Canopy Growth Corporation

Management's Discussion and Analysis of the Financial Condition and Results of Operations

For the three months ended June 30, 2016 and 2015

August 28, 2016

On July 25, 2016, Canopy Growth Corporation ("the Company" or "Canopy Growth") announced that it had received final approval for the listing of the Company's common shares on the Toronto Stock Exchange ("TSX"). The common shares commenced trading on the TSX effective as of the open of the market on July 26, 2016. Upon listing on the TSX, the common shares continued to trade under the symbol "CGC". In conjunction with listing on the TSX, the common shares were delisted from the TSX Venture Exchange prior to the commencement of trading on the TSX.

This Management's Discussion and Analysis (MD&A) is dated August 28, 2016. It should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements (the "Interim Financial Statements") for the quarter ended June 30, 2016, including the accompanying notes.

Unless otherwise indicated, all financial information in this MD&A is reported in thousands of Canadian dollars, except share amounts. We prepared this Management's Discussion and Analysis of the Financial Condition and Results of Operations ("MD&A") with reference to National Instrument 52-109 – Continuous Disclosure Obligations of the Canadian Securities Administrators. This MD&A provides information for the quarter ended June 30, 2016 and up to and including August 28, 2016.

By their nature, the Interim Financial Statements do not include all the information required for full annual financial statements. Accordingly, this MD&A should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended March 31, 2016 and the related management's discussion and analysis of financial condition and results of operation for the year ended March 31, 2016 dated July 8, 2016.

The Interim Financial Statements and this MD&A have been reviewed by the Company's Audit Committee and approved by the Company's Board of Directors.

The accompanying Interim Financial Statements were prepared in compliance with International Financial Reporting Standard 34 Interim Financial Reporting ("IAS 34"), in accordance with subparagraph 3.2(1) (b) of NI 52-107 and include the accounts of the Company and its wholly-owned subsidiaries Tweed Inc. ("Tweed") located in Smiths Falls, Ontario, Tweed Farms Inc. ("Tweed Farms") located in Niagara-on-the-Lake, Ontario, Bedrocan Canada Inc. ("Bedrocan") located in Toronto, Ontario, and 9388036 Canada Inc. (a non-operating company). All inter-company balances and transactions have been eliminated on consolidation.

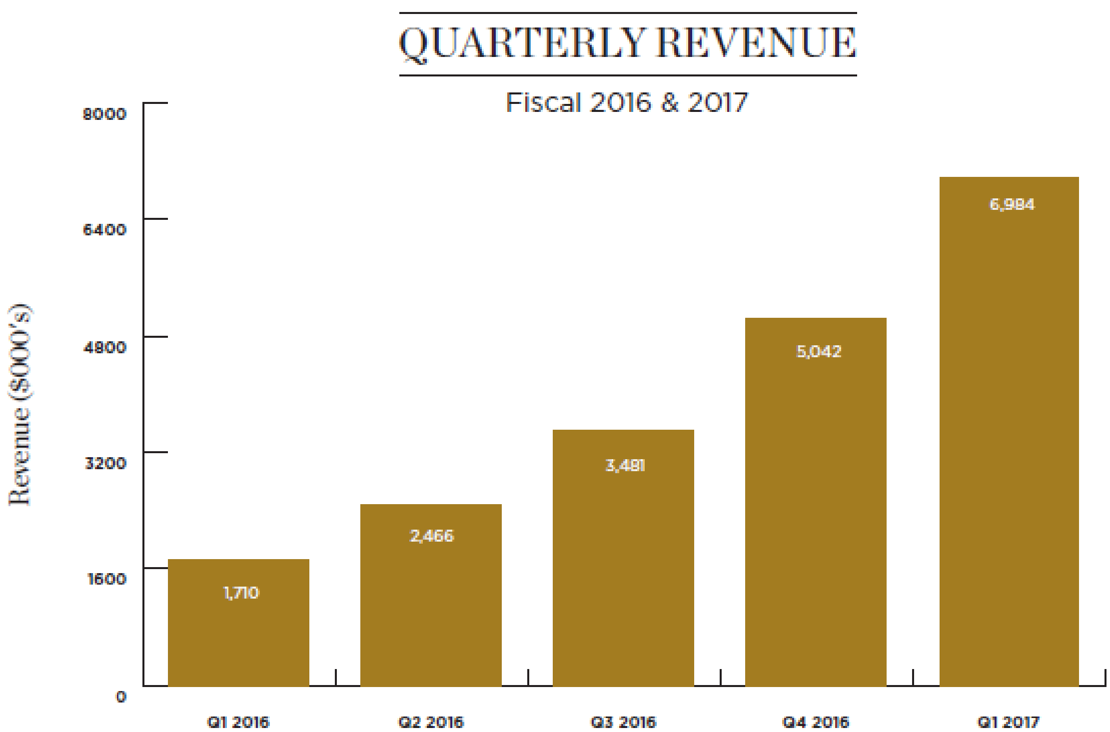
Additional information filed by us with the Canadian Securities Administrators, including quarterly reports, annual reports and annual information forms are available on-line at www.sedar.com and also on our website at www.canopygrowth.com., and Short Form Prospectus with respect to the bought deals dated November 11, 2015, April 8, 2016, and August 18, 2016 are available on-line at www.sedar.com.

FIRST QUARTER FISCAL 2017 HIGHLIGHTS

- Revenue of $6,984; a 39% increase over Q4 of Fiscal 2016 and 308% over the three-month period ended June 30, 2015 when revenue totaled $1,710;
- 984 kilograms and kilogram equivalents[1] sold, representing an increase of 41% over Q4 of Fiscal 2016 and an increase of 356% over Q1 of last year;

- Q1 Adjusted Product Contribution[2] of $4,366 or 62.5% of revenue as compared to an Adjusted Product Contribution of $1,028 and 60.1% of revenue in Q1 of last year;
- Over 16,000 active registered patients at June 30, 2016 and over 21,000 active registered patients at August 28, 2016;
- Cash and cash equivalents were $19,527 at June 30, 2016;
- Closed bought deal financing in Q1, including the underwriters' exercise of the over-allotment option, that raised aggregate gross proceeds of $11,506;
- Tweed entered into a partnership with AusCann Group Holdings Ltd of Australia, where Tweed will provide consultation in a number of areas including production, quality assurance and operations, and strategic advisory services;
- Entered into an agreement with São Paulo-based Entourage Phytolab S.A. Bedrocan International BV and local Brazilian partners to create a new company called Bedrocan Brazil S.A., which will facilitate the importation of Bedrocan Canada's proprietary standardized cannabis varieties and know-how into the Brazilian market. Additionally, the Company will partner with Entourage to develop cannabis-based pharmaceutical medical products for the Brazilian and international markets.

Note 1. Kilogram equivalents refers to 10:1 cannabis oils sold where 10 ml is the equivalent of approximately 1 gram of dried cannabis.
Note 2. A Non-GAAP measure used by management, described elsewhere in this MD&A



RECENT DEVELOPMENTS

Health Canada Responds to the Allard Decision

On August 11, 2016, Health Canada announced the new Access to Cannabis for Medical Purposes Regulations (the "ACMPR") which will come into force on August 24, 2016, replacing the MMPR as the regulations governing Canada's medical cannabis program. While the general policy of the ACMPR was disclosed by Health Canada on August 11, 2016, exact regulations will not be available until on or about August 24, 2016. The ACMPR is being implemented as a result of the Federal Court ruling in the case of Allard v. Canada (the "Allard Decision"). In the Allard Decision the Federal Court found the MMPR to be unconstitutional and of no force and effect, but suspended its declaration of invalidity for six months in order to give the government time to respond. On August 24, 2016, the government released the legislation to put into effect the policy announcement on August 11, 2106.

