

Consolidated financial statements of

Tweed Marijuana Inc.

March 31, 2015 and December 31, 2013
(in Canadian dollars)

Tweed Marijuana Inc.

March 31, 2015 and December 31, 2013

Table of contents

Independent Auditor's Report.....	1-2
Consolidated statements of financial position	3
Consolidated statements of comprehensive loss.....	4
Consolidated statements of changes in shareholders' equity	5
Consolidated statements of cash flows.....	6
Notes to the consolidated financial statements.....	7-36

Deloitte LLP
1600 - 100 Queen Street
Ottawa ON K1P 5T8
Canada

Tel: (613) 236-2442
Fax: (613) 236-2195
www.deloitte.ca

Independent Auditor's Report

To the Shareholders of
Tweed Marijuana Inc.

We have audited the accompanying financial statements of Tweed Marijuana Inc., which comprise the statements of financial position as at March 31, 2015 and its predecessor Tweed Inc. as at December 31, 2013, and the statements of comprehensive loss, statements of changes in shareholders' equity and statements of cash flows for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Tweed Marijuana Inc. as at March 31, 2015 and its predecessor Tweed Inc. as at December 31, 2013, and its financial performance and its cash flows for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013, in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

June 26, 2015

Tweed Marijuana Inc.

Consolidated statements of financial position as at March 31, 2015 and December 31, 2013

(in Canadian dollars)

	March 31, 2015	December 31, 2013
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	21,445,821	2,089,794
Restricted short-term investment (Note 4)	10,000	10,000
Accounts receivable (Note 18)	341,942	-
HST recoverable	431,191	282,044
Biological assets (Note 7)	2,027,874	-
Inventory (Note 7)	4,355,498	-
Prepaid expenses (Note 5)	763,537	720,347
	29,375,863	3,102,185
Property, plant and equipment (Note 8)	17,745,043	73,613
Leasehold construction in process (Note 9)	615,339	1,931,595
Intangible assets (Note 10)	38,254	46,046
	47,774,499	5,153,439
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,278,052	1,279,843
Current portion of long-term debt (Note 12)	247,263	5,318
	4,525,315	1,285,161
Long-term debt (Note 12)	1,668,786	35,099
Other long-term liabilities (Note 17)	171,000	-
	6,365,101	1,320,260
Shareholders' equity		
Share capital (Note 13)	49,826,433	4,404,855
Share-based reserve	1,724,369	153,764
Warrants	137,982	207,485
Deficit	(10,279,386)	(932,925)
	41,409,398	3,833,179
	47,774,499	5,153,439

On behalf of the Board

s/Bruce Linton Director

s/Chris Schnarr Director

The accompanying notes are an integral part of these consolidated financial statements

Tweed Marijuana Inc.

Consolidated statements of comprehensive loss for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

	March 31, 2015 (15 months)	December 31, 2013 (12 months) (Note 2)
	\$	\$
Sales	2,371,351	-
Gain on changes in fair value of biological assets	(8,575,476)	-
Inventory expense to cost of sales	2,399,776	-
Production costs	5,720,847	-
Cost of sales (recovery)	(454,853)	-
Gross margin	2,826,204	-
Sales and marketing	2,685,107	191,717
Research and development	266,976	-
General and administration	5,520,860	586,176
Share-based compensation expense (Note 13)	1,558,988	153,764
Share-based compensation expense - Tweed Farms acquisition (Note 11)	999,998	-
	11,031,929	931,657
Loss from operations	(8,205,725)	(931,657)
Other income (expenses)		
Interest income	51,101	215
Foreign exchange loss	(295)	(1,483)
Reverse acquisition transaction costs (Note 6)	(225,239)	-
Listing expense (Note 6)	(966,303)	-
	(1,140,736)	(1,268)
Net loss and comprehensive loss	(9,346,461)	(932,925)
Net loss per share, basic and diluted:	\$(0.29)	\$(15.77)
Weighted average number of outstanding common shares:		
Basic and diluted (Note 14)	32,181,868	59,156

The accompanying notes are an integral part of these consolidated financial statements.

Tweed Marijuana Inc.

Consolidated statements of changes in equity for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

	Number of shares	Share capital	Share-based reserve	Warrants	Deficit	Shareholders' equity
	#	\$	\$	\$	\$	\$
Balance at January 1, 2013	55,000	100	-	-	-	100
Equity financing	37,635	4,980,100	-	-	-	4,980,100
Share issue costs	-	(367,860)	-	-	-	(367,860)
Warrants	-	(137,982)	-	137,982	-	-
Share-based compensation	-	-	153,764	-	-	153,764
Agent options	-	(69,503)	-	69,503	-	-
Net loss	-	-	-	-	(932,925)	(932,925)
Balance at December 31, 2013	92,635	4,404,855	153,764	207,485	(932,925)	3,833,179
Equity financing - January 30, 2014	7,297	999,689	-	-	-	999,689
Share issue costs	-	(83,107)	23,126	-	-	(59,981)
Equity financing - February 5, 2014	10,526	1,442,062	-	-	-	1,442,062
Equity financing - March 7, 2014	34,211	6,500,090	-	-	-	6,500,090
Share issue costs	-	(673,659)	150,331	-	-	(523,328)
Opening balance of LW Capital (Note 1)	7,260,000	570,984	63,010	-	(297,923)	336,071
Consolidation of LW Capital shares (Note 1)	(5,808,000)	-	-	-	-	-
Eliminate capital stock of Tweed Inc. (Note 1)	(150,361)	-	-	-	-	-
Eliminate LW Capital contributed surplus and deficit	-	(234,913)	(63,010)	-	297,923	-
Issuance of shares to former Tweed Inc. shareholders (Note 1)	32,042,607	966,303	-	-	-	966,303
Issuance of shares pursuant to Tweed Rights obligation (Note 13)	1,575,501	-	-	-	-	-
Equity financing - May 14 2014	4,687,500	15,000,000	-	-	-	15,000,000
Share issue costs	-	(1,255,327)	-	-	-	(1,255,327)
Issuance of shares to acquire Tweed Farms (Note 11)	346,020	999,998	-	-	-	999,998
Equity financing - March 23, 2015	10,097,760	21,710,184	-	-	-	21,710,184
Share issue costs	-	(1,836,323)	-	-	-	(1,836,323)
Exercise of ESOP stock options	177,919	108,274	(12,970)	-	-	95,304
Exercise of non-ESOP options	379,051	1,207,323	(148,870)	(69,503)	-	988,950
Share-based compensation	-	-	1,558,988	-	-	1,558,988
Net loss	-	-	-	-	(9,346,461)	(9,346,461)
Balance at March 31, 2015	50,752,666	49,826,433	1,724,369	137,982	(10,279,386)	41,409,398

The accompanying notes are an integral part of these consolidated financial statements.

