

Condensed interim consolidated financial statements

Tweed Marijuana Inc.

June 30, 2015 and 2014

Tweed Marijuana Inc.

June 30, 2015 and 2014

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Tweed Marijuana Inc.

Condensed interim consolidated statements of financial position
as at June 30 and March 31, 2015

(Unaudited)

(in Canadian dollars)

| | June 30, 2015 | March 31, 2015 |
|--------------------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 15,166,512 | 21,445,821 |
| Restricted short-term investment (Note 4) | 296,375 | 10,000 |
| Accounts receivable | 441,839 | 341,942 |
| HST and SRED recoverable | 522,625 | 431,191 |
| Biological assets (Note 5) | 3,029,200 | 2,027,874 |
| Inventory (Note 5) | 7,571,265 | 4,355,498 |
| Prepaid expenses | 819,027 | 763,537 |
| | 27,846,843 | 29,375,863 |
| Property, plant and equipment (Note 6) | 17,652,289 | 17,745,043 |
| Leasehold construction in process (Note 7) | 4,221,747 | 615,339 |
| Intangible assets | 35,538 | 38,254 |
| | 49,756,417 | 47,774,499 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 4,748,988 | 4,278,052 |
| Current portion of long-term debt (Note 9) | 256,896 | 247,263 |
| | 5,005,884 | 4,525,315 |
| Long-term debt (Note 9) | 1,634,112 | 1,668,786 |
| Other long-term liabilities | 198,000 | 171,000 |
| | 6,837,996 | 6,365,101 |
| Shareholders' equity | | |
| Share capital (Note 10) | 50,021,156 | 49,826,433 |
| Share-based reserve | 2,095,877 | 1,724,369 |
| Warrants | 68,991 | 137,982 |
| Deficit | (9,267,603) | (10,279,386) |
| | 42,918,421 | 41,409,398 |
| | 49,756,417 | 47,774,499 |

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

On behalf of the Board

(Signed "Bruce Linton") Director

Bruce Linton

(Signed "Chris Schnarr") Director

Chris Schnarr

Tweed Marijuana Inc.

Condensed interim consolidated statements of comprehensive loss
for the three months ended June 30, 2015 and 2014

(Unaudited)

(in Canadian dollars)

| | June 30, 2015 | June 30, 2014 |
|----------------------------------------------------------------------------|--------------------|------------------|
| | \$ | \$ |
| Sales | 1,710,157 | 188,236 |
| Gain on changes in fair value of biological assets | (5,275,001) | (1,127,183) |
| Inventory expensed to cost of sales | 1,492,310 | 183,435 |
| Production costs | 1,398,241 | 1,022,705 |
| Cost of sales (recovery)/expense | (2,384,450) | 78,957 |
| Gross margin | 4,094,607 | 109,279 |
| Sales and marketing | 1,008,590 | 664,802 |
| Research and development | 38,411 | 60,415 |
| General and administration | 1,415,372 | 362,706 |
| Share-based compensation expense (Note 10) | 371,508 | 147,797 |
| Amortization | 268,056 | 46,004 |
| | 3,101,937 | 1,281,724 |
| Income (loss) from operations | 992,670 | (1,172,445) |
| Interest income | 19,113 | 12,128 |
| Net income (loss) and comprehensive income (loss) | 1,011,783 | (1,160,317) |
| Net income (loss) per share, basic: | \$0.02 | \$(0.03) |
| Weighted average number of outstanding common shares: Basic (Note 11) | 50,875,433 | 37,646,785 |
| Net income (loss) per share, diluted: | \$0.02 | \$(0.03) |
| Weighted average number of outstanding common shares: Diluted (Note 11) | 56,260,530 | 37,646,785 |

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

Tweed Marijuana Inc.