As per Health Canada's statement and corresponding fact sheet released on August 11, 2016, the ACMPR will allow Canadians who have been authorized by their health care practitioner, and who are registered with Health Canada, to produce a limited amount of medical marijuana for their own medical purposes, or to designate someone who is registered with Health Canada to produce it for them. Starting materials such as plants or seeds are to be obtained from Licensed Producers only. (See "**Risks and Uncertainties"**).

Bought Deal

On August 24, 2016, the Company announced that it had closed its previously announced short form prospectus offering, on a bought deal basis, of 9,453,000 common shares of the Company for aggregate gross proceeds of $34,503 (the "Offering"), inclusive of the over-allotment option granted to the syndicate of underwriters The Offering was completed at a price of $3.65 per common share by a syndicate of underwriters led by GMP Securities L.P. and Dundee Securities Ltd. (the "Co-Lead Underwriters"), INFOR Financial Inc. and PI Financial Corp. (collectively, the "Underwriters"). Both the announced bought deal and the over-allotment option closed on August 24th, 2016.

Canadian Commercial Institution Financing

On August 5, 2016, the Company announced it had closed a $5,500 financing with a commercial institution, comprised of a term loan and a revolving line of credit. This marks the second round of financing with the same lender and the only instance of two rounds of financing with a Licensed Producer in the cannabis sector by this institution.

The 5 year term loan is for approximately $3,500 at a fixed interest rate of 4.9% and a 7 year amortization. The revolving line of credit is for up to $2,000, with a variable interest rate based on the CIBC prime rate plus 1.2% with a 5 year term and interest only payments on drawn amounts. The line of credit was undrawn at closing. The financing is secured by a first charge mortgage on the Tweed Farms property, a first position on a Tweed Farms general security agreement and a specific security interest, backed by a corporate guaranty from Canopy Growth.

Graduation to the TSX

On July 25, 2016, the Company announced it had received approval from the TSX to graduate from the TSXV and list its common shares on the TSX. The Common Shares commenced trading on the TSX effective as of the open of the market on July 26, 2016. Upon listing on the TSX, the common shares continued to trade under the symbol "CGC". In conjunction with listing on the

TSX, the Company's common shares were delisted from the TSX Venture Exchange prior to the commencement of trading on the TSX.

International Development

The Company announced on July 25, 2016 that its wholly owned subsidiary Tweed had received necessary approvals in Canada and Germany to begin export of medical cannabis for sale to German patients. Working with MedCann GmbH Pharma and Nutraceuticals ("MedCann"), a privately held pharmaceutical importer and manufacturer, the transfer marks what management believes is an important milestone for the Company and the first known incidence of dried cannabis being exported from a Canadian licensed producer to a major G7 country.

Germans can presently access legal medical cannabis through pharmacies for a variety of medical conditions, though adequate domestic production has not yet been established. Tweed will launch an initial two strains in Germany, and hopes to bring further variety to market as soon as possible.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain "forward-looking statements" and forward-looking information within the meaning of Canadian securities laws, including such statements relating to:

- assumptions and expectations described in our critical accounting policies and estimates;
- our expectations regarding the adoption and impact of certain accounting pronouncements;
- our expectations regarding legislation, regulations and licensing related to the cultivation, production and sale of cannabis products by the company's wholly-owned subsidiaries;
- the expected number of users of medical marijuana or the size of the medical marijuana market in Canada;
- the potential time frame for the introduction of legislation to legalize recreational marijuana use in Canada and the potential form that this legislation will take;
- the potential size of the recreational marijuana market in Canada should recreational use be legalized;
- the ability to enter and participate in international market opportunities;
- our expectations with respect to the company's future financial and operating performance;
- product sales expectations;
- production capacity expectations; and
- the Company's ability to achieve profitability without further equity financing.

The words "plans", "expects", "is expected", "budget", "scheduled", "estimates" "forecasts", "intends", "anticipates", or "believes" or variation (including negative variations) of such words and phrases, or statements that certain actions, events, or results "may", "could", "would", "might", or "will" be taken, occur or to achieve are all forward-looking statements. Forward-looking statements are based on the reasonable assumptions, estimates, internal and external analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled "RISKS AND UNCERTAINTIES". Although the Company has attempted to identify important factors that could cause actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events, or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as at the date of the MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer, in accordance with National Instrument 52-109 ("NI 52-109"), have both certified that they have reviewed the financial report and this MD&A (the "Filings") and that, based on their knowledge having exercised reasonable diligence, (a) the Filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made with respect to the period covered by the filings; and (b) the financial report together with the other financial information included in the Filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the Filings.

The Company was a venture issuer as of June 30, 2016. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis Disclosure Controls and Procedures and Internal Controls over Financial Reporting as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

NON-GAAP AND ADDITIONAL GAAP MEASURES

The Company uses "Income (loss) from operations" as an additional GAAP financial measure within the financial statements and MD&A and "Adjusted Product Contribution" as a Non-GAAP measure in the MD&A, but neither is a defined term under IFRS to assess performance. Management believes that these measures provide useful supplemental information to investors and is computed on a consistent basis for each reporting period.

Income (loss) from operations is calculated as total revenues less total operating expenses derived from the Consolidated Statements of Comprehensive Loss. It is used by management to analyze operating performance but it is not intended to represent an alternative to net earnings or other measures of financial performance in accordance with IFRS.

"Adjusted Product Contribution" is a metric used by management to measure performance efficiencies in growing and selling medical marijuana. The metric is calculated by removing all amounts related to fair value accounting under IFRS and all production costs, and then adding back the costs related to the inventory sold in the period, based on the weighted average cost per gram to produce product from seed to sale and the number of grams sold in the period.

DESCRIPTION OF THE BUSINESS

<u>MEDICAL MARIJUANA REGULATORY FRAMEWORK IN CANADA</u>

In 2001, Canada became the second country in the world to recognize the medicinal benefits of marijuana and to implement a government-run program for medical marijuana access. Health Canada replaced the prior regulatory framework and issued the *Marihuana for Medical Purposes Regulations* ("MMPR") in June 2013 to replace government supply and home-grown medical marijuana with highly secure and regulated commercial operations capable of producing consistent, quality medicine. The MMPR regulations issued in June 2013 covered the production and sale of dried cannabis flowers only. A court injunction in early 2013 preserves the production and access methods of the prior legislation for those granted access prior to the injunction.

Under the MMPR, patients are required to obtain a medical approval from their healthcare practitioner and provide a medical document to the licensed producer from which they wish to purchase marijuana. Since the requirements under the new regulations are both simpler and involve fewer obstacles to access than the previous regulatory regime, it is anticipated that the growth in the number of approved patients will accelerate. Moreover, the new system allows for competition among licensed producers on a host of factors including product quality, customer service, price, variety and brand awareness, allowing for well-positioned and capitalized producers to leverage their position in the marketplace.