Tweed Marijuana Inc.

Consolidated statements of cash flows for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

	March 31, 2015 (15 months)	December 31, 2013 (12 months)
	\$	\$
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net loss	(9,346,461)	(932,925)
Items not affecting cash:		
Amortization of property, plant and equipment (Note 8)	633,670	897
Amortization of intangible assets (Note 10)	12,792	3,289
Gain on change in fair value of biological assets	(8,575,476)	-
Non-cash marketing and promotion expense	-	70,619
Share-based compensation	2,558,986	153,764
Listing expense (Note 6)	966,303	-
Changes in non-cash operating working capital items (Note 18)	2,858,036	(677,259)
	(10,892,150)	(1,381,615)
Financing		
Increase in other long-term liabilities	171,000	-
Issuance of common shares from financing rounds	45,652,025	4,900,300
Exercise of stock options	1,084,254	-
Share issue costs	(3,485,524)	(367,860)
Issuance of long-term debt	1,974,525	-
Payment of long-term debt	(98,893)	-
Reverse acquisition, net of assets acquired (Note 6)	336,071	-
	45,633,459	4,532,440
Investing		
Purchase of restricted short-term investment	-	(10,000)
Purchase of leasehold construction in process	(10,384,823)	(967,432)
Purchase of intangible assets	(5,000)	(8,919)
Purchase of property, plant and equipment	(4,995,728)	(74,510)
	(15,385,551)	(1,060,861)
Net cash inflow	19,355,757	2,089,964
Cash and cash equivalents, beginning of period	2,090,064	100
Cash and cash equivalents, end of period	21,445,821	2,090,064

See Note 18 for supplementary cash flow information

The accompanying notes are an integral part of these consolidated financial statements.

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

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 Tweed Farms is the 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 effected pursuant to an agreement between the Company and Tweed. As part of the Qualifying Transaction, the Company changed its name to Tweed Marijuana Inc. and consolidated its 7,260,000 shares on a 5 to 1 basis to 1,452,000. Following this change, Tweed amalgamated with 2405882 Ontario Inc., a wholly-owned subsidiary of Tweed Marijuana, formed solely for the purpose of facilitating the Qualifying Transaction. In connection with that amalgamation, Tweed Marijuana acquired all of the issued and outstanding shares of Tweed and the former shareholders of Tweed were issued a total of 32,042,607 post-consolidation common shares. In addition, 3,124,651 common shares of Tweed Marijuana have been reserved for options and warrants issued to the holders of Tweed options and warrants. Immediately following closing, Tweed Marijuana Inc. had a total of 35,070,108 common shares outstanding.

Upon closing of the transaction, the shareholders of Tweed owned 95.64% of the common shares of the Company and as a result, the transaction is considered a reverse acquisition of the Company by Tweed. All previous common shares and options were converted at a ratio of 213.1045 to 1 ("conversion rate"). For accounting purposes, Tweed is considered the acquirer and the Company the acquiree. Accordingly, the consolidated financial statements are in the name of Tweed Marijuana Inc. (formerly LW Capital Pool Inc.); however, they are a continuation of the financial statements of Tweed. Additional information on the transaction is disclosed in Note 6.

Tweed Farms was acquired on June 18, 2014 and received its license to grow medical marijuana on August 15, 2014. Additional information on the transaction is disclosed in Note 11.

On November 24, 2014, the Canada Revenue Agency approved the year-end change for Tweed Marijuana Inc. 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. This means that the Company's March 31, 2015 year end statements will have five quarters.

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

2. Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

These financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on June 26, 2015.

Basis of measurement

These consolidated financial statements have been prepared in Canadian dollars on a historical cost basis except for warrants, options, the reverse acquisition transaction 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.

Basis of presentation

The Company has revised its presentation of the statement of comprehensive loss to reflect the categorization of expenses by function, rather than by nature as it had been previously presented. The change is a change in accounting policy and the Company has accordingly restated the prior year's presentation. The Company views this change as reflecting information which is more reliable and relevant to users as the individual expense categories may not have been good predictors of future cash flows.

3. Significant accounting policies

(a) Foreign currency translation

All figures presented in the financial statements and tabular disclosures to the financial statements are reflected in Canadian dollars, which is the functional currency of the Company.

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to Canadian dollars at the foreign exchange rate applicable at that date. Realized and unrealized exchange gains and losses are recognized through profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Biological assets

The Company measures biological assets consisting of medical cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Seeds are measured at fair market value.

(c) Inventory

Inventories of harvested finished goods and packing materials are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. Products for resale and supplies and consumables are valued at cost.

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

3. Significant accounting policies (continued)

(d) Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis over the following terms:

Computer software and equipment	3 years
Office/lab equipment	5 years
Furniture and fixtures	10 years
Production, security equipment and other	20 years
Leasehold/building improvements	20 years
Building	15 years
Greenhouse	25 years

An asset's residual value, useful life and amortization method are reviewed at each financial year and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and recognized in profit or loss.

Assets under capital lease are amortized according to their asset category.

Construction in progress is transferred to leasehold/building improvements or production, security equipment when the assets are available for use and amortization of the assets commences at that point.

(e) Finite-lived intangible assets

Finite-lived intangible assets are comprised of a domain name which is recorded at cost less accumulated amortization and accumulated impairment losses. The domain name is amortized on a straight-line basis over five years. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(f) Impairment of long-lived assets

Long-lived assets, including equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

(g) Leased assets

Leases are classified as an operating lease whenever the terms of the lease do not transfer substantially all of the risks and rewards of ownership to the lessee. Lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits are consumed.

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

3. Significant accounting policies (continued)

(h) Revenue recognition

Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

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

(i) Research and development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized in profit and loss as incurred. To date, no development costs have been capitalized.

(j) Income taxes

The Company uses the liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

(k) Share-based compensation

The Company has an employee stock option plan. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate. For stock options granted to non-employees the compensation expense is measured at the fair value of the good and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. The fair value of share-based compensation to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. Consideration paid by employees or non-employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from share-based reserve to share capital.

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

3. Significant accounting policies (continued)

(l) Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares. Basic earnings (loss) per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise warrants and share options issued.