Condensed interim consolidated statements of changes in equity
for the three months ended June 30, 2015 and 2014

(Unaudited)

(in Canadian dollars)

| | Number of shares | Share capital | Share-based reserve | Warrants | Deficit | Shareholders' equity |
|---------------------------------|---------------------|-------------------|------------------------|----------------|--------------------|-------------------------|
| | # | \$ | \$ | \$ | \$ | \$ |
| Balance at March 31, 2014 | 35,070,108 | 14,688,860 | 485,647 | 207,485 | (3,689,205) | 11,692,787 |
| Equity financing | 4,687,500 | 15,000,000 | - | - | - | 15,000,000 |
| Share issue costs | - | (1,261,052) | - | - | - | (1,261,052) |
| Exercise of stock options | 186,383 | 104,081 | - | - | - | 104,081 |
| Share-based compensation | - | - | 147,797 | - | - | 147,797 |
| Net loss | - | - | - | - | (1,160,317) | (1,160,317) |
| Balance at June 30, 2014 | 39,943,991 | 28,531,889 | 633,444 | 207,485 | (4,849,522) | 24,523,296 |
| Balance at March 31, 2015 | 50,752,666 | 49,826,433 | 1,724,369 | 137,982 | (10,279,386) | 41,409,398 |
| Exercise of warrants (Note 10) | 213,105 | 194,723 | - | (68,991) | - | 125,732 |
| Share-based compensation | - | - | 371,508 | - | - | 371,508 |
| Net income/(loss) | - | - | - | - | 1,011,783 | 1,011,783 |
| Balance at June 30, 2015 | 50,965,771 | 50,021,156 | 2,095,877 | 68,991 | (9,267,603) | 42,918,421 |

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

Tweed Marijuana Inc.

Condensed interim consolidated statements of cash flows for the three months ended June 30, 2015 and 2014 (Unaudited)

(in Canadian dollars)

| | June 30, 2015 | June 30, 2014 |
|------------------------------------------------------------------|--------------------|--------------------|
| | \$ | \$ |
| Net inflow (outflow) of cash related to the following activities | | |
| Operating | | |
| Net income (loss) | 1,011,783 | (1,160,317) |
| Items not affecting cash | | |
| Amortization of property, plant and equipment | 265,340 | 43,537 |
| Amortization of intangible assets | 2,716 | 2,467 |
| Gain on change in fair value of biological assets | (5,275,001) | (1,127,183) |
| Share-based compensation | 371,508 | 147,797 |
| Listing expense | - | 30,300 |
| Changes in non-cash operating working capital items (Note 14) | 325,687 | (16,869) |
| | (3,297,967) | (2,080,268) |
| Financing | | |
| Increase in other long-term liabilities | 27,000 | - |
| Issuance of common shares from financing rounds | - | 15,000,000 |
| Exercise of stock options | - | 104,081 |
| Exercise of warrants | 125,732 | - |
| Share issue costs | (189,435) | (1,523,630) |
| Repayment of long-term debt | (62,121) | (39,738) |
| | (98,824) | 13,540,713 |
| Investing | | |
| Increase in restricted short-term investment | (286,375) | - |
| Purchase of leasehold construction in process (Note 14) | (1,186,363) | (2,528,712) |
| Purchase of intangible assets | - | (11,093) |
| Purchase of property, plant and equipment (Note 14) | (1,409,780) | (4,371,660) |
| | (2,882,518) | (6,911,465) |
| Net cash (outflow) inflow | (6,279,309) | 4,548,980 |
| Cash and cash equivalents, beginning of period | 21,445,821 | 7,700,107 |
| Cash and cash equivalents, end of period | 15,166,512 | 12,249,087 |

See Note 14 for supplementary cash flow information

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

Tweed Marijuana Inc.

Notes to the condensed interim consolidated financial statements for the three-month period ended June 30, 2015 and 2014 (Unaudited)

1. Description of business

Tweed Marijuana Inc. ("Tweed Marijuana" or the "Company"), formerly LW Capital Pool Inc. ("LW Capital"), is the parent company of Tweed Inc. ("Tweed") and Tweed Farms Inc. (formerly Prime 1 Construction Services Corp.) ("Tweed Farms"), both licensed producers of medical marijuana in Canada. The principal activities of Tweed are the production and sale of medical marijuana and the principal activity of the Company Farms is growing of medical marijuana as regulated by the Marihuana for Medical Purposes Regulations. Tweed Marijuana 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 are listed on the TSX Venture Exchange ("TSXV"), under the trading symbol "TWD".