On July 8, 2015 Health Canada issued certain exemptions under the Controlled Drugs and Substances Act (Canada) ("CDSA"), which includes a Section 56 Class Exemption for Licensed Producers under the MMPR to conduct activities with cannabis (the "Section 56 Exemption"), which permits Licensed Producers to apply for a supplemental license to produce and sell cannabis oil and fresh marijuana buds and leaves, in addition to dried marijuana (this does not permit Licensed Producers to sell plant material that can be used to propagate marijuana).

On August 11, 2016, the Government of Canada announced that by August 24, 2016, new regulations governing the use of marijuana for medical purposes will be introduced. This announcement was made in response to the February 24, 2016 decision rendered by the Federal Court of Canada in the Allard et al v the Federal Government of Canada case. The plaintiffs in the Allard case argued that the MMPR violates their Charter rights and the court, in a lengthy and detailed judgment, agreed with the plaintiffs. The court gave the Government of Canada until August 24, 2016 to determine how existing regulations should be amended to ensure that patients have the access to medical marijuana that they need.

The proposed regulations, the *Access to Cannabis for Medical Purposes Regulations* (ACMPR), will remain largely consistent with the former MMPR, but will restore the ability of patients to grow their own marijuana at home, including the ability to designate a third-party grower through regulations akin to the former *Medical Marijuana Access Regulations* (MMAR). Under the ACMPR, patients will be limited to using the MMAR formula to convert daily dose into maximum number of plants (1g dose = 5 plants) in determining the number of plants they are legally allowed to grow at home. Patients who choose to grow at home will be required to register their production sites and provide copies of their medical authorization to Health Canada in order to allow for monitoring and auditing of their activities.

Health Canada recently reported that close to 70,000 patients had enrolled into the MMPR program by June 30, 2016[1], representing a market worth in excess of $100 million. By 2024, Health Canada estimates that the number of patients using medical marijuana will grow to 450,000, creating a market worth an estimated $1.3 billion.

Legalization of Recreational Use of Marijuana in Canada

On April 20, 2016, the Canadian Federal Government announced its intention to introduce, by the spring of calendar 2017, legislation to legalize the recreational use of marijuana in Canada. At this time, the form that this legislation will take is not known. Canopy Growth believes that the legislation will allow for controlled and highly regulated production by licensed producers along with limited grow-at-home options. Canopy Growth also believes that, in the event recreational use of marijuana is legalized, that the majority of people will choose to purchase from a regulated production source rather than growing marijuana in their homes.

CIBC World Markets reports estimates of the potential value of the recreational marijuana market in Canada range from $5 billion to $10 billion per year. The lower market value of $5 billion per year translates into yearly consumption of 770,000 kilograms of marijuana, assuming a price of approximately $6.50 per gram.[2] To put the potential size of the Canadian recreational market in context, Statistics Canada valued the beer market in Canada, in 2014, at $8.7 billion.[3]

International Development

Medical marijuana opportunities are becoming increasingly available as new jurisdictions move towards establishing new or improved medical marijuana systems. As Canada has developed an enviable regulatory model, companies acting within that framework have expertise, knowledge and potentially product to share with the global community.

The Corporation believes there is an opportunity to leverage its expertise and its business model in other legal marijuana markets around the world. On May 9, 2016, the Corporation announced a partnership with AusCann Group Holdings Ltd. ("AusCann"). Through this partnership, Canopy will offer its expertise in a number of areas including production, quality assurance and operations, and provide strategic advisory services to AusCann in exchange for an initial 15% ownership stake in the company, as well as further options. AusCann and Canopy will also aim to work together in Australian and international markets in a preferential but nonexclusive arrangement, subject to regulatory approval.

On June 28, 2016, the Corporation announced the closing of an agreement with Sao Paulo-based Entourage Phytolab S.A., which will see Bedrocan, Bedrocan International BV and local Brazilian partners create a new company called Bedrocan Brazil S.A., which will facilitate the importation of Bedrocan's proprietary standardized cannabis varieties and know-how into the Brazilian market. Additionally, the Corporation will partner with Entourage Phytolab S.A. to develop cannabis-based pharmaceutical medical products for the Brazilian and international markets.

On July 25, 2016, the Corporation announced that Tweed has received necessary approvals in Canada and Germany to begin export of medical cannabis for sale to German patients, and will

[1] http://news.gc.ca/web/article-en.do?nid=1110409

[2] http://research.cibcwm.com/economic_public/download/eijan16.pdf

[3] http://www.statcan.gc.ca/daily-quotidien/150504/dq150504a-eng.htm

be working with MedCann GmbH Pharma and Nutraceuticals, a privately held pharmaceutical importer and manufacturer.

Overview of Canopy Growth Corporation

Canopy Growth is a publicly-traded corporation, incorporated in Canada, with its head office located at 1 Hershey Drive, Smiths Falls, Ontario. The Company's common shares were listed on the TSXV on June 30, 2016, but subsequently graduated to the TSX on July 26, 2016, after the first quarter, under the trading symbol "CGC" (**see "Recent Developments"**). Through its wholly-owned subsidiaries, Tweed, Bedrocan and Tweed Farms, Canopy Growth is currently in the business of producing and selling legal marijuana, primarily in the Canadian medical market. Canopy Growth is also positioning itself to produce and sell marijuana in the recreational market in Canada, should it be legalized in the future.

It is our goal to be the dominant supplier of legal marijuana, medical today and non-medical should it be legalized in the future, across all value and premium product markets. To achieve this, we continue to make very specific investments in our production capacity, product offerings, branding and customer engagement.

To achieve this, the Company will continue making specific and deliberate investments, including acquisitions, to:

- Increase the diversity and quality of the Company's product offerings across value and premium marijuana market segments;
- Increase the Company's production capacity, in both greenhouse and indoor controlled facilities, in support of our diverse product offering; and
- Increase the strength and segmentation of the Company's multiple brands.

In addition, management believes that a significant opportunity exists today and will develop further in the future, to leverage the Company's expertise, financial strength and business model in legal marijuana markets around the world. The Company has received inquiries concerning strategic business opportunities from third-parties in many countries, including Chile, Germany, Serbia, and South Africa. The Company has recently announced new ventures and business in Australia, Brazil and Germany (**see "First Quarter Fiscal 2017 Highlights" and "Recent Developments"**) and Canopy Growth is actively pursuing opportunities in a number of jurisdictions where medical marijuana is legally allowed presently, or where the government is actively moving towards such a legal framework.

Subject to regulatory approval, strategic international business opportunities pursued by the Company could include:

- Providing advisory services to third-parties that are interested in establishing licensed cannabis cultivation and sales operations;
- The export of medical cannabis to third-parties in countries outside of Canada; and
- Ownership of cannabis cultivation and sales operations in countries outside of Canada.

At June 30, 2016, there were 168 full-time employees in the Company as compared to 156 at March 31, 2016.

Tweed Inc.

Tweed is a Licensed Producer of medical marijuana under the MMPR. Tweed's Commercial License for its facility in Smiths Falls, Ontario was renewed on November 20, 2015 and will be up for renewal on January 19, 2017. Tweed's license to sell cannabis extracts was granted February 23, 2016 and will also be up for renewal on January 19, 2017. Tweed's Commercial License covers 168,000 square feet of its Smiths Falls facility and allows Tweed to produce and sell up to 3,540 kilograms of medical marijuana per year, reflecting Tweed's present built-out production capacity of 12 climate controlled indoor growing rooms. Tweed has completed 12 of an eventual 30 growing rooms (of similar size), and the related vegetation, nutrient delivery and production infrastructure as is required to support the planned for 30 room configuration. Additionally, an in-house laboratory and R&D area, cannabis oil extraction infrastructure and a high level security vault exist in the Smiths Falls facility as well.