(m) Financial instruments

Financial assets

The Company initially recognizes financial assets at fair value on the date that they are originated. All financial assets (including assets designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company classifies its financial assets as financial assets at fair value through profit and loss or loans and receivables. A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Financial liabilities

The Company initially recognizes financial liabilities at fair value on the date that they are originated. All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies its financial liabilities as either financial liabilities at fair value through profit and loss or other liabilities. Subsequent to initial recognition other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in profit or loss.

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

3. Significant accounting policies (continued)

(m) Financial instruments (continued)

Classification of financial instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

	Classification
Cash	Fair value profit or loss
Accounts receivable	Loans and receivable
Restricted short-term investment	Loans and receivable
Accounts payable and accrued liabilities	Other liabilities
Long-term debit	Other liabilities

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Transaction costs

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Impairment of financial assets

Financial assets, other than those classified at fair value through profit and loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

(n) Critical accounting estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost versus net realizable value.

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

3. Significant accounting policies (continued)

(n) Critical accounting estimates and judgments (continued)

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

Amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Share-based compensation

In calculating the share-based compensation expense, key estimates such as the value of the common share, the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price and the risk free interest rate are used.

Warrants

In calculating the value of the warrants, key estimates such as the value of the common share, the volatility of the Company's stock price and the risk free interest rate are used.

Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive as a result of a previous event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligations. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the expected future cash flows.

Allocation of purchase price

In determining the allocation of the purchase price, estimates are used based on market research and appraisal values.

(o) New IFRS effective in 2015

IAS 36 Impairment of Assets ("IAS 36")

In May 2013, the IASB amended IAS 36 to clarify the requirement to disclose information about the recoverable amount of assets for which an impairment loss has been recognized or reversed. The IAS 36 amendments were applied retrospectively on January 1, 2014 with no impact.

IAS 32 Offsetting Financial Assets and Liabilities

In December 2011, IAS 32 *Financial Instruments: Presentation* was amended to clarify certain aspects because of diversity in application of the requirements on offsetting, focusing on four main areas: (a) the meaning of "currently has a legally enforceable right of set-off"; (b) the application of simultaneous realisation and settlement; (c) the offsetting of collateral amounts; and (d) the unit of account for applying the offsetting requirements. The IAS 32 amendments were applied retrospectively on January 1, 2014 with no impact.

IFRS 2 Share-based Payments

In the second quarter of 2014, the IASB issued Amendments to IFRS 2. The amendments change the definitions of "vesting condition" and "market condition". They also clarify that any failure to complete a specified service period, even due to the termination of an employee's employment or a voluntary departure would result in a failure to satisfy a service condition. This would result in the reversal, in the current period, of compensation expense previously recorded reflecting the fact the employee failed to complete a specified service condition. These amendments are effective for transactions with a grant date on or after July 1, 2014. There was no impact of this amendment on the consolidated financial statements.

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013 (in Canadian dollars)

3. Significant accounting policies (continued)

(o) New IFRS effective in 2015 (continued)

IFRIC 21 Levies

IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain. The interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies: (a) The liability is recognized progressively if the obligating event occurs over a period of time; (b) If an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. There was no impact of IFRIC 21 on the consolidated financial statements.

IFRS 3 Business Combinations (contingent consideration)

In the second quarter of 2014, the IASB issued Amendments to IFRS 3. The amendments clarify the guidance in respect of the initial classification requirements and subsequent measurement of contingent consideration. This will result in the need to measure the contingent consideration at fair value at each reporting date, irrespective of whether it is a financial instrument or a non-financial asset or liability. Changes in fair value will need to be recognized in profit and loss. These amendments are effective for transactions with acquisition dates on or after July 1, 2014. There was no impact of this amendment on the consolidated financial statements.

(p) 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.

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 was issued by the International Accounting Standards Board ("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.

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013 (in Canadian dollars)

3. Significant accounting policies (continued)

(p) New and revised IFRS in issue but not yet effective (continued)

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.

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.

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

3. Significant accounting policies (continued)

(p) New and revised IFRS in issue but not yet effective (continued)

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 consists of a \$10,000 guaranteed investment certificate maturing 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.

5. Prepays

	March 31, 2015	December 31, 2013
	\$	\$
Rent deposit	508,500	567,450
Other	255,037	-
Deposits on building fitup	-	152,897
	763,537	720,347

6. Reverse acquisition

On March 26, 2014, LW Capital completed its Qualifying Transaction, which was effected pursuant to an agreement between LW Capital and Tweed. Pursuant to the agreement, LW Capital acquired all of the issued and outstanding shares of Tweed. The former shareholders of Tweed received an aggregate of 32,042,607 common shares of LW Capital for all of the outstanding Tweed common shares.

The transaction is a reverse acquisition of LW Capital and has been accounted for under IFRS 2, *Share-based Payments*. Accordingly, the transaction has been accounted for at the fair value of the equity instruments granted by the shareholders of Tweed to the shareholders and option holders of LW Capital. The difference between the fair value of the consideration paid of \$1,302,374 (based on the fair value of Tweed shares just prior to the reverse acquisition) and the LW Capital net assets acquired of \$336,071, of \$966,303, has been recognized as a listing expense in the statement of comprehensive loss for the fifteen months ended March 31, 2015. Costs of the transaction of \$225,239 were also expensed in the fifteen months ended March 31, 2015.

The results of operations of LW Capital are included in the consolidated financial statements of Tweed from the date of the reverse acquisition of March 26, 2014.

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

6. Reverse acquisition (continued)

The following represents management's estimate of the fair value of the net assets acquired at March 26, 2014 as a result of the reverse acquisition.

	\$
Fair value of share consideration paid (6,855 shares)	<u>1,302,374</u>
Cash	449,274
Prepaid expenses	4,806
Accounts payable and accrued liabilities	(118,009)
Net assets acquired	<u>336,071</u>
Listing expense	<u>966,303</u>

7. Biological assets and inventory

The Company's biological assets consists of seeds and medical cannabis plants.

The Company's biological assets at March 31, 2015 is comprised of:

	\$
Carrying amount, January 1, 2013 and December 31, 2013	-
Seeds	367,190
Changes in fair value less costs to sell due to biological transformation	8,208,286
Transferred to inventory upon harvest	(6,547,602)
Carrying amount, March 31, 2015	<u>2,027,874</u>

All of the plants are to be harvested as agricultural produce (i.e., medical cannabis). All of the plants are between four and eight weeks from harvest.

