Condensed interim consolidated financial statements
(Unaudited)

Canopy Growth Corporation

(Formerly Tweed Marijuana Inc.)

for the three and nine-month periods ended December 31, 2015 and 2014

Canopy Growth Corporation

Table of Contents

Canopy Growth Corporation

Condensed consolidated statements of financial position
as at December 31, 2015 and March 31, 2015

(Expressed in CDN $000's)
(Unaudited)

	December 31, 2015	March 31, 2015
	$	$
Assets		
Current assets		
Cash and cash equivalents	**19,719**	21,446
Restricted short-term investment (Note 4)	**296**	10
Accounts receivable	**833**	342
HST recoverable	**618**	431
Biological assets (Note 5)	**2,887**	2,028
Inventory (Note 5)	**22,808**	4,355
Prepaid expenses	**995**	764
	48,156	29,376
Property, plant and equipment (Note 6)	**39,614**	17,745
Leasehold construction in process (Note 7)	**3,725**	615
Intangible assets (Note 8)	**58,051**	38
	149,546	47,774
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**4,487**	4,278
Current portion of long-term debt (Note 10)	**364**	247
	4,851	4,525
Long-term debt (Note 10)	**3,610**	1,669
Deferred tax liability (See Note 9 b)	**7,204**	-
Acquisition consideration related liabilities (See Note 9 c)	**1,636**	-
Other long-term liabilities	**198**	171
	17,499	6,365
Shareholders' equity		
Share capital (Note 11)	**137,301**	49,826
Share-based reserve	**3,331**	1,724
Warrants	**69**	138
Deficit	**(8,654)**	(10,279)
	132,047	41,409
	149,546	47,774

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

Canopy Growth Corporation

Condensed consolidated statements of comprehensive (loss) income
for the three and nine-month periods ended December 31, 2015 and 2014

(Expressed in CDN $000's except per share amounts)
(Unaudited)

	Three months ended		Nine months ended	
	Dec 31, 2015	Dec 31, 2014	**Dec 31, 2015**	Dec 31, 2014
	$	$	**$**	$
Revenue	**3,481**	641	**7,657**	1,146
Unrealized gain on changes in fair value of biological assets	**(9,013)**	(939)	**(26,768)**	(3,196)
Inventory expense to cost of sales	**3,784**	239	**7,954**	629
Production costs	**5,954**	1,111	**10,173**	3,197
Cost of sales, net of the unrealized gain on changes in fair value of biological assets	**725**	411	**(8,641)**	630
Gross margin, including the unrealized gain on changes in fair value of biological assets	**2,756**	230	**16,298**	516
Sales and marketing	**1,372**	729	**3,253**	1,880
Research and development	**192**	41	**441**	160
General and administration	**1,962**	1,035	**5,619**	2,286
Acquisition costs	**16**	-	**1,155**	-
Share-based compensation expense (Note 11)	**1,162**	908	**2,107**	2,080
Amortization	**755**	173	**1,475**	356
	5,459	2,886	**14,050**	6,762
(Loss) income from operations	**(2,703)**	(2,656)	**2,248**	(6,246)
Interest income/(expense)	**(102)**	18	**(111)**	71
Change in fair value of acquisiton consideration related liabilities (Note 9 c)	**(741)**	-	**(741)**	-
	(843)	18	**(852)**	71
(Loss) income and comprehensive (loss) income before taxes	**(3,546)**	(2,638)	**1,396**	(6,175)
Income tax recovery	**230**	-	**230**	-
Net (loss) income and comprehensive (loss) income after taxes	**(3,316)**	(2,638)	**1,626**	(6,175)
Net (loss) income per share, basic:	**$(0.04)**	$(0.07)	**$0.02**	$(0.15)
Weighted average number of outstanding common shares: Basic (Note 11)	**93,355,021**	40,320,097	**69,356,439**	39,859,805
Net (loss) income per share, diluted:	**$(0.04)**	$(0.07)	**$0.02**	$(0.15)
Weighted average number of outstanding common shares: Diluted (Note 11)	**93,355,021**	40,320,097	**76,688,213**	39,859,805

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

Canopy Growth Corporation

Condensed consolidated statements of changes in equity
for the three and nine-month periods ended December 31, 2015 and 2014

(Expressed in CDN $000's except share amounts)
(Unaudited)