With all 30 equivalent rooms in production, it is estimated that the current space at Tweed's Smiths Falls facility can support the production of approximately 11,000 kilograms per year.

The total footprint of the existing Smiths Falls facility, at over 460,000 square feet, can support a significant increase in licensed production capacity. In addition, the 40-acre site at 1 Hershey Drive has significant undeveloped land that can support the construction of additional buildings.

Tweed sells its dried cannabis at prices ranging from $6 per gram for value strains to up to $12 per gram for premium strains. Typically, growth time, strain yield and market comparatives determine a strain's price. Very particular strains may be priced higher, but this would be the exception. Tweed does not offer volume discounts to end users, but has developed an income-tested Compassionate Pricing Promise whereby eligible low-income patients may obtain a 20% discount off regular prices.

Tweed sells *10:1 Cannabis Oils* made with GMO-free, organic sunflower oil. Along with popular offerings of Quinn, Princeton and Zaius, Tweed will introduce new strain-specific *10:1 Cannabis Oils* on an ongoing basis. The *10:1 Cannabis Oils* product line is sold in 100ml bottles equivalent to 10 dried grams of the same dried flower. Each 10 ml contains the equivalent of 1 gram of the corresponding Tweed dried-flower variety. Prices for 10:1 Cannabis Oils range from $95 per bottle to $185 per bottle depending on the strains incorporated.

Prior to the end of the term of its licenses, Tweed must submit an application for renewal to Health Canada containing information prescribed by the MMPR.

A key focus of Tweed, since its inception, has been the development of its brand. From the name, logo and design aesthetic, to the approachable tone and light-hearted copy, Tweed is branded and positioned in a unique way. Tweed deliberately chose to incorporate a sense of texture and approachability that welcomes customers and encourages an intimate relationship with the brand. Tweed has emerged as the most dynamic brand in the industry with exceptionally strong appeal and recognition in the medical marijuana market in Canada across value and premium product segments.

In support of its brand, Tweed focuses heavily on its social media presence as an engagement strategy. Further engagement with the Tweed brand will be facilitated by the Company's expanding network of *Tweed Main Street* Community Engagement Centers. These centers in Southern Ontario (Barrie, Etobicoke, Guelph and Hamilton) provide an opportunity for interested individuals to learn about medical marijuana in a helpful, supportive and consumer-friendly environment. The Company is actively seeking partners to expand the network of *Tweed Main Street* locations, through licensing partnerships, to strategic locations across Canada.

Like the *Tweed Main Street* concept, Tweed is intent on using creative marketing strategies to further increase public awareness of the Tweed brand. The partnership with the recording artist and cannabis connoisseur, known as Snoop Dogg, will see Tweed and Snoop Dogg partner on curated content and brand strategy exclusively in Canada. The objective of these marketing strategies, be it *Tweed Main Street,* the business partnership with Snoop Dogg and others that the Company may pursue in the future, is to make the Tweed brand top-of-mind as medical patients and future recreational users consider making their first legal marijuana purchase.

Since the founding of Tweed, the Company has provided a variety of support to patients and doctors in order to improve knowledge with respect to marijuana for medical purposes and ultimately advance the sector. For example, the Company supports the Canadian AIDS Society ("CAS") in the form of an unrestricted grant to CAS for the development of a patient-focused series that explains the science of cannabis as a therapy, the rules and regulations surrounding access and different ways to consume cannabis for safer use and better health. In addition, the Company has research partnerships in place with researchers from the University of Ottawa and Ryerson University, and has provided funding for education to the Chronic Pain Association of Canada.

Tweed has been the sole licensed producer supporter of the Primary Care Updates across Canada reaching thousands of doctors, and supports countless efforts by local educators to improve the understanding of marijuana for medical purposes through a team of detailers visiting doctors throughout Ontario. Tweed has also partnered with Canabo Medical Corporation to conduct scientific and medical research through its network of healthcare practitioners at its medical clinics. This research data will be used to generate data to clarify the role of cannabis in various chronic conditions, including the management of chronic pain.

Tweed was also, to the Company's knowledge, the first Licensed Producer to have an accredited M1 continuing medical education program to assist doctors, and in partnership with Bedrocan, one other Licensed Producer and the Collège des médecins du Québec, proudly contributed startup funding for the creation of a registry for medical cannabis patients in the Province of Quebec. The first of its kind, the anticipated 10-year Registry will gather information on the demographic profiles of patients who use medical cannabis, the medical purpose for which they use it, and at what dosage, while tracking the effectiveness and safety of cannabis used in the management of symptoms associated with particular health conditions.

Tweed announced on May 16, 2016 its plan to fund a national campaign to raise awareness of impairment in relation to operating a motor vehicle under the influence of cannabis. The campaign will be developed and administered by two of the country's leading organizations in promoting evidence based drug policy and safe driving, the Canadian Drug Policy Coalition (CDPC) and Mothers Against Drunk Driving (MADD Canada). Funding will be provided to MADD Canada over three years by the Company, whose wholly-owned subsidiaries Tweed and Bedrocan Canada will fund the campaign using proceeds from a previously announced education fund dedicated towards responsible use of cannabis.

Tweed Farms Inc.

Tweed Farms in Niagara-on-the-Lake, Ontario is comprised of a greenhouse facility that is 375,000 square feet, on approximately 22.9 acres, of which 350,000 square feet represents the greenhouse and 25,000 square feet is used for storage, shipping and offices.

Tweed Farms' license has a current term ending January 13, 2017 and allows Tweed Farms to produce, possess and ship 1,200 kg of dried marijuana at its facilities in Niagara-on-the-Lake, Ontario. Consistent with Health Canada's process, Tweed Farms will seek to expand the licensed capacity and permission to sell based upon actual production from the initial 1,200kg. During the quarter, all 350,000 square feet was brought into production. It is estimated that the 350,000 square foot greenhouse can support the production of up to 15,000 kilograms per year.

Prior to receiving its amended license on March 31, 2016, all marijuana cultivated by Tweed Farms pursuant to its prior Cultivation License was transferred from the Tweed Farms facility to Tweed's Smiths Falls facility for final processing and sale by Tweed pursuant to its Commercial License.

Prior to the end of the term of its licenses, Tweed Farms must submit an application for renewal to Health Canada containing information prescribed by the MMPR.

Bedrocan Canada Inc.

On August 28, 2015, the Company acquired Bedrocan pursuant to a definitive plan of arrangement, in which the Company acquired all of the issued and outstanding securities of Bedrocan.

Bedrocan leverages over two decades of indoor marijuana growing experience of Netherlands based Bedrocan BV. With the indoor growing techniques and technologies developed and selected over two decades, Bedrocan BV has been able to drive the cost of indoor marijuana growing down to levels that are comparable to the cost of cultivating marijuana in hybrid greenhouses.

Bedrocan's 52,000 square feet production facility in Toronto, Ontario is fully-licensed, and includes 34 vegetative and growing rooms, three dispensing rooms, the building's two-floor high security level vault, and the ability to dispose of cannabis refuse via composting.