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

- wastage of plants based on their various stages;
- yield by plant;
- percentage of costs incurred to date compared to the total costs to be incurred are used to estimate the fair value of an in-process plant;
- percentage of costs incurred for each stage of plant growth was estimated.

The Company estimates the harvest yields for the plants at various stages of growth. As of March 31, 2015, it is expected that the Company's biological assets will yield approximately 558,000 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.

Tweed Marijuana Inc.

Notes to the consolidated financial statements
for the fifteen-month period ended March 31, 2015 and
the year ended December 31, 2013
(in Canadian dollars)

7. Biological assets and inventory (continued)

Inventory is comprised of the following items:

	March 31, 2015	December 31, 2013
	\$	\$
Finished goods	4,992,134	-
Less: adjustment to net realizable value	(687,144)	-
Product for resale (vaporizers, etc.)	30,461	-
Supplies and consumables	20,047	-
	4,355,498	-

Included in production costs is an adjustment of \$687,144 in inventory from cost to net realizable value.

8. Property, plant and equipment

Cost	Balance at January 1, 2014	Additions	Additions from Tweed Farms acquisition	Disposals/ adjustments	Balance at March 31, 2015
	\$	\$	\$	\$	\$
Computer software and equipment	18,028	270,893	-	-	288,921
Office/lab equipment	13,955	403,375	-	-	417,330
Furniture and fixtures	14,262	818,732	-	-	832,994
Production, security equipment and other	28,265	1,347,298	-	-	1,375,563
Leasehold/building improvements	-	11,581,077	-	-	11,581,077
Building	-	-	110,100	-	110,100
Greenhouse	-	84,200	2,867,079	-	2,951,279
Land	-	-	722,821	-	722,821
	74,510	14,505,575	3,700,000	-	18,280,085
Assets under capital lease					
Furniture and fixtures	-	99,525	-	-	99,525
Total	74,510	14,605,100	3,700,000	-	18,379,610

Tweed Marijuana Inc.

Notes to the consolidated financial statements
for the fifteen-month period ended March 31, 2015 and
the year ended December 31, 2013
(in Canadian dollars)

8. Property, plant and equipment (continued)

Accumulated amortization	Balance at January 1, 2014	Additions	Disposals/ adjustments	Balance at March 31, 2015
	\$	\$	\$	\$
Computer software and equipment	697	60,287	-	60,984
Office/lab equipment	19	35,980	-	35,999
Furniture and fixtures	67	45,806	-	45,873
Production, security equipment and other	114	66,425	-	66,539
Leasehold/building improvements	-	324,866	-	324,866
Building	-	5,811	-	5,811
Greenhouse	-	93,457	-	93,457
Land	-	-	-	-
	897	632,633	-	633,530
Assets under capital lease				
Furniture and fixtures	-	1,037	-	1,037
Total	897	633,670	-	634,567
Net book value	73,613	-	-	17,745,043

Cost	Balance at January 1, 2013	Additions	Disposals/ adjustments	Balance at December 31, 2013
	\$	\$	\$	\$
Computer software and equipment	-	18,028	-	18,028
Office/lab equipment	-	13,955	-	13,955
Furniture and fixtures	-	14,262	-	14,262
Production, security equipment and oth	-	28,265	-	28,265
Leasehold/building improvements	-	-	-	-
Building	-	-	-	-
Greenhouse	-	-	-	-
Total	-	74,510	-	74,510

Tweed Marijuana Inc.

Notes to the consolidated financial statements
for the fifteen-month period ended March 31, 2015 and
the year ended December 31, 2013
(in Canadian dollars)

8. Property, plant and equipment (continued)

Accumulated amortization	Balance at January 1, 2013	Additions	Disposals/ adjustments	Balance at December 31, 2013
	\$	\$	\$	\$
Computer software and equipment	-	697	-	697
Office/lab equipment	-	19	-	19
Furniture and fixtures	-	67	-	67
Production, security equipment and other	-	114	-	114
Leasehold/building improvements	-	-	-	-
Building	-	-	-	-
Greenhouse	-	-	-	-
Total	-	897	-	897
Net book value	-			73,613

There was no property, plant and equipment under capital lease at December 31, 2013.

9. Leasehold construction in progress

The \$615,339 in leasehold construction in progress includes all amounts spent on improvements to date at the Tweed Farms location to expand the facility for operations. The leasehold additions relate to production lighting, growing benches, irrigation and nutrient systems and construction of growing rooms at both the Company's locations. A continuity of the account is as follows:

Cost	Balance at January 1, 2014	Additions	Transfers	Balance at March 31, 2015
	\$	\$	\$	\$
Construction in progress	1,931,595	10,670,852	(11,987,108)	615,339

Construction in progress	Balance at January 1, 2013	Additions	Transfers	Balance at December 31, 2013
	\$	\$	\$	\$
Construction in progress	-	1,931,595	-	1,931,595

Tweed Marijuana Inc.

Notes to the consolidated financial statements
for the fifteen-month period ended March 31, 2015 and
the year ended December 31, 2013
(in Canadian dollars)

10. Intangible assets

Cost	Balance at January 1, 2014	Additions	Disposals/ adjustments	Balance at March 31, 2015
	\$	\$	\$	\$
Domain names	49,335	5,000	-	54,335
Total	49,335	5,000	-	54,335

Accumulated amortization	Balance at January 1, 2014	Additions	Disposals/ adjustments	Balance at March 31, 2015
	\$	\$	\$	\$
Domain names	3,289	12,792	-	16,081
Total	3,289	12,792	-	16,081
Net book value	46,046			38,254

Cost	Balance at January 1, 2013	Additions	Disposals/ adjustments	Balance at December 31, 2013
	\$	\$	\$	\$
Domain name	-	49,335	-	49,335
Total	-	49,335	-	49,335

Accumulated amortization	Balance at January 1, 2013	Additions	Disposals/ adjustments	Balance at December 31, 2013
	\$	\$	\$	\$
Domain name	-	3,289	-	3,289
Total	-	3,289	-	3,289
Net book value	-			46,046

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

11. 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 is to be satisfied by the issuance of common shares of Tweed Marijuana at a value equal to the greater of:

- (i) the weighted average price of such shares on the three (3) trading days immediately preceding the public announcement of the transaction; and
- (ii) the "Discounted Market Price" (as such term is defined in the policies of the Toronto Venture Exchange) of the common shares of Tweed Marijuana as of the date of the public announcement of this transaction which occurred on June 19, 2014.