The Company was incorporated under the name "LW Capital Pool Inc." by articles of incorporation pursuant to the *Canada Business Corporations Act* on August 5, 2009, and after completing its initial public offering of shares on the TSXV on June 4, 2010, it was classified as a Capital Pool Corporation as defined in policy 2.4 of the TSXV. The principal business of the Company at that time was to identify and evaluate assets or businesses with a view to completing a qualifying transaction (a "Qualifying Transaction") under relevant policies of the TSXV. On March 26, 2014, the Company completed its Qualifying Transaction which was effective pursuant to an agreement between the Company and Tweed.

On November 24, 2014, the Canada Revenue Agency approved the year-end change for the Company to March 31. This was done to conform with Tweed Marijuana's two operating subsidiaries, Tweed Inc. and Tweed Farms Inc., which have March 31 year ends. Accordingly the Company's fiscal year ended March 31, 2015, had five quarters.

2. Basis of preparation

Statement of compliance

The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards IFRS as issued by the International Accounting Standards Board ("IASB") and apply the same accounting policies and methods of computation as were followed in the most recent annual financial statements for the fifteen months ended March 31, 2015.

These financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on August 30, 2015.

Basis of measurement

These condensed interim consolidated financial statements have been prepared in Canadian dollars on a historical cost basis except for warrants, options and biological assets, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

3. Changes to accounting standards and interpretations

New and revised IFRS in issue but not yet effective

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Tweed Marijuana Inc.

Notes to the condensed interim consolidated financial statements for the three-month period ended June 30, 2015 and 2014 (Unaudited)

3. Changes to accounting standards and interpretations (continued)

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 was issued by the IASB in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held for trading are measured at FVTPL and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. The effective date of IFRS 9 is January 1, 2018.

Amendments to IAS 16 and IAS 41

IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* are amended to:

- include 'bearer plants' within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for as property, plant and equipment and measured at initial recognition on a cost or revaluation basis in accordance with IAS 16;
- introduce a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales; and
- clarify that produce growing on bearer plants remains within the scope of IAS 41.

This amendment is applicable to annual periods beginning on or after January 1, 2016.

Amendments to IAS 16 and IAS 38

Amends IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* to:

- clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment;
- introduce a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate; which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated; and
- add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which in turn, might reflect a reduction of the future economic benefits embodied in the asset.

This amendment is applicable to annual periods beginning on or after January 1, 2016.

Tweed Marijuana Inc.

Notes to the condensed interim consolidated financial statements for the three-month period ended June 30, 2015 and 2014 (Unaudited)

3. Changes to accounting standards and interpretations (continued)

Disclosure Initiative (Amendments to IAS 1)

Amends IAS 1 *Presentation of Financial Statements* to address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes:

- clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements and even when a standard requires a specific disclosure, materiality considerations do apply;
- clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and
- additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

This amendment is applicable to annual periods beginning on or after January 1, 2016.

The Company is assessing the impact of the new or revised IFRS standards in issue, but not yet effective on its financial position and financial performance.

4. Restricted short-term investment

The restricted short-term investment balance of \$296,375 consists of a \$50,000 guaranteed investment certificate maturing on September 17, 2015, bearing an annual interest rate of 0.8%. The investment is held by the bank as collateral for available credit offered to the Company through corporate credit cards. The remaining amount of \$246,375 is a guaranteed investment certificate maturing on May 28, 2017 bearing an annual interest rate of 1.6%. This investment is held by the bank as collateral for an issued Letter of credit for the Industrial Electricity Incentive Contract Stream 3.

