011)	(631,864)
		15,358,124	2,290,746
Cash flows from investing activities:			
Investment in property and equipment	7	(2,404,846)	(1,566,145)
Investment in intangible assets	7	(107,995)	-
Investment in promissory notes receivable	8	(600,000)	-
Net cash acquired in reverse takeover	4	79,188	-
		(3,033,653)	(1,566,145)
Increase in cash and cash equivalents during the period		6,881,454	170,445
Cash and cash equivalents, beginning of period		170,455	10
Cash and cash equivalents, end of period		$ 7,051,909	$ 170,455

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 (refer to note 4).

These financial statements were approved by the Company's board of directors on September 8, 2015.

2. BASIS OF PREPARATION

(a) Statement of compliance
The Company's financial statements 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 items that are measured at fair value, 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

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

(a) Revenue
Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is recognized when all the following conditions have been satisfied, which are generally met once the products are shipped to customers.

- The Company has transferred the significant risks and rewards of ownership of the goods to the purchaser;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

(b) Cash and cash equivalents
Cash and cash equivalents are comprised of cash and highly liquid investments that are readily convertible into known amounts of cash with original maturities of three months or less.

(c) Inventory
Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Inventories of harvested cannabis are transferred from biological assets into inventory at their fair value at harvest less costs to complete and sell, which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. Packaging and supplies are initially valued at cost.

(d) Biological assets
The Company's biological assets consist of medical cannabis plants. These biological assets are measured at fair value less costs to sell and costs to complete. At the point of harvest, the biological assets are transferred to inventory at fair value less costs to sell and costs to complete.

Gains or losses arising from changes in fair value less cost to sell are included in the results of operations of the related period.

(e) Property and equipment
Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated using the following terms and methods:

Production equipment	Straight-line	5-10 years
Office equipment	Straight-line	3-5 years
Leasehold improvements	Straight-line	over lease term

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 statement of loss and comprehensive loss in the period the asset is derecognized.

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

(f) Intangible assets
Intangible assets are comprised of an e-commerce platform and are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis over the estimated useful life of 2 years.

(g) Impairment of non-financial assets
Long-term non-financial assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may exceed its recoverable amount. For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit, or "CGU"). An impairment loss is recognized for the amount, if any, by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and the value in use (being the present value of expected future cash flows of the asset or CGU). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized.

(h) Income taxes
Income tax expense consisting of current and deferred tax expense is recognized in the statement of loss. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period 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.

(i) Earnings per share
Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. The dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. 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.

The stock split in 2014 has been applied retrospectively as if it had occurred at the beginning of the periods presented.

(j) Share-based compensation
The Company has a stock option plan in place. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Fair value is measured using the Black-Scholes option pricing model. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. Any revisions are recognized in profit or loss such that the cumulative expense reflects the revised estimate.

(k) Research and development
Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized in profit and loss as incurred.

(l) Financial instruments

Financial assets are classified into one of four categories:

- fair value through profit or loss ("FVTPL");
- held-to-maturity ("HTM");
- available for sale ("AFS"); and
- loans and receivables.

(i) FVTPL financial assets

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL. Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in profit or loss. Transaction costs are expensed as incurred.

(ii) HTM investments

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs and subsequently at amortized cost.

(iii) AFS financial assets

AFS financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories. Gains and losses arising from changes in fair value are recognized in other comprehensive income.

(iv) Loans and receivables

Loans and receivables are financial assets having fixed or determinable payments that are not quoted in an active market. They are initially recognized at the transaction value and subsequently carried at amortized cost less, when material, a discount to reduce the loans and receivables to fair value.

(v) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized; the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

(vi) Financial liabilities and other financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities at FVTPL are stated at fair value, with changes being recognized through profit or 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.

(vii) Classification of financial instruments

Cash and cash equivalents – FVTPL
Other receivables – loans and receivables
Promissory notes receivable – loans and receivables
Accounts payable and accrued liabilities – other financial liabilities
Due to related parties – other financial liabilities

(m) 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.

Biological assets and inventory

Management is required to make a number of estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions such as estimating the stage of growth of the cannabis, harvesting costs, sales price, and expected yields.