	Number of shares	Share capital	Share-based reserve	Warrants	Deficit	Shareholders' equity
	#	$	$	$	$	$
Balance at March 31, 2014	35,070,108	14,689	486	207	(3,689)	11,693
Equity financing	4,687,500	15,000	-	-	-	15,000
Share issue costs	-	(1,261)	-	-	-	(1,261)
Exercise of stock options	186,383	104	-	-	-	104
Share-based compensation	-	-	148	-	-	148
Net Loss	-	-	-	-	(1,160)	(1,160)
Balance at June 30, 2014	39,943,991	28,532	634	207	(4,849)	24,524
Exercise of stock options	12,000	6	-	-	-	6
Share-based compensation	-	-	525	-	-	525
Issuance of shares to former Prime 1 Construction Services owner	173,010	500	-	-	-	500
Share issue costs	-	(1)	-	-	-	(1)
Net Loss	-	-	-	-	(2,377)	(2,377)
Balance at September 30, 2014	40,129,001	29,037	1,159	207	(7,226)	23,177
Exercise of stock options	338,689	215	-	-	-	215
Share-based compensation	-	-	407	-	-	407
Issuance of shares to former Prime 1 Construction Services owner (Note 9 a)	173,010	500	-	-	-	500
Share issue costs	-	7	-	-	-	7
Net Loss	-	-	-	-	(2,638)	(2,638)
Balance at December 31, 2014	**40,640,700**	**29,759**	**1,566**	**207**	**(9,864)**	**21,668**
Balance at March 31, 2015	50,752,666	49,826	1,724	138	(10,279)	41,409
Exercise of warrants (Note 11)	213,105	195	-	(69)	-	126
Share-based compensation	-	-	371	-	-	371
Net Income	-	-	-	-	1,012	1,012
Balance at June 30, 2015	50,965,771	50,021	2,095	69	(9,268)	42,918
Exercise of stock options	10,655	7	-	-	-	7
Exercise of warrants (Note 11)	472,379	435	-	-	-	435
Share-based compensation	-	-	574	-	-	574
Issuance of shares for Bedrocan acquisition (Note 9 b)	35,202,818	64,403	-	-	-	64,403
Net Income	-	-	-	-	3,930	3,930
Balance at September 30, 2015	86,651,623	114,866	2,669	69	(5,338)	112,266
Exercise of stock options	183,821	348	(113)	-	-	235
Exercise of warrants (Note 11)	3,407,867	6,858	-	-	-	6,858
Share-based compensation	-	-	775	-	-	775
Issuance of shares to former Prime 1 Construction Services owner (Note 9 a)	173,011	387	-	-	-	387
Issuance of shares for MedCannAccess acquisition (Note 9 c)	1,083,740	1,733	-	-	-	1,733
Equity financing	7,012,700	14,376	-	-	-	14,376
Share issue costs	-	(1,267)	-	-	-	(1,267)
Net Loss	-	-	-	-	(3,316)	(3,316)
Balance at December 31, 2015	**98,512,762**	**137,301**	**3,331**	**69**	**(8,654)**	**132,047**

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

Canopy Growth Corporation

Condensed consolidated statements of cash flows
for the three and nine-month periods ended December 31, 2015 and 2014

(Expressed in CDN $000's)
(Unaudited)

	Three months ended		Nine months ended	
	Dec 31, 2015	Dec 31, 2014	**Dec 31, 2015**	Dec 31, 2014
	$	$	**$**	$
Net inflow (outflow) of cash related to the following activities:				
Operating				
Net income (loss)	**(3,316)**	(2,638)	**1,626**	(6,175)
Items not affecting cash:				
Amortization of property, plant and equipment	**619**	171	**1,334**	348
Amortization of intangible assets	**136**	2	**141**	8
Unrealized gain on change in fair value of biological assets	**(9,013)**	(939)	**(26,768)**	(3,196)
Share-based compensation	**1,162**	908	**2,107**	2,080
Income tax recovery	**(230)**	-	**(230)**	-
Change in fair value of acquisition consideration related liabilities	**741**	-	**741**	-
Listing expense	**-**	-	**-**	30
Changes in non-cash operating working capital items (Note 15)	**5,728**	436	**9,907**	728
	(4,173)	(2,060)	**(11,142)**	(6,177)
Financing				
Increase in other long-term liabilities	**-**	-	**27**	-
Issuance of common shares from financing round	**14,376**	-	**14,376**	15,000
Exercise of stock options	**235**	215	**242**	325
Exercise of warrants	**6,858**	-	**7,418**	-
Share issue costs	**(1,267)**	7	**(1,457)**	(1,518)
(Repayment)/issuance of long-term debt	**(1,925)**	1,875	**(1,985)**	1,835
	18,277	2,097	**18,621**	15,642
Investing				
Increase in restricted short-term investment	**-**	-	**(286)**	-
Purchase of leasehold construction in process (Note 7)	**(964)**	(2,311)	**(5,525)**	(6,200)
Purchase of intangible assets	**-**	(7)	**-**	(21)
Tweed