5. Biological assets and inventory

The Company's biological assets consist of seeds and medical cannabis plant. The continuity of biological assets for the three months ending June 30, 2015 and March 31, 2015, is as follows:

| | June 30, 2015 | March 31, 2015 |
|------------------------------------------------------------------------------|------------------|-------------------|
| | \$ | \$ |
| Carrying amount, March 31, 2015 and December 31, 2013 | 2,027,874 | - |
| Purchase/(use) of seeds | (98,420) | 367,190 |
| Changes in fair value less costs to sell due to biological transformation | 5,373,421 | 8,208,286 |
| Transferred to inventory upon harvest | (4,273,675) | (6,547,602) |
| Carrying amount, June 30, 2015 | <u>3,029,200</u> | <u>2,027,874</u> |

Included in the carrying amount of biological assets is \$268,770 in seeds and \$2,760,430 in live plants.

Tweed Marijuana Inc.

Notes to the condensed interim consolidated financial statements for the three-month period ended June 30, 2015 and 2014 (Unaudited)

5. Biological assets and inventory (continued)

All of the plants are to be harvested as agricultural produce (i.e., medical cannabis).

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

- estimated yield by plant and grow room;
- percentage of costs incurred till date compared to the total costs to be incurred (used to estimate the fair value of an in-process plant);
- percentage of costs incurred for each stage of plant growth;
- pricing of final product; and
- estimated harvest date.

The Company estimates the harvest yields for the plants at various stages of growth. As at June 30, 2015, it is expected that the Company's biological assets will yield approximately 817,000 grams. The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the gain or loss on biological assets.

Inventory is comprised of the following items:

| | June 30, 2015 | March 31, 2015 |
|------------------------------------------|--------------------------|-------------------|
| | \$ | \$ |
| Finished goods | 8,552,506 | 4,992,134 |
| Less: adjustment to net realizable value | (1,034,573) | (687,144) |
| Product for resale (vaporizers, etc.) | 33,284 | 30,461 |
| Supplies and consumables | 20,047 | 20,047 |
| | 7,571,265 | 4,355,498 |

Included in production costs is an adjustment of \$347,429 in inventory from cost to net realizable value.

6. Property, plant and equipment

During the quarter ended June 30, 2015, there was \$172,584 (three months ended June 30, 2014 - \$11,402,276) in property, plant and equipment purchases. Included in the \$172,584 of fixed asset additions is a capital lease totalling \$37,081 for furniture and fixtures. There were no leases recorded for the same period in the prior year.

7. Leasehold construction in process

During the three months ended June 30, 2015, there was \$3,606,408 (three months ended June 30, 2014 - \$NIL) of construction in process additions of which \$2,892,176 related to the expansion at Tweed Farms. The remaining \$714,238 is for ongoing construction at Tweed Inc. The construction in process additions relate to production lighting, growing benches, irrigation and nutrient systems and construction of growing rooms.

Tweed Marijuana Inc.

Notes to the condensed interim consolidated financial statements for the three-month period ended June 30, 2015 and 2014 (Unaudited)

8. Tweed Farms acquisition

On June 18, 2014, the Company purchased 100% of the issued and outstanding shares of Tweed Farms. The purchase price was \$2,000,000 for the 30,000,000 Class A outstanding shares of Tweed Farms. Tweed Farms' only asset at the time of acquisition was an option to acquire real property, a building and a greenhouse (the "option"). Terms of the purchase were \$500,000 cash payable with \$400,000 on closing and \$100,000 upon the earlier of (i) the completion of the first harvest of marijuana at Tweed Farms or (ii) six months after closing. The balance of \$1,500,000 was to be satisfied by the issuance of common shares (519,031 shares at \$2.89) of Tweed Marijuana based on certain conditions and milestones.

The conditions to the issuance of the 519,031 shares have been met or waived by Tweed Marijuana and the first 346,020 of such shares were issued in the prior fiscal year. The remaining 173,011 are yet to be issued. The shares are expected to be issued in fiscal 2016.