Share-based compensation

The fair value of share-based compensation expenses are estimated using the Black-Scholes option pricing model and rely on a number of estimates, such as the expected life of the option, the volatility of the underlying share price, the risk free rate of return, and the estimated rate of forfeiture of options granted.

Estimated useful lives and amortization of property and equipment and intangible assets

Amortization of property and equipment and intangible assets is dependent upon estimates of useful lives based on management judgment.

(n) Adoption of new and revised accounting policies

The Company assessed the effects of amendments to IAS 32 - Offsetting Financial Assets and Liabilities and IAS 36 - Impairment of Assets, which are effective retrospectively for annual periods beginning on or after January 1, 2014. The Company determined there was no significant impact from these adoptions.

(o) New standards and interpretations issued but not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended May 31, 2015, 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. REVERSE ACQUISITION

In December 2014, the Company completed its proposed transaction between Black Sparrow and PNW as previously disclosed in July 2014. PNW amalgamated with a new and direct wholly-owned subsidiary of Black Sparrow to become a direct, wholly-owned subsidiary of Black Sparrow. Black Sparrow changed its name to Aphria Inc. and remains as the resulting issuer. The transaction constituted the qualifying transaction of Black Sparrow under the policies of the TSX-V.

Immediately prior to the completion of the transaction, Black Sparrow consolidated its issued and outstanding common shares on the basis of one post-consolidation common share for each ten pre-consolidation common shares held. By way of a three-cornered amalgamation, Black Sparrow acquired all of the issued and outstanding shares of PNW by issuing one post-consolidation share for each PNW common share held. Each of the stock options and warrants to purchase common shares of PNW thereafter is exercisable for one post-consolidation common share of Aphria Inc.

This transaction has been accounted for as a reverse acquisition that does not constitute a business combination. For accounting purposes, the legal subsidiary, PNW, has been treated as the acquirer and Black Sparrow, the legal parent, has been treated as the acquiree.

Consideration transferred (2,300,000 shares at a price of $1.10 per share)	$	2,530,000
Net assets acquired:		
Cash and cash equivalents	$	79,188
Other receivables		16,358
Accounts payable and accrued liabilities		(33,566)
		61,980
Excess attributed to cost of listing		2,468,020
	$	2,530,000

Listing cost:		
Excess attributed to cost of listing	$	2,468,020
Legal		570,034
Professional, consulting and other fees		240,014
	$	3,278,068

For accounting purposes, these consolidated financial statements reflect a continuation of the financial position, operating results and cash flows of the Company's legal subsidiary, PNW.

5. INVENTORY

		2015		2014
Harvested cannabis	$	1,655,259	$	-
Packaging and supplies		68,988		-
	$	1,724,247	$	-

The cost of inventories recognized as an expense in cost of sales was $405,466 during the year ended May 31, 2015 (2014 - $nil), with the remainder related to the sale of biological assets.

6. BIOLOGICAL ASSETS

		Amount
Balance at April 30, 2013 and May 31, 2014	$	-
Increase in fair value less costs to sell due to biological transformation		2,350,558
Transferred to inventory upon harvest		(2,033,904)
Sale of biological assets		(27,796)
Balance at May 31, 2015	$	288,858

The increase in fair value less costs to sell over and above historical cost was $997,711 during the year (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.

7. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Production equipment	Office equipment	Leasehold improvements	Construction in process	Total Property and equipment	Intangible assets
Cost						
At April 30, 2013	$ 15,333	$ -	$ -	$ -	$ 15,333	$ -
Additions	671,216	32,002	862,927	-	1,566,145	-
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
Accumulated depreciation						
At April 30, 2013	$ 373	$ -	$ -	$ -	$373	$ -
Expense for the period	8,352	1,241	2,716	-	12,309	-
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
Net book value						
At April 30, 2013	$ 14,960	$ -	$ -	$ -	$ 14,960	$ -
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

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

8. PROMISSORY NOTES RECEIVABLE

The Company advanced a total of $600,000 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. Another promissory note of $100,000 is non-interest bearing and is repayable in March 2016.

9. 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 $nil to related parties as at May 31, 2015 (2014 - $2,912,060). 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 year ended May 31, 2015, the Company repaid $2,487,011 due to related parties, and converted another $1,000,000 that was due to related parties into share capital (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.