This remaining \$1,500,000 will be satisfied by the issuance of 519,031 common shares of the Company at a share price of \$2.89 in accordance with the conditions and milestones described below:

- (i) one third of the shares shall be issued upon Tweed Farms receiving a license from Health Canada permitting the cultivation of marijuana (Cultivation License) in the Greenhouse provided that the license is received on or before July 31, 2014 and provided further that a key individual continues to be employed or engaged as a consultant by Tweed Farms, other than in the event of a termination of such employment or engagement by Tweed Farms without cause, and continues to be eligible to be a Responsible Person in Charge ("RPIC) on the date of receipt of the license;
- (ii) one third of the shares shall be issued upon Tweed Farms receiving a license from Health Canada as a Licensed Producer pursuant to the MMPR (Commercial License) permitting the production, sale, possession, transport, delivery and destruction of marijuana in the Greenhouse provided further that a key individual continues to be employed or engaged as a consultant by Tweed Farms, other than in the event of a termination of such employment or engagement by Tweed Farms without cause, and continues to be eligible to be an RPIC on the date of receipt of this license; and
- (iii) one third of the shares shall be issued on June 18, 2015 provided that the Cultivation License and the Commercial License shall have been received by Tweed Farms and provided further that a key individual continues to be employed or engaged as a consultant by Tweed Farms, other than in the event of a termination of such employment or engagement by Tweed Farms without cause, and continues to be eligible to be an RPIC on June 18, 2015.

Immediately upon closing the Company provided Tweed Farms with funds to exercise its option for an aggregate amount of \$3,200,000.

Under IFRS 3.2(b) when a transaction does not meet the definition of a business combination due to the asset or group of assets not meeting the definition of a business, it is termed an "asset acquisition".

The Company has determined that this acquisition meets the criteria of an asset acquisition and as such is issuing shares as the conditions noted above are met.

On August 25, 2014 the first condition of the contingent consideration was met and as a result 173,010 common shares of the Company were issued at \$2.89 to a key individual for a total consideration of \$499,998. The offsetting entry was to share-based compensation expense.

On December 1, 2014 the second condition of the contingent consideration was waived and as a result 173,010 common shares of the Company were issued at \$2.89 to a key individual for a total consideration of \$499,998. The offsetting entry was to share-based compensation expense.

Tweed Marijuana Inc.

Notes to the consolidated financial statements
for the fifteen-month period ended March 31, 2015 and
the year ended December 31, 2013
(in Canadian dollars)

11. Tweed Farms acquisition (continued)

The purchase price of the assets acquired was as follows:

	\$
Land	722,821
Greenhouse	2,867,079
Building	110,100
Total	3,700,000

The allocation of the purchase price was based on comparable third party market values for the land and the residual went to the building and greenhouse.

12. Long-term debt

	March 31, 2015	December 31, 2013
	\$	\$
Domain name financing arrangement with Escrow.com, non-interest bearing secured by intangible asset, repaid in the year	-	40,417
Mortgage payable with a five year term and amortization period of seven years bearing an interest rate of 5.3%	1,819,126	-
Capital lease obligation with an interest rate of 9.6%, five year term, lien against furniture and equipment	96,923	-
	1,916,049	40,417
Less: current portion	247,263	5,318
Long-term portion	1,668,786	35,099

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 is in compliance with this 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.

Principal repayments required on the long-term debt in the next five years are as follows:

	\$
2016	247,263
2017	261,427
2018	276,153
2019	291,927
2020	839,279
	1,916,049

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

13. Share capital

Authorized

An unlimited number of common shares

On December 20, 2013, the Company filed articles of amendment removing certain restrictions on the transfer of shares, creating an unlimited number of common shares, reclassifying all Class A common shares into common shares and cancelling all other authorized share classes. On July 24, 2013, the Company filed articles of amendment authorizing a share split. The 100 common shares were divided into 55,000 common shares. All common shares have been retroactively restated to reflect the stock split.

On July 23, 2013, 10,466 common shares were issued for gross proceeds of \$500,000. On September 13, 2013, these shares were re-purchased for cancellation by the Company for \$500,000.

On September 13, 2013, Tweed completed a private placement for 4,000 units ("Unit") at a price of \$125 per Unit for gross proceeds of \$500,000. Each Unit consisted of one common share and one half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share of Tweed at a price of \$125 per share any time up to September 13, 2016. The value of the 4,000 warrants to purchase one half of one common share of \$137,982 was estimated using the Black-Scholes option pricing model and the following variables: stock price of \$91, expected life of 3 years, NIL dividends, 70% volatility and risk free interest rate of 1.59%.

On October 4, 2013, Tweed completed a private placement for 11,200 common shares at a price of \$125 per share for gross proceeds of \$1,400,000.

On December 11, 2013, Tweed completed a private placement for 135 common shares at a price of \$185 per share, at a total value of \$25,000. These shares were issued in exchange for services provided to the Company. The Company has the option to buyback these shares on a reduced prorated basis, as specified in the agreement, over the period from the date of issuance to the date the Company becomes publicly listed.

On December 18, 2013, Tweed completed a private placement for 400 common shares at a price of \$137 per share, at a total value of \$54,800. These shares were issued in exchange for services provided to the Company. The Company has the option to buyback these shares on a reduced prorated basis, as specified in the agreement, over the period from the date of issuance to the date the Company becomes publicly listed.

On December 27, 2013, Tweed completed a private placement for 21,900 units ("Unit") at a price of \$137 per share for gross proceeds of \$3,000,300. Each Unit consisted of a common share and a right. The terms of this private placement included a contingent obligation for the Company whereby should the Company not become publicly listed prior to April 1, 2014, those that participated in this December 27, 2013 private placement would be entitled to receive additional shares in the amount of 10% of those issued ("the right"), for a total of 2,190. The Company also issued 1,314 broker agent options entitling the holder to acquire one common share of Tweed for each agent option, at a price of \$137, which expire December 27, 2015. The value of the 1,314 broker agent options of \$69,503 was estimated using the Black-Scholes option pricing model and the following variables: stock price of \$137, expected life of 2 years, NIL dividends, 70% volatility and risk free interest rate of 1.08%

Share issue costs paid in cash relating to the above equity financings amounted to \$367,860.