Bedrocan's Commercial License to sell domestic medical marijuana, which permits the sale of up to 2,000 kilograms per year, was renewed on February 17, 2016 and will be up for renewal on February 17, 2017. Bedrocan will seek a license from Health Canada to sell the estimated 4,000 kilograms per year total production capacity of Bedrocan's Toronto facility.

Bedrocan has been growing six proprietary genetic strains of standardized cannabis at its Toronto production facility since February 2015.

Bedrocan began selling its dry cannabis products in the Canadian market in February 2014. Bedrocan priced all six strains of its medical marijuana products at $7.50 per gram through to the end of the third quarter of Fiscal 2016. On January 25, 2016, Bedrocan announced it would make medical cannabis more affordable for all Canadian patients with a new price structure called True Compassionate Pricing. Under True Compassionate Pricing, all six cannabis varieties produced by Bedrocan are priced at $5.00 per gram. The philosophy of Bedrocan is that price should not be reflective of the THC content of the product. Bedrocan's production methods have been refined over two decades to maximize yield and eliminate genetic variance from harvest to harvest. Because of that, Bedrocan is able to produce standardized varieties efficiently to permit the introduction of True Compassionate Pricing. Bedrocan does not offer volume price discounts. Pricing may be revisited in the future within the framework of True Compassionate Pricing.

Bedrocan received its license to sell cannabis oil extracts in the first quarter of Fiscal 2017. Bedro-oil was first sold through the Tweed store on June 9, 2016 and then through the Bedrocan store on June 20, 2016. Prices for Bedro-oil products introduced in the first quarter of Fiscal 2017 are $110 per 100 ml bottle.

Clients of Bedrocan order medical marijuana primarily through Bedrocan's online store with telephone orders as a secondary source.

The Company intends for Bedrocan to remain solely focused on the medical market, even if a legalized recreational market is eventually legislated in Canada.

Prior to the end of the term of its licenses, Bedrocan must submit an application for renewal to Health Canada containing information prescribed by the MMPR.

CannScience Innovations

Through the acquisition of MedCann Access ("MCA") in the third quarter of Fiscal 2016, the Company acquired a 33% stake in CannScience Innovations Inc. ("CannScience"), a drug development company based out of the MaRS Centre in Toronto working collaboratively with the University Health Network.

CannScience conducts in-depth extracts research, with the ultimate goal of delivering standardized metered dosing in a range of alternate delivery methods, a priority for the Company as the emerging cannabis extract market evolves. CannScience's lead product in development incorporates the Generex Biotechnology Corporation proprietary RapidMist™ drug delivery technology, which is specially engineered to propel metered doses into the buccal cavity where the active pharmaceutical ingredient is absorbed, providing patients with a safe, simple, and easy way to achieve rapid on-set with no deposit in the lungs.

RESULTS OF OPERATIONS

The following table sets forth condensed interim consolidated statements of operations and balance sheet data, which is expressed in thousands of Canadian dollars, except share and per share amounts, for the indicated periods.

SELECTED QUARTERLY INFORMATION		
(CDN $000's, except share amounts)	**Three Months Ended**	
	June 30, 2016	**June 30, 2015**
Revenue	6,984	1,710
Gross margin	3,445	4,095
Gross margin %	49%	239%
Operating expenses	7,532	3,102
(Loss) income from operations	(4,087)	993
Net (loss) income after taxes	(3,949)	1,012
Net (loss) income per share - basic	(0.04)	0.02
Weighted average shares - basic	103,663,724	50,875,433
Net (loss) income per share - diluted	(0.04)	0.02
Weighted average shares - diluted	103,663,724	56,260,530

Selected statements of financial position information	**June 30, 2016**	**March 31, 2016**
Cash and cash equivalents	19,527	15,397
Working capital	42,735	37,653
Long-term debt	3,489	3,469
Shareholders' equity	132,381	123,785

Results of Operations for the quarter ended June 30, 2016 as compared to the quarter ended June 30, 2015

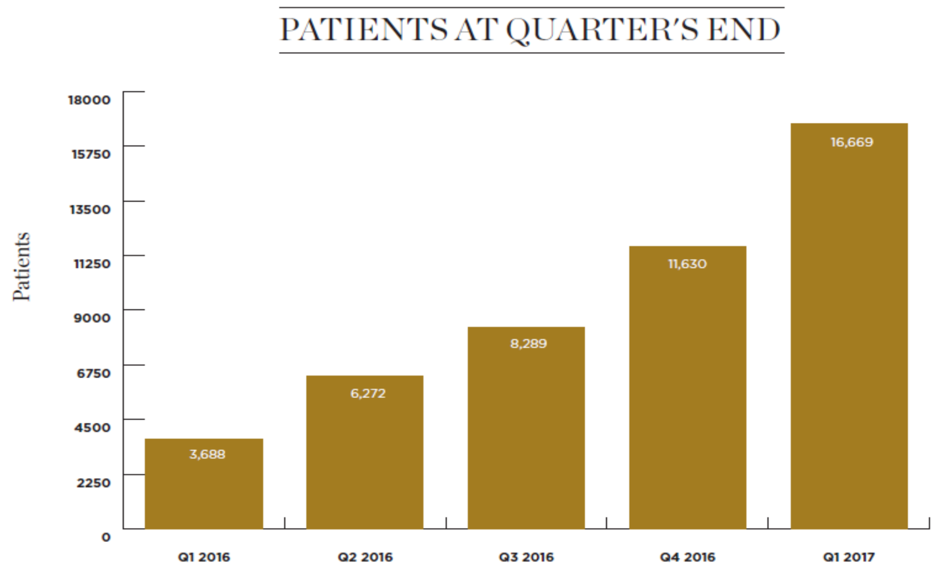
Bedrocan was acquired on August 28, 2015 and MCA was acquired on October 1, 2015, and their results of operations are included since the date of acquisition. Accordingly, the comparative first quarter period does not include Bedrocan or MCA.

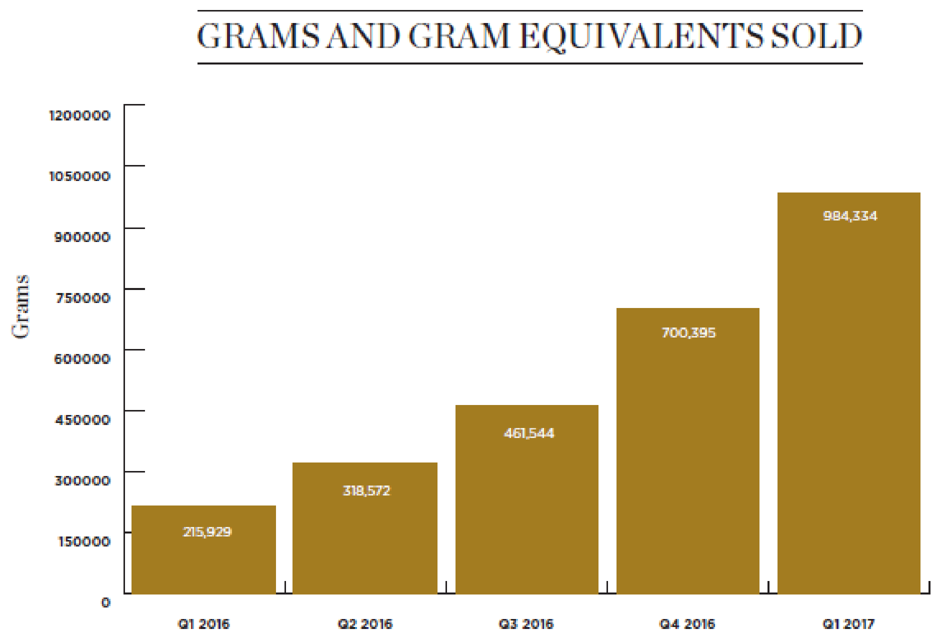
Revenue

Revenue for the quarter ended June 30, 2016 and 2015 was $6,984 and $1,710, respectively. The increase in revenue, period-over-period, is due primarily to growth in the Company’s patient base from approximately 3,000 at the end of June 30, 2015 to over 16,000 at June 30, 2016.