9. Long-term debt

| | June 30, 2015 | March 31, 2015 |
|--------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------------|
| | \$ | \$ |
| Mortgage payable with a five-year term and amortization period of seven years bearing an interest rate of 5.3% | 1,762,500 | 1,819,126 |
| Capital lease obligations with an interest rate between 9.6%-14.4%, and terms between 3-5 years, lien against the related leased equipment | 128,508 | 96,923 |
| | 1,891,008 | 1,916,049 |
| Less: current portion | 256,896 | 247,263 |
| Long-term portion | 1,634,112 | 1,668,786 |

The mortgage payable is secured by a first charge on the Tweed Farms property. In addition, the Company must maintain a fixed coverage charge ratio (meaning earnings before interest, taxes, depreciation and amortization plus any contributions during the year divided by principal and interest payments) of 1.30:1. The Company was in compliance with this annual covenant at year-end. The mortgage payable can be prepaid at any time, but is subject to a prepayment fee equal to the greater of (a) three months interest on the amount being prepaid or (b) the amount of interest lost by the lender over the remaining term of the loan on the amount being prepaid.

10. Share capital

Authorized

An unlimited number of common shares.

On May 8, 2015, 213,105 warrants were exercised for gross cash proceeds of \$125,732. In addition an amount of \$68,991 was reclassified from warrants to share capital.

Tweed Marijuana Inc.

Notes to the condensed interim consolidated financial statements for the three-month period ended June 30, 2015 and 2014 (Unaudited)

10. Share capital (continued)

Warrants continuity schedule

As at June 30, 2015, the Company has the following warrants with average exercise prices and expiry dates outstanding:

| | Number of whole warrants | Average exercise price | Expiry date |
|-----------------------------------------|--------------------------------|------------------------------|-----------------------|
| | # | \$ | |
| Balance as at March 31, 2015 | 426,209 | 0.59 | September 13, 2016 |
| Exercise of warrants during the quarter | (213,105) | 0.59 | |
| <u>Balance as at June 30, 2015</u> | <u>213,104</u> | <u>0.59</u> | |

Option plan

The Company has a stock option plan ("ESOP") that is administered by the Board of Directors of the Company who establish exercise prices, at not less than market price at the date of grant and expiry dates, which have been set at six years from issuance. Options under the Plan remain exercisable in increments with 1/3 being exercisable on each of the first, second and third anniversaries from the date of grant. The maximum number of common shares reserved for issuance for options that may be granted under the Plan is 10% of the common shares outstanding, which was 5,096,577 as at June 30, 2015.

The following is a summary of the changes in the Company's ESOP options during the period:

| | Options issued | Average exercise price |
|------------------------------------------------|-------------------|------------------------------|
| | # | \$ |
| Balance outstanding as at March 31, 2015 | 3,924,040 | 1.81 |
| Options granted | 1,105,000 | 1.92 |
| Options forfeited | (294,551) | 1.58 |
| <u>Balance outstanding as at June 30, 2015</u> | <u>4,734,489</u> | <u>1.85</u> |

Tweed Marijuana Inc.

Notes to the condensed interim consolidated financial statements for the three-month period ended June 30, 2015 and 2014 (Unaudited)

10. Share capital (continued)

As at June 30, 2015, the Company has agent options outstanding, which were issued on March 26, 2014, in replacement of agent options issued by Tweed prior to the reverse acquisition. These options are outside of the ESOP.