On January 30, 2014, Tweed completed a private placement for 7,297 units ("Unit") at a price of \$137 per Unit for gross proceeds of \$999,689. Each Unit included a common share and a right to a common share if Tweed did not become publicly listed prior to 5 p.m. on March 31, 2014. Agent options were issued at 6% of the common shares issued, amounting to 438 options to purchase common shares of Tweed, exercisable at a price of \$137 with a term of two years. Based on the Black-Scholes pricing model, these options had an estimated fair value of \$23,126 (assumptions used were as follows: expected volatility - 70%, risk-free interest rate - 0.97%, expected dividend yield - 0%, expected life of options - 2 years). In addition, broker cash commissions of 6% amounting to \$59,981, and other expenses amounting to \$10,500, were paid as part of the transaction.

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

13. Share capital (continued)

On February 5, 2014, Tweed completed the closing of a non-brokered private placement of 10,526 Units at a price of \$137 per Unit for gross cash proceeds of \$1,442,062. There were no commissions related to this private placement.

On March 7, 2014, Tweed completed the closing of a brokered private placement of 34,211 Units at a price of \$190 per Unit for gross cash proceeds of \$6,500,090. Agent options were issued at 6% of the common shares issued, amounting to 2,053 options to purchase common shares of Tweed, exercisable at a price of \$190 with a term of two years. Based on the Black-Scholes pricing model, these options have an estimated fair value of \$150,331 (assumptions used were as follows: expected volatility - 70%, risk-free interest rate - 0.97%, expected dividend yield - 0%, expected life of options - 2 years). In addition, broker cash commissions of 6%, amounting to \$390,005, were paid as part of the transaction.

Other professional fees and costs associated with the private placement amounted to \$122,823.

On March 26, 2014, the Company completed its Qualifying Transaction with Tweed (see Notes 1 and 6).

All share disclosures subsequent to this date reflect the conversion rate (Note 1).

On March 31, 2014, pursuant to the terms of rights ("Tweed Rights") issued as part of the Tweed private placements from December 2013 to March 2014, and pursuant to the terms of the amalgamation agreement entered into by the Company in connection with the Qualifying Transaction, the Company issued an additional 1,575,501 shares to former shareholders of Tweed. The Tweed Rights issued by the Company provided that if certain liquidity events did not occur prior to 5:00 p.m. on March 31, 2014, the rights entitled the holder to receive, for no additional consideration, additional shares equal to 10% of the total number of Tweed shares subscribed for in the private placements by such holder. These shares were recorded on a fair value basis at a price of \$0.89 per share. This resulting amount of \$1,402,196 was recorded to share capital and share issuance costs.

On May 14, 2014, Tweed completed a financing of 4,687,500 common shares for aggregate gross proceeds of \$15,000,000. A syndicate of underwriters led by GMP Securities LP, and including Jacob Securities Inc. completed the offering at a price of \$3.20 per common share. The over - allotment option of 703,125 common shares at the offering price was not exercised. In addition, transaction costs of \$1,255,327 were paid as part of the common share issuance.

On June 19, 2014, Tweed announced the acquisition of Tweed Farms (Note 11). The acquisition adds over 350,000 square feet of greenhouse facility located in Niagara-on-the-Lake, complementing Tweed's current 168,000 square foot indoor facility.

On August 25, 2014, 173,010 common shares of the Company were issued at \$2.89 as the first condition for the Tweed Farms acquisition had been met (Note 11).

On November 27, 2014, 326,689 common shares were issued on exercise of an equal number of agent options for proceeds of \$209,081.

On December 1, 2014, the second condition of the Tweed Farms acquisition was waived and 173,010 common shares of the Company were issued at \$2.89 to a key individual (Note 11).

On March 17, 2015, Tweed completed a financing of 9,302,400 common shares for aggregate gross proceeds of \$20,000,160. A syndicate of underwriters led by GMP Securities LP, and including Dundee Securities Ltd. and M Partners Inc. completed the offering at \$2.15 per common share. On March 25, 2015, the over - allotment option was exercised in part resulting in an additional 795,360 common shares issued for gross proceeds of \$1,710,024. Transaction costs of \$1,836,323 were paid as part of the common share issuance. As at March 31, 2015, 600,000 common shares remained of the over - allotment that were eligible for purchase until April 17, 2015. The remaining over-allotment was not exercised.

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

13. Share capital (continued)

Warrants continuity schedule

As of March 31, 2015, the Company has the following warrants with average exercise prices and expiry dates outstanding:

	Number of whole warrants	Average exercise price	Expiry date
	#	\$	
Issued pursuant to December 2013 private placement	426,209	0.59	September 13, 2016
Balance at December 31, 2013 and March 31, 2015	426,209	0.59	

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 1/3rd 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 5,075,267 at March 31, 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 at January 1, 2013	-	-
Options granted	618,003	0.43
Balance outstanding at December 31, 2013	618,003	0.43
Options granted	3,478,658	2.04
LW Capital options transferred on reverse acquisition (Note 11)	144,600	0.50
Options exercised	(177,919)	0.54
Options forfeited	(120,482)	1.69
Options cancelled	(18,820)	3.35
Balance outstanding at March 31, 2015	3,924,040	1.81

Tweed Marijuana Inc.

Notes to the consolidated financial statements
for the fifteen-month period ended March 31, 2015 and
the year ended December 31, 2013
(in Canadian dollars)

13. Share capital (continued)

Option plan (continued)

The following is a summary of the outstanding stock options as at March 31, 2015.

Exercise price	Options outstanding			Options exercisable		
	Number outstanding at March 31, 2015	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at March 31, 2015	Weighted average exercise price	
\$	#		\$	#	\$	
0.43	618,003	0.53	0.43	206,001	0.43	
0.64	1,012,174	1.00	0.64	373,240	0.64	
0.50	12,000	-	0.50	12,000	0.50	
3.35	362,499	0.47	3.35	-	3.35	
2.96	975,864	1.31	2.96	60,000	2.96	
2.29	298,500	0.42	2.29	3,333	2.29	
2.16	395,000	0.60	2.16	-	2.16	
2.11	250,000	0.38	2.11	-	2.11	
	3,924,040	4.71	1.81	654,574	0.79	

As of March 31, 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 number originally issued by Tweed was 3,805, which were then exchanged into 810,863 agent options of the Company based on the exchange ratio used for the reverse acquisition. These agent options vested on the date of issuance and carried a two year term from their original date of issuance by Tweed. On April 14, 2014, 46,670 options were exercised at a price of \$0.64 for gross proceeds of \$29,869. On November 27, 2014, 326,689 agent options were exercised at a price of \$0.64 for gross proceeds of \$209,081. An amount of \$23,126 was reclassified from share-based reserve to share capital on exercise and an amount of \$69,503 was reclassified from warrants to share capital.