Key management compensation:

	Year ended May 31, 2015	13 months ended May 31, 2014
Short-term	$ 679,692	$ 673,750
Share-based compensation	908,142	-
Total	$ 1,587,834	$ 673,750

During the year ended May 31, 2015, related party corporations charged or incurred expenditures on behalf of the Company (including rent) totalling $574,951 (2014 - $2,120,120, inclusive of a management and administrative fee of approximately 15%) which were reimbursed.

The Company leased greenhouse and office space from a corporation over which an officer and director of the Company has control. Total rent of $105,935 was charged during the year ended May 31, 2015 (2014 - $102,500).

10. SHARE CAPITAL

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

Common shares		Number of shares	Amount
Balance at April 30, 2013		106,667	$ 10
Shares issued	(a)	26,560,000	2,490
Balance at May 31, 2014		26,666,667	2,500
Private placement, net of issuance costs	(b)	10,346,253	5,535,748
Conversion of due to related parties	(c)	1,666,667	1,000,000
Private placement, net of issuance costs	(d)	11,500,000	11,177,847
Shares retained by Black Sparrow shareholders	(e)	2,300,000	2,530,000
Balance at May 31, 2015		52,479,587	$ 20,246,095

During the 13 month period ended May 31, 2014, the Company ratified a share split of 106.666668 post-split shares for each pre-split share, bringing the total outstanding shares to 26,666,667.

(a) In July 2013, the Company issued 26,560,000 shares for gross proceeds of $2,490.

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

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

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

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

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

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

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
Balance at May 31, 2014		N/A	-	-
Granted - June 2, 2014	June 2, 2019	$0.60	2,600,000	2,600,000
Granted - August 18, 2014	August 18, 2019	$1.10	50,000	50,000
Granted - November 2014	November 2017	$1.10	480,000	170,000
Granted - December 2, 2014	December 2, 2017	$1.10	1,020,000	112,640
Granted - March 17, 2015	March 17, 2018	$0.90	205,000	25,000
Granted - April 7, 2015	April 7, 2018	$1.18	165,000	5,000
Balance at May 31, 2015		**$0.81**	**4,520,000**	**2,962,640**

The Company recognized a share-based compensation expense of $1,261,589 during the year ended May 31, 2015 (2014 - $nil). The total fair value of options granted during the year was $1,877,736 (2014 - $nil).

In June 2014, the Company issued 2,600,000 stock options at an exercise price of $0.60 per share, exercisable for 5 years expiring in June 2019. The options vested upon the Company listing on a public stock exchange.

In August 2014, the Company issued 50,000 stock options at an exercise price of $1.10 per share, exercisable for 5 years expiring in August 2014. The options vested upon the Company listing on a public stock exchange.

In November 2014, the Company issued 480,000 stock options at an exercise price of $1.10 per share, exercisable for 3 years expiring in November 2017. 465,000 of the options vest 1/3 upon the Company listing on a public stock exchange, 1/3 on the first anniversary of listing, and 1/3 on the second anniversary of listing. The remaining 15,000 of the options granted vested upon the Company listing on a public stock exchange.

In December 2014, the Company issued 1,020,000 stock options at an exercise price of $1.10 per share, exercisable for 3 years expiring in December 2017. 100,000 of the options vested immediately. 320,000 of the options vest based on certain performance conditions after 15 months. 600,000 options vest based on certain performance conditions assessed every quarter over the life of the options.

In March 2015, the Company issued 205,000 stock options at an exercise price of $0.90 per share, exercisable for 3 years expiring in March 2018. 15,000 of the options vested immediately. 30,000 options vest 1/3 immediately, 1/3 on the first anniversary of grant, and 1/3 on the second anniversary. The remaining options vest based on certain performance conditions.

In April 2015, the Company issued 165,000 stock options at an exercise price of $1.18 per share, exercisable for 3 years expiring in April 2018. 15,000 options vest 1/3 immediately, 1/3 on the first anniversary of grant, and 1/3 on the second anniversary. The remaining options vest based on certain performance conditions.