The following summarizes the Company's Non-ESOP options during the period:

| | Non-ESOP options # | Average exercise price \$ | Expiry date |
|------------------------------------------------------------|--------------------------|------------------------------------|--------------------|
| Balance outstanding as at June 30, 2015 and March 31, 2015 | 437,504 | 0.89 | September 13, 2016 |

Share-based compensation

For the three months ended June 30, 2015, the Company recorded \$371,508 (2014 - \$147,797) in share-based compensation expense related to options which are measured at fair value at the date of grant and are expensed over the option's vesting period. In determining the amount of share-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of options granted by applying the following assumptions:

| | June 30, 2015 | March 31, 2015 |
|-----------------------------------------------------|------------------|-------------------|
| Risk-free interest rate | 1.60% - 1.64% | 1.60% - 1.64% |
| Expected life of options (years) | 3 - 6 | 3 - 6 |
| Expected annualized volatility | 70% | 70% |
| Expected dividend yield | NIL | NIL |
| Weighted average Black-Scholes value of each option | \$0.29 - \$2.04 | \$0.29 - \$2.04 |

Volatility was estimated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options.

11. Earnings per share

Net income (loss) per common share represents net income (loss) attributable to common shareholders divided by the weighted average number of common shares outstanding during the period.

Diluted income (loss) per common share is calculated by dividing the applicable net income (loss) by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period.

Tweed Marijuana Inc.

Notes to the condensed interim consolidated financial statements for the three-month period ended June 30, 2015 and 2014 (Unaudited)

12. Related parties

The Company leases its premises from a company controlled by Tweed Hershey Drive Inc. ("Tweed Hershey"), which is related through common ownership. The lease expires on December 31, 2018. For the three months ended June 30, 2015, the expense incurred under this lease including base rent and operating costs was \$629,865 (three months ended June 30, 2014 - \$135,000). The Company had \$994,052 (March 31, 2015 - \$665,044) owing related to rent associated with these leased premises at June 30, 2015, and has prepaid rent of \$508,500 (March 31, 2015 - \$508,500), which is included in prepaid expenses. An amount of \$2,613 (March 31, 2015 - \$2,613) is included in accounts receivable at June 30, 2015, related to recoverable costs billed to Tweed Hershey.

The CEO is providing consulting services to the Company at \$16,667 per month from July 1, 2013 to July 1, 2015. For the three months ended June 30, 2015, consulting expenses totalled \$50,000 (three months ended June 30, 2014 - \$50,000). An amount owing of \$56,500 (March 31, 2015 - \$226,000), was included in accounts payable as at June 30, 2015. A new contract is currently being negotiated and is expected to close by the end of the second quarter.

During the three months ended June 30, 2015, \$40,250 (three months ended June 30, 2014 - \$46,500) was expensed in director's fees. As at June 30, 2015, \$40,250 (March 31, 2015 - \$65,421) remained outstanding.

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

13. Commitments and contingencies

In December 2013, a lien was registered against the property that Tweed leases from Tweed Hershey Drive Ltd. ("Tweed Hershey", a related party) due to a dispute over payment of work related to fitting up the facility by a subcontractor. The lien was vacated in December 2013 as a result of a bond put in place by Tweed Hershey. An indemnification agreement was entered into such that Tweed Hershey agreed to indemnify Tweed against any amounts in excess of what had already been paid for the work plus an additional \$100,000. On January 29, 2014, Tweed was served a statement of claim seeking damages in the amount of \$241,576. On February 20, 2014, Tweed served the subcontract with a Statement of Defence and Counterclaim. On May 30, 2014, Tweed settled the lawsuit by paying \$141,000 inclusive of interest and costs.

In March 2015, a claim was commenced against Tweed by the former CEO for \$330,000 in specified damages for breach of contract and wrongful dismissal. The litigation process will continue into the foreseeable future unless settled. No amount has been recorded in the financial statements due to the fact that the amount cannot be reliably measured at this point.

In April 2014, Tweed sought to acquire medical marijuana plants from certain growers licensed under the old Marijuana Medical Access Regulations ("MMAR"). The RCMP took possession of that shipment before it could reach Tweed's facility and, as such, Tweed was not able to proceed with the planned transfer of plants. No amount was paid by Tweed for the medical marijuana in question. Based on the terms of the contracts between Tweed and the vendors, Tweed is of the view that no payment is required. Mediation between the parties took place on June 2, 2015, and while no resolution was obtained, counsel for both parties continue discussions.

Tweed Marijuana Inc.