The Company introduced the sale of Tweed 10:1 Cannabis Oil, through Tweed, which commenced February 24, 2016. Tweed and Bedrocan began selling Bedrocan’s bedro-oil in the first quarter of Fiscal 2017 on June 9th and June 20th, 2016, respectively. The Company believes the sale of cannabis oils will represent a significant revenue stream going forward.

The total grams sold during the quarter ended June 30, 2016 was 984 kilograms and kilogram equivalents at an average price of $7.09 per gram, up from 700 kilograms and kilogram equivalents at an average price of $7.16 per gram in the last quarter of Fiscal 2016 and up from 216 kilograms sold during the three-month period ended June 30, 2015 at an average price of $7.74 per gram.





Cost of Sales

Plants that are in pre-harvest are considered biological assets and are capitalized on the balance sheet at fair market value less cost to sell at their point of harvest. Costs to sell include trimming, fulfillment, testing and shipping costs. As they continue to grow through the pre-harvest stages, a corresponding non-cash unrealized gain is recognized in income through cost of sales, reflecting the changes in fair value of the biological assets. At harvest, the biological assets are transferred to inventory at their fair value, which becomes the deemed cost for inventory. Inventory is later expensed to cost of sales when sold and offsets against the gain on biological assets. In addition, the cost of production is expensed through cost of sales and represents overheads and other production costs of growing and selling the plants. Together, the gain from changes in the fair value of biological assets, inventory expensed and the cost of production comprise cost of sales.

The cost of sales during the quarter ended June 30, 2016 was comprised of an unrealized gain on changes in the fair value of biological assets of $6,684, which was more than offset by the inventory expensed of $6,654 and $3,569 for production costs, for a net cost of sales of $3,539.

The recovery to cost of sales during the three-month period ended June 30, 2015 was comprised of an unrealized gain on changes in the fair value of biological assets of $5,275, which was offset by the inventory expensed of $1,492 and production costs of $1,398, for a net recovery to cost of sales of $2,385.

We expect cost of sales to vary from quarter to quarter based on the number of pre-harvest plants, the strains being grown, and where the pre-harvest plants are in the grow cycle at the end of the period.

Gross Margin

Gross margin for the quarter ended June 30, 2016 and 2015, including unrealized gain on changes in fair value of biological assets, was $3,445 and $4,095, or 49% and 239% of revenue, respectively.

The gross margin was mostly due to the relative size of the unrealized gain on changes in the fair value of biological assets. Tweed and Bedrocan's completed and planned grow rooms plus the expanded production capacity of Tweed Farms during the quarter are expected to yield harvests which will produce increased volumes of available inventories and strains for our registered clients. Larger volumes of product mean that the fixed overhead costs will eventually be spread over more product thereby reducing production costs on a per gram basis. The Company continues to refine its production processes and methodologies in order to increase production yields and gross margins.

Adjusted Product Contribution (Non-GAAP Measure)

Management makes use of an "Adjusted Product Contribution" measure to provide a better representation of performance in the period by excluding the non-cash fair value measurements as required by IFRS. The Adjusted Product Contribution used by Management is a non-GAAP financial measure that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management believes this measure provides useful information as it represents the gross margin for management purposes based on the Company's complete cost to produce inventory sold, removing fair value measurements as required by IFRS. The following is the Company's Adjusted Product

Contribution as compared to the reported gross margin, which includes the unrealized gain on changes in fair value of biological assets, in accordance with IFRS:

The gross margin has been adjusted by removing the effects of the IFRS non-cash unrealized gain on changes in fair value of biological assets, the effect of inventory expensed to cost of sales in the period, as fair value measured under IFRS, and removing the effect of all production costs before adding back the costs related to the grams sold in the period at the weighted average cost per gram inclusive of all costs from seed to sale consistent with the accounting estimates for biological assets, inventory and production costs associated with growing and selling medical marijuana.

The unaudited Adjusted Product Contribution is $4,366, or 62.5% of revenue, for the quarter ended June 30, 2016.

Unaudited Non-GAAP Measure (In CDN$000's, except gram amounts) **Adjusted Product Contribution[1]**		**Three Months Ended June 30, 2016**		**Three Months Ended June 30, 2015**
Weighed average cost per gram	**$**	**2.66**	**$**	**3.16**
Grams sold in the period		**984,334**		**215,929**
Revenue	**$**	**6,984**	**$**	**1,710**
Adjusted cost of sales[2]		**(2,618)**		**(682)**
Adjusted Product Contribution	**$**	**4,366**	**$**	**1,028**
Adjusted Product Contribution percentage of revenue		***62.5%***		***60.1%***
As compared to the Gross Margin per IFRS:				
Gross margin	**$**	**3,445**	**$**	**4,095**
Gross margin percentage of revenue		***49.3%***		***239.5%***

Notes:

1 The Adjusted Product Contribution removes the fair value measurements required under IFRS and recognizes the cost of sales based on the weighted average cost per gram to produce and sell product in the period.

2 Based on the weighted average of cost per gram from seed to sale of $2.66 per gram in the first quarter.

Operating expenses

Sales and marketing expenses for the quarter ended June 30, 2016 and 2015 were $2,260 and $1,009, respectively. As a percentage of revenue, sales and marketing expenses have declined from 59% of revenue in the first quarter of Fiscal 2016 to 32% of revenue in the quarter ended June 30, 2016. These costs include the Company's medical outreach program, branding programs and the client care center, which interfaces directly with our growing base of clients. Since June 30, 2015, the number of active patients has grown from almost 3,700 to almost 16,600 at June 30, 2016 and over 21,000 as of August 28, 2016. The outreach program is targeted towards ensuring that healthcare practitioners understand how they can incorporate medical marijuana into their practices. These expenditures are consistent with the Company's view that early-mover advantage and strong brand recognition are essential to our successful ongoing customer acquisition strategy. These costs represent a strategic investment, which management believes will have a future benefit in customer acquisition and retention.

Research and Development expenses for the quarter ended June 30, 2016 and 2015 were $403 and $38, respectively. Our development team is researching a variety of intellectual property opportunities, including those relating to growth patterns under different environmental scenarios and the genetics of various strains. The Company has been in discussion with several research partners and has been working towards obtaining appropriate licensing that would allow research and development with respect to the extraction of cannabis oils and the development or licensing of potential delivery mechanisms.

General and Administrative expenses for the quarter ended June 30, 2016 and 2015 were $2,850 and $1,415, respectively. As a percentage of revenue, general and administrative expenses have declined from 83% of revenue in the first quarter of Fiscal 2016 to 41% of revenue in the quarter ended June 30, 2016. G&A includes extensive use of consultants and advisory services while expanding and commercializing the Company's operations, facility costs in Smiths Falls, Tweed Farms and Bedrocan and security services at all licensed facilities, compliance costs associated with meeting Health Canada requirements, as well as public company related expenses including related professional fees. Overall, the increase in G&A reflects the Company's growth and building of commercial capacity and capability.