The Company uses the Black Scholes option pricing model to determine the fair value of options granted using the following assumptions:

	2015	2014
Volatility - estimate based on comparable companies	70%	N/A
Risk-free interest rate	0.48% to 1.56%	N/A
Expected life (years)	3 to 5 years	N/A
Dividend yield	Nil	N/A
Forfeiture rate	0%-50%	N/A
Exercise price	$0.60 to $1.18	N/A
Share price	$0.60 to $1.18	N/A

WARRANTS

In June 2014, as part of the private placement for 10,346,253 units, the Company issued 5,173,127 common share purchase warrants. Each whole common share purchase warrant is exercisable for one common share at $1.20 per share for a period of 24 months expiring in June 2016. The full proceeds were allocated to the common share and $nil to the warrant.

618,333 compensation warrants were also issued at a value of $216,261. Each compensation warrant is exercisable for one common share at an exercise price of $0.60 per share for a period of 5 years expiring in June 2019. The Company used the Black-Scholes option pricing model to determine the fair value of compensation warrants granted using the following assumptions: volatility of 70%, risk-free rate of 1.56%, expected life of 5 years, dividend yield of nil, and share price of $0.60.

In December 2014, as part of the subscription receipt private placement for 11,500,000 units, the Company issued 11,500,000 common share purchase warrants. Each whole common share purchase warrant is exercisable for one common share at $1.50 per share for a period of 5 years expiring in December 2019. The full proceeds were allocated to the common share and $nil to the warrant.

As part of this placement, 802,268 compensation options exercisable for one common share and one purchase warrant were issued to the agents. Each Compensation Option is exercisable at a price of $1.10 for a period of 24 months expiring in December 2016. Purchase warrants received upon exercise would be exercisable for one common share at $1.50 per share. The Compensation Options were valued at $340,328 using the Black-Scholes option pricing model. The fair value was determined using the following assumptions: volatility of 70%, risk-free rate of 1.01%, expected life of 2 years, dividend yield of nil, and share price of $1.10.

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 May 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 May 31, 2015	1,420,601	$0.88

11. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS

The Company has classified its cash and cash equivalents as FVTPL, 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.

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 May 31, 2015 is the carrying amount of cash and cash equivalents, other receivables and 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 May 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 May 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 May 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.

12. 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	$	138,647
2017		138,647
2018		138,647
2019		80,877
Total	$	496,818

The Company has a commitment to fund additional sponsorships of patient studies over the next 2 years of up to $360,000, based on minimum patient enrollments in the study.

13. GENERAL AND ADMINISTRATIVE EXPENSES

		Year ended May 31, 2015		13 months ended May 31, 2014
Executive compensation	$	679,692	$	673,750
Consulting fees		390,893		145,000
Office and general		380,063		15,130
Professional fees		259,488		48,031
Salaries and wages		162,235		-
Travel and accomodation		147,136		1,574
Rent		62,910		102,500
	$	2,082,417	$	985,985

14. INCOME TAXES AND DEFERRED INCOME TAXES

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

		Year ended May 31, 2015		13 months ended May 31, 2014
Loss before income taxes	$	6,543,444	$	1,566,637
Statutory rate		26.5%		26.5%
Expected income tax recovery at combined basic federal and provincial tax rate		(1,734,013)		(415,159)
Effect on income taxes of:				
Non-deductible share based compensation and other expenses		345,266		704
Non-deductible transaction expense		707,691		-
Non-capital loss carryforwards acquired on reverse takeover		(39,980)		-
Deductible share issuance costs		(420,707)		-
Tax assets not recognized		1,141,743		414,455
Income tax expense (recovery)	$	-	$	-

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

	2015	2014
Non-capital loss carry forward	$4,872,419	$2,160,143
Undepreciated capital cost in excess of net book value	393,558	12,682
Cumulative eligible capital	607,536	-
Deductible share issuance costs to be claimed	1,391,794	-
Biological assets and inventory in excess of tax cost	(784,021)	-

The Company has non-capital losses available for deduction against taxable income that expire as follows:

2031	$(611,288)
2032	(230,653)
2033	(1,384,987)
2034	(1,792,437)
2035	(853,054)
	$(4,872,419)

15. SUBSEQUENT EVENTS

Subsequent to the period, the Company granted 30,000 stock options at an exercise price of $0.93 per share for a period of 3 years. The options vest 1/3 upon grant, 1/3 upon the first anniversary and 1/3 upon the second anniversary.