Notes to the condensed interim consolidated financial statements for the three-month period ended June 30, 2015 and 2014 (Unaudited)

14. Supplementary cash flow information

The changes in non-cash working capital items are as follows:

| | Three months ended June 30, 2015 | Three months ended June 30, 2014 |
|-------------------------------------------|----------------------------------------|----------------------------------------|
| | \$ | \$ |
| Accounts receivable | (99,897) | (54,300) |
| Harmonized Sales Tax and SRED recoverable | (91,434) | (466,715) |
| Prepaid expenses | (55,490) | (260,374) |
| Inventory | 1,057,908 | (7,617) |
| Accounts payable and accrued liabilities | (485,400) | 772,137 |
| Total | 325,687 | (16,869) |

Non-cash transactions

Excluded from the condensed interim consolidated statements of cash flows for the three months ended June 30, 2015, is a total of \$2,706,075 purchases related to leasehold construction in process included in accounts payable and accrued liabilities and \$47,989 in property, plant and equipment purchases.

Excluded from the consolidated year end statements of cash flows at March 30, 2015, is a total of \$1,797,729 in accounts payable and accrued liabilities as follows: \$286,029 of leasehold construction in process purchases, \$1,322,266 of property, plant and equipment purchases and \$189,435 of share issue costs. These amounts are included in the condensed interim consolidated statement of cash flows for the three months ended June 30, 2015.

Excluded from the condensed interim consolidated statements of cash flows for the three months ended June 30, 2014, is a total of \$301,999 in accounts payable and accrued liabilities related to property, plant and equipment purchases.

Excluded from the condensed interim consolidated statements of cash flows for the three months ended March 31, 2014 is a total of \$1,731,234 in accounts payable and accrued liabilities relating to: \$1,355,541 of leasehold construction in process purchases, \$113,115 of property, plant and equipment purchases and \$262,578 of share issue costs. These amounts are included in the condensed interim consolidated statement of cash flows for the three months ended June 30, 2014.

Cash and cash equivalents consist of the following:

| | June 30, 2015 | March 31, 2015 |
|----------------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Cash | 2,387,097 | 1,712,657 |
| Investment savings account mutual fund | 12,779,415 | 19,733,164 |
| Total | 15,166,512 | 21,445,821 |

Tweed Marijuana Inc.

Notes to the condensed interim consolidated financial statements for the three-month period ended June 30, 2015 and 2014 (Unaudited)

15. Financial instruments

Fair values

The carrying values of cash, restricted short-term investments and accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity. The mortgage payable has a fair value of approximately \$1,895,000 (carrying value of \$1,762,500), which is based on the present value of future interest and principal payments using a discount rate of 6%.

Fair value hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

During the year, there were no transfers of amounts between levels.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Cash and cash equivalents and the restricted short-term investment are classified as Level 1 financial instruments. During the year, there were no transfers of amounts between Level 1 and Level 2.

The warrants were valued using a Black-Scholes option pricing model and are Level 2 financial instruments.

16. Segmented information

The Company operates in one segment, the production and sale of medical marijuana.

All property, plant and equipment, leasehold construction in progress and intangible assets are located in Canada.

All revenues are generated in Canada.

17. Subsequent events

On August 28, 2015, the Company acquired Bedrocan Cannabis Corp. ("Bedrocan Canada") pursuant to a definitive plan of arrangement, previously announced on June 24, 2015, in which the Company agreed to acquire all of the issued and outstanding securities of Bedrocan Canada. The transaction closed on August 28, 2015, following approval by Bedrocan Canada shareholders and the TSX Venture Exchange and completion of conditions precedent to closing. Bedrocan Canada became a subsidiary of the Company upon closing of the transaction. There were 35,202,818 shares issued for the acquisition.

On August 10, 2015, 437,504 Non-ESOP options were exercised for gross proceeds of \$389,379.

18. Comparative figures

The prior fiscal year comparative figures have been expanded to include the current year presentation.