The loss from operations for the quarter ended June 30, 2016 amounted to $4,087 (for the three-month period ended June 30, 2015 – income from operations of $993), inclusive of total share-based compensation of $975 (for the three-month period ended June 30, 2015 - $372) and depreciation and amortization of $911 (for the three-month period ended June 30, 2015 - $268), both of which are non-cash expenses. In the quarter ended June 30, 2015, last year, the non-cash unrealized gain on changes in fair value of biological assets of $5,275 more than offset the operating expenses and other cost of sales to result in income from operations of $993 in that quarter.

The share-based compensation, a non-cash expense, is related to stock options which are measured at fair value at the date of grant and expensed over the options vesting period.

Interest income is interest received from the cash the Company has deposited with a Schedule A Canadian financial institution and is offset by long-term debt interest expense for loans at Tweed Farms and Bedrocan and miscellaneous interest charges such as on capital leases. For the quarter ended June 30, 2016 and 2015, it netted to interest expense of $47 and interest income of $19, respectively. The net interest expense in the first quarter of Fiscal 2017 related to higher long-term debt outstanding mainly from the acquired debt from the Bedrocan acquisition.

The Medcann Access acquisition included consideration which is contingent on future performance. This consideration is recognized as a liability on the balance sheet at its estimated fair value. The change in the fair value of the contingent consideration associated with the MedCann Access acquisition is recorded in earnings and resulted in an expense of $12 for the quarter ended June 30, 2016.

The Company recorded an income tax recovery of $197 for the quarter ended June 30, 2016 which was related to the change in the deferred tax liability arising from the acquired Bedrocan temporary differences.

Net loss for the quarter ended June 30, 2016 was $3,949 (quarter ended June 30, 2015 – net income of $1,012), or a net loss of $0.04 per share (quarter ended June 30, 2015 – net income of $0.02 per share) on a basic and diluted basis.

<u>Liquidity</u>

As at June 30, 2016, the Company had cash and cash equivalents available of $19,527, up from $15,397 at the end of Fiscal 2016. The increase from the end of Fiscal 2016 was due to cash received from the "bought deal" during the first quarter and warrants and options exercised, together totaling $10,785, net of share issue costs, offset by the capital expansion at Tweed and Tweed Farms totaling $3,706 and to fund the cash applied to operating activities of $3,766. While the Company has incurred cash losses to date, management anticipates success and eventual cash profitability of the business, though there can be no assurance that the Company will gain adequate market acceptance for its products or be able to generate sufficient positive cash flow to reach profitability.

The Company's objectives when managing its liquidity and capital structure are to generate sufficient cash to fund the Company's operating, acquisition and organic growth requirements. (See **"Recent Developments – Bought Deal"**).

The table below sets out the cash, short-term investments, long-term debt and working capital at June 30, 2016 and March 31, 2016.

(CDN $000's)

		June 30, 2016		March 31, 2016
Cash & cash equivalents	$	19,527	$	15,397
Restricted investments		250		246
Long-term debt		3,489		3,469
Working capital		42,735		37,653

The increase in working capital is due to the $11,506 "bought deal" equity financing raised in the first quarter of Fiscal 2017 and higher inventory levels to meet growth expectations through customer acquisition and the extracts market.
The Company's inventory available for sale and biological assets (plants in various stages of growth) were as follows:

Inventory at June 30, 2016 amounted to $24,237 (March 31, 2016 - $22,153) and biological assets amounted to $4,049 (March 31, 2016 - $5,321), together totaling $28,286 (March 31, 2016 - $27,474). The biological assets decreased from Fiscal 2016 due to roughly 3,000 more plants in their growth cycle however, at an earlier stage of growth (less than 30%) than the plants were at by the end of Fiscal 2016 (less than 50%). Harvested plants were added to inventories during the quarter and quantities maintained to meet the continued growth in sales expected with strain availability, and the introduction of oils. The last four quarters have seen sequential sales growth of approximately 35% to 40% or more. In addition, from time to time, the Company may opportunistically sell inventory to the wholesale market.

As at June 30, 2016, the Company held 4,925 kg of dry cannabis and 1,368 L of cannabis oils compared to 4,447 kg of dry cannabis and 570 L of cannabis oils held at March 31, 2016.

The long-term assets which total $101,858 (March 31, 2016 - $98,515) are comprised principally of intangible assets of $52,654, of which $50,369 resulted from the Bedrocan acquisition in the second quarter of Fiscal 2016 and the remainder related to the MedCann Access acquisition in the third quarter of Fiscal 2016, property, plant and equipment of $46,119, leasehold construction in process of $2,576 that relate to the infrastructure build out for growing production and operations and the implementation of a new enterprise resource planning system, and other long-term assets of $509 that relates to long-term deferred rent.

In total, the Company received $10,785 from the bought deal for common shares issued on April 15, 2016, net of share issue costs, and $785 in cash proceeds from the exercise of warrants and options during the quarter ended June 30, 2016. As at the end of the quarter, there were no warrants outstanding.

The chart below highlights the Company's cash flows during the quarters ended June 30, 2016 and 2015.

(CDN $000's)

Net cash provided by (used in)	**Three Months Ended June 30, 2016**	Three Months Ended June 30, 2015
Operating activities	$ (3,766)	$ (3,297)
Financing activities	11,602	(98)
Investing activities	(3,706)	(2,882)
Cash and cash equivalents, beginning of period	15,397	21,446
Cash and cash equivalents, end of period	$ 19,527	$ 15,169

Cash Used in Operating Activities

The cash used in operating activities during the quarter ended June 30, 2016 amounted to $3,766, driven principally by the net loss in the first quarter of $3,949. The non-cash unrealized gain on biological assets of $6,684 was mostly offset by changes in non-cash operating working capital items of $4,405 and other non-cash items such as depreciation and amortization of $911, the increase in the inventory allowance to net realizable value of $541 and total share-based compensation of $975. The net realizable value adjustment relates to the Company's compassionate pricing discount provided to qualified customers, thus reducing the value of the inventory in reference to the ultimate selling price.

The cash used in operating activities during the quarter ended June 30, 2015 was $3,297, primarily due to the non-cash unrealized gain on biological assets of $5,275, partially offset by net income of $1,012, depreciation and amortization of $268 and share-based compensation of $372.

Cash from Financing Activities

The cash provided by financing activities during the quarter ended June 30, 2016 of $11,602 mainly resulted from the bought deal which closed on April 15, 2016 for net proceeds of $10,785 and the proceeds from the exercise of warrants and stock options amounting to $785. The cash proceeds were partially offset by the repayment of long-term debt amounting to $153.

The cash used in financing activities during the quarter ended June 30, 2015 of $98 primarily resulted from the payment of share issue costs of $189 partially offset by proceeds from the exercise of stock options amounting to $126.

Cash Used in Investing Activities

The cash used in investing activities during the quarter ended June 30, 2016 of $3,706 was due to purchases of property, plant, and equipment and leasehold construction in process. The capital expenditures relate to adding additional grow rooms and converting existing rooms for growing purposes, along with expanding oil extraction capability and enhancing the Company's investment in information technology.

The cash used in investing activities during the quarter ended June 30, 2015 of $2,882 was primarily due to purchases of property, plant, and equipment and leasehold construction in process of $2,596.