The consultant options of 5,692 (1,212,991 post share consolidation) were issued on October 10, 2013 for services provided, vested immediately and expired on the earlier of the closing of a public offering or completion of a reverse takeover with a publicly listed entity. These options were exercised prior to the reverse takeover for gross proceeds of \$750,000. An amount of \$125,744 was reclassified from share-based reserve to share capital on exercise.

Tweed Marijuana Inc.

Notes to the consolidated financial statements
for the fifteen-month period ended March 31, 2015 and
the year ended December 31, 2013
(in Canadian dollars)

13. Share capital (continued)

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

	Non-ESOP options #	Average exercise price \$	Expiry date
Agent options issued pursuant to December 2013 private placement	280,019	0.64	December 27, 2015
Non-ESOP consultant options issued in October 2013	1,212,991	0.62	March 26, 2014
Balance outstanding at December 31, 2013	1,493,010	0.62	
Agent options issued pursuant to January 2014 private placement	93,340	0.64	January 30, 2016
Agent options issued pursuant to March 2014 private placement	437,504	0.89	March 7, 2016
Exercise of agent options	(373,359)	0.64	
Exercise of consultant options prior to reverse acquisition	(1,212,991)	0.62	
Balance outstanding at March 31, 2015	437,504	0.89	

Share-based compensation

The Company recorded \$1,558,988 (2013 - \$28,020) 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:

	March 31, 2015 (15 months)	December 31, 2013 (12 months)
Risk-free interest rate	1.60% - 1.64%	1.60% - 1.94%
Expected life of options (years)	3 - 6	3 - 5
Expected annualized volatility	90%	70%
Expected dividend yield	NIL	NIL
Weighted average Black-Scholes value of each option	\$0.29 - \$0.36	\$0.19 - \$0.26

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.

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

14. 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.

For all the periods presented, diluted loss per share equals basic loss per share due to the anti-dilutive effect of options and warrants. The outstanding number and type of securities that could potentially dilute basic net loss per share in the future but that were not included in the computation of diluted net loss per share because to do so would have reduced the loss per share (anti-dilutive) for the periods presented are as follows:

	March 31, 2015	December 31, 2013
Stock options (ESOP and non-ESOP)	4,361,544	2,111,013
Warrants	426,209	426,209
Total	4,787,753	2,537,222

15. Income taxes

Income tax expense varies from the amount that would be computed by applying the basic federal and provincial tax rates to loss on operations before income taxes, shown as follows:

	March 31, 2015 (15 months)	December 31, 2013 (12 months)
Expected tax rate	26.5%	26.5%
	\$	\$
Expected tax benefit resulting from loss	(2,476,812)	(247,225)
Permanent differences	937,447	60,083
Tax loss carryforwards	3,351,000	204,948
Changes in other temporary differences	(1,590,000)	-
Other	(221,635)	(17,806)
Income tax expense	-	-

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

15. Income taxes (continued)

Deferred income taxes reflect the impact of loss carry forwards and of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The tax effects of temporary differences and loss carry forwards that gave rise to significant portions of the deferred tax asset, which have not been recognized, are approximately as follows:

	March 31, 2015	December 31, 2013
	\$	\$
Losses carried forward	3,555,000	204,000
Share issue costs	1,332,000	-
Accounting amortization in excess of tax	123,000	77,000
Biological assets and inventory	(1,636,000)	-
Total	3,374,000	281,000

The Company has approximate non-capital losses available to reduce future years' federal and provincial taxable income which expires as follows:

	\$
2030	40,000
2031	50,000
2032	42,000
2033	862,000
2034	2,474,000
2035	9,948,000

16. Related parties

Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors, who control approximately 9.2% of the outstanding shares of the Company. Compensation provided to key management is as follows:

	March 31, 2015 (15 months)	December 31, 2013 (12 months)
	\$	\$
Short-term employee benefits	1,288,396	238,555
Share-based compensation	506,571	10,080
Total	1,794,967	248,635

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

16. Related parties (continued)

Key management personnel compensation (continued)

As of March 31, 2015, in the event that Executive officers employment agreements were terminated by the Company, other than due to a material breach of their employment agreements or in the event the Company becomes insolvent: the CEO is entitled to a severance amount equal to eighteen months of compensation based on the monthly contract work fee or \$300,000 in aggregate and all other Executive officers are entitled to a severance amount equal to thirty four week's annual base salary.

Related party transactions

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 fifteen months ended March 31, 2015, the expense incurred under this lease including base rent and operating costs was \$1,821,620 (2013 - \$7,397). The Company had \$665,044 (2013 - \$NIL) owing related to rent associated with these leased premises at March 31, 2015 and has prepaid rent of \$508,500, which is included in prepaid expenses. An amount of \$2,613 (2013 - \$NIL) is included in accounts receivable at March 31, 2015 related to recoverable costs billed to Tweed Hershey.

A director has been engaged to provide consulting services to the Company at \$16,667 per month from July 1, 2013 to July 1, 2015. For the fifteen months ended March 31, 2015, consulting expenses totalled \$400,000 (2013 - \$100,000) of which \$150,000 related to a bonus paid. An amount owing of \$226,000 (2013 - \$100,000), was included in accounts payable at March 31, 2015.

During the fifteen months ended March 31, 2015, \$225,750 (2013 - \$NIL) was expensed in director's fees. An amount of \$65,421 remains outstanding at March 31, 2015.

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

Certain directors and management of the Company participated in the private placements completed during the periods presented. Proceeds received from the directors and management related to the private placements totalled \$70,007 for the year ended March 31, 2015 (2013 - \$161,660).

17. Commitments and contingencies

The Company leases production space under an operating lease which will expire in December 2018 and has equipment and other commitments with varying terms. Future minimum payments due in each of the next five years are as follows:

	\$
2016	649,395
2017	784,899
2018	829,899
2019	737,979
2020	35,121

Included in other long-term liabilities is \$171,000 related to the rent escalation for the Hershey Drive facility that is being amortized over the remaining lease term.

The lease agreement contains a contingent condition for the lessee to remove fixtures at lessor's discretion.

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

17. Commitments and contingencies (continued)

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. Since that time the parties have been in periodic communication including with respect to entering into mediation in accordance with the requirements of such contract. Mediation between the parties commenced on June 2, 2015.

On July 24, 2014 a legal proceeding was commenced in the Ontario Superior Court of Justice by an executive search company against Tweed Farms seeking damages in the amount of \$144,990 (inclusive of HST) with respect to placement fees owed; damages of \$25,000 for fees owed for introductions to advertising agencies; and a declaration of entitlement to a 5% share interest in Tweed Farms for no consideration or in lieu of \$100,000. Subsequent to year-end the issue was settled for approximately \$67,000. This amount has been accrued by the Company in accounts payable and accrued liabilities as at March 31, 2015.

18. Supplementary cash flow information

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

	March 31, 2015 (15 months)	December 31, 2013 (12 months)
	\$	\$
Accounts receivable	(341,942)	-
HST recoverable	(149,147)	(272,862)
Prepaid expenses	(43,190)	(720,347)
Inventory	2,191,835	-
Accounts payable and accrued liabilities	1,200,480	315,680
	2,858,036	(677,529)

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013 (in Canadian dollars)

18. Supplementary cash flow information (continued)

Non-cash transactions

Excluded from the March 31, 2015 consolidated statements of cash flows 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 equipment purchases and \$189,435 of share issue costs. In addition, the transfer of \$11,987,108 from construction in progress to property, plant and equipment has been excluded from the cash flows.

Excluded from the December 31, 2013 consolidated statements of cash flows: \$964,163 of leasehold construction in progress purchases included in accounts payable and accrued liabilities and \$79,800 in common shares issued for services, including \$9,181 in HST, were excluded from the statements of cash flows.

Cash and cash equivalents consist of the following:

	March 31, 2015	December 31, 2013
	\$	\$
Cash	1,712,657	2,089,794
Investment savings account mutual fund	19,733,164	-
	<u>21,445,821</u>	<u>2,089,794</u>

19. Financial instruments

Currency risk

As at March 31, 2015, there are no financial assets and liabilities for which cash flows are denominated in U.S. dollars (2013 - \$38,000 US). The Company has very limited currency risk.

Interest risk

The Company's exposure to interest rate risk only relates to any investments of surplus cash as well as long-term debt and capital lease obligations. The Company may invest surplus cash in highly liquid investments with short terms to maturity that would accumulate interest at prevailing rates for such investments. Currently the Company's restricted short-term investments consist of a \$10,000 guaranteed investment certificate which has a fixed rate of interest.

Interest rate risk on the long-term debt and capital lease obligations is limited due to the fact that they are both fixed rate of interest instruments.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade accounts receivable. The Company is exposed to credit-related losses in the event of non-performance by the counterparties.

The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk, but has limited risk due to the fact that the majority of sales are transacted with credit cards and the largest amount of trade receivable is owing from a government agency. Included in accounts receivable is \$312,598 of trade receivables, \$2,613 due from a related party and \$26,731 in government assistance receivable. Trade accounts receivable are reported net of an allowance for doubtful accounts of \$NIL.

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013 (in Canadian dollars)

19. Financial instruments (continued)

Credit risk (continued)

The carrying amount of cash and cash equivalents, restricted short-term investments and accounts receivable represents the maximum exposure to credit risk and at March 31, 2015, this amounted to \$21,807,763 (2013 - \$2,099,794). The cash is held by the Company's bank which is one of the large Canadian banks. Since the inception of the Company, no losses have been suffered in relation to cash held by the bank.

As at March 31, 2015, the Company's aging of receivables was approximately as follows:

	March 31, 2015	December 31, 2013
	\$	\$
0-60 days	325,937	-
61-120 days	16,005	-
Total	341,942	-

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. During the fifteen months ended March 31, 2015, the Company completed private placements for gross cash proceeds of \$8,941,841 and two public offerings for gross cash proceeds of \$36,710,184.

In addition to the commitments disclosed in Note 17, the Company is obligated to the following contractual maturities of undiscounted cash flows:

As at March 31, 2015

	Carrying amount	Contractual cash flows	Year 1	Year 2 - 3	Year 4 - 5
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	4,278,052	4,278,052	4,278,052	-	-
Long-term debt	1,916,049	2,252,065	345,798	691,596	1,214,671
Total	6,194,102	6,530,117	4,623,850	691,596	1,214,671

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 \$1,825,000 (carrying value of \$1,819,126), which is based on the present value of future interest and principal payments using a discount rate of 6%.

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

19. Financial instruments (continued)

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);

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 a Level 2 financial instrument.

20. Government assistance

In June 2014, the Company entered into an agreement with Industrial Research Assistance Program ("IRAP"), which provided for a maximum non-refundable payment of \$50,000 towards costs incurred in the program until January 30, 2015. An amount of \$26,731 is outstanding at year-end (Note 19).

21. 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.

22. Capital management

The Company's objective is to maintain sufficient capital base so as to maintain investor, creditor and customer confidence and to sustain future development of the business and provide the ability to continue as a going concern. Management defines capital as the Company's shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. The Company currently has not paid any dividends to its shareholders.

As at March 31, 2015, and December 31, 2013, total managed capital was comprised of shareholders' equity of \$41,409,398 and \$3,833,179, respectively.

There were no changes in the Company's approach to capital management during the year.

The Company is subject to externally imposed restrictions related to covenants on its mortgage payable (Note 12).

Tweed Marijuana Inc.

Notes to the consolidated financial statements for the fifteen-month period ended March 31, 2015 and the year ended December 31, 2013

(in Canadian dollars)

23. Subsequent events

On May 8, 2015, 213,105 warrants were exercised for gross cash proceeds of \$125,732.

On June 24, 2015, the Company announced that it has entered into a definitive arrangement agreement with Bedrocan Cannabis Corp. ("Bedrocan Canada"), pursuant to which the Company will acquire all of the issued and outstanding securities of Bedrocan Canada. The Company will be renamed at its annual meeting of shareholders to reflect its evolution as a multi-brand holding company. Under the terms of the acquisition, Bedrocan Canada shareholders will be entitled to receive 0.4650 common shares of the Company for each common share of Bedrocan Canada held. It is expected that Tweed Marijuana Inc. will issue a total of 33,865,950 common shares in connection with the acquisition.

In connection with the acquisition, the Company will appoint two individuals designated by Bedrocan Canada to the board of directors of Tweed Marijuana. The acquisition is intended to be implemented by way of plan of arrangement and is currently expected to close by the end of August 2015. Closing remains subject to Bedrocan Canada shareholder approval, court approval, the approval of the TSX Venture Exchange, and an amendment to the terms of Bedrocan Canada's license agreement with Bedrocan Beheer BV, among other conditions precedent. Upon closing of the acquisition, Bedrocan Canada will become a subsidiary of the Company.