LIQUIDITY, FINANCING AND CAPITAL RESOURCES

The Company is subject to risks including, but not limited to, its inability to raise additional funds through debt and/or equity financing to support the Company's development and continued operations and to meet the Company's liabilities and commitments as they come due. Specifically, the Company has a history of losses with an accumulated deficit of $17,724, share capital of $143,184 and working capital of $42,735 as at June 30, 2016. This compares to an accumulated deficit of $13,775, share capital of $131,080 and working capital of $37,653 as at March 31, 2016. See below under the heading "Risk Factors".

Capital Activities

The Company manages its capital with the objective of maximizing shareholder value and sustaining future development of the business. The Company defines capital as the Company's equity and any debt it may issue. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the Company's activities. The Company, upon approval from its Board of Directors, will undertake to balance its overall capital structure through new share issues, the issue of debt or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company's principal capital needs are for funds to expand its growing rooms, ancillary rooms, strategic acquisitions, and general working capital requirements to support growth including new opportunities to produce and sell cannabis oil and fresh marijuana buds and leaves. Since its formation, the Company has financed its cash requirements primarily through the issuance of capital stock. On November 7, 2014, a mortgage was obtained on the Tweed Farms property. The mortgage was obtained from a Canadian financial institution for an original amount of $1,875 (June 30, 2016 - $1,529) at an annual interest rate of 5.3% and had a term of 5 years and an amortization period of 7 years (See **"Recent Events – Canadian Commercial Institution Financing"**). Through the acquisition of Bedrocan on August 28, 2015, the Company has a long-term debt facility totaling $1,834 with an interest rate of 10%, due on July 1, 2024, payable in blended monthly payments (See **"Transactions with Related Parties"**).

The Company's authorized share capital is an unlimited number of common shares of which 104,985,049 common shares were issued and outstanding as at June 30, 2016, after excluding 2,411,991 escrowed shares to be released after meeting certain conditions (March 31, 2016 – 98,818,213 common shares); 8,500,462 shares under the Company employee stock option plan ("ESOP") at prices between $0.43 and $3.35 per share at June 30, 2016 (March 31, 2016 – 8,446,182 option shares); and no common share warrants were outstanding at June 30, 2016 (March 31, 2016 – 1,138,104 warrants).

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements other than those as stated below in the section titled "Transactions with Related Parties".

Transactions with Related Parties

The Company leases office premises from Tweed Hershey Drive Inc., a company of which Bruce Linton, a director of the Company, is a shareholder. The lease expires in December 31, 2018 with three (3) additional 5-year renewal options available at the Company's discretion. Details of the amounts expensed and owing related to these premises are detailed in Note 15 Related Parties in the Consolidated Financial Statements for the year ended March 31, 2016 and the fifteen-month period ended March 31, 2015.

The Company leases premises for the two Bedrocan facilities in Toronto from a company controlled by Murray Goldman, a director of Canopy Growth Corporation. The leases expire on October 15, 2018 and August 31, 2024. Details of the amounts expensed and owing related to these premises are described in Note 12 Related Parties in the Consolidated Financial Statements for the quarter ended June 30, 2016 and 2015.

The Chief Executive Officer has been engaged to provide services to the Company at $50 per quarter and is eligible for up to a $200 annual bonus. Details of the amounts expensed and owing related to these services are described in Note 12 Related Parties in the Consolidated Financial Statements for the quarter ended June 30, 2016 and 2015.

The Company currently has one loan payable to a director of Canopy Growth Corporation. Included in interest expense is an amount of $46, for the quarter ended June 30, 2016.

During the quarter ended June 30, 2016 and 2015, $60 and $40, respectively, was expensed as director's fees. At June 30, 2016, $5 remained outstanding in accounts payable and accrued liabilities (March 31, 2016 - $0).

These transactions are in the normal course of operations and are measured at the exchange amounts being the amounts agreed to by the parties.

RISKS AND UNCERTAINTIES

Many factors could cause our actual results, performance and achievements to differ materially from those expressed or implied by the forward-looking statements and forward-looking information, including without limitation, the following factors, which are discussed in greater detail under the heading "Risk Factors" in our AIF dated July 29, 2016 and in our Short-Form Prospectuses dated August 18, 2016 and April 8, 2016 filed with securities regulators and available on www.sedar.com, which risk factors are incorporated by reference into this document, and should be reviewed in detail by all readers:

- The Company has a history of net losses, may incur significant net losses in the future and may not achieve or maintain profitability;
- Our ability to grow, store and sell medical marijuana in Canada are dependent upon licenses from Health Canada which are subject to ongoing compliance and reporting requirements;
- The activities of the Company are subject to regulation by governmental authorities, particularly Health Canada;
- The introduction of home and designated growing may have a negative impact on the Company's sales and infringe on the Company's market;
- Greater access to medical cannabis, through home and designated growing and illegal dispensaries, may decrease the number of patients registering with the Company and may cause registered patients to leave the Company and grow for themselves;
- Home and designated growing may increase access to marijuana in the illegal market, potentially impacting the public's perception of the Company, and the marijuana industry as a whole;
- The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical marijuana but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment;
- Third parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's medical marijuana business activities;
- The operation of the Company can be impacted by adverse changes or developments affecting the facilities of the Company's wholly-owned subsidiaries;
- The Company's ability to recruit and retain management, skilled labour and suppliers is crucial to the Company's success;
- The Company's growth strategy contemplates outfitting its facilities with additional production resources. A variety of factors could cause these activities to not be achieved on time, on budget, or at all. As a result, there is a risk that the Company may not have product or sufficient product available to meet the anticipated demand or to meet future demand when it arises;
- The Company and its wholly-owned subsidiaries have limited operating histories;

- Even if its financial resources are sufficient to fund its current operations, there is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company may require additional financing and there can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company;

- There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company;

- The Company believes the marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the marijuana produced. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of marijuana products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical marijuana market or any particular product, or consistent with earlier publicity;

- The Company and its wholly-owned subsidiaries face an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury;

- The products of the Company's wholly-owned subsidiaries could be subject to the recall or return of their products for a variety of reasons. If a product recall or return should happen, the Company could be required to incur unexpected expenses and divert management attention and could see harm caused to its image and product sales decline. In addition, as result of the product recall or return, the Company and its wholly-owned subsidiaries could face increase operational scrutiny by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses;

- Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of the Company;

- The Company is largely reliant on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the medical marijuana industry in Canada. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company;

- The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls;

- The Company may engage in acquisitions or other strategic transactions or make investments that could result in significant changes or management disruption;

- The Company could fail to integrate acquired companies into the business of the Company;

- Completed acquisitions, strategic transaction or investments could fail to increase shareholder value;

- Certain of the Directors and Officers of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies;

- The Company may become party to litigation, mediation and/or arbitration from time to time in the ordinary course of business which could adversely affect its business;

- The market price for the common shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control;

- There can be no assurance that an active and liquid market for the common shares will be maintained and an investor may find it difficult to resell any securities of the Company;

- A substantial number of common shares are owned by a limited number of existing shareholders and as such these shareholders are in a position to exercise influence over matters requiring shareholder approval or cause delay or prevent a change in control of the Company that could otherwise be beneficial to the Company's shareholders;

- The Company does not anticipate paying any dividends on the common shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings; and

- The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land; the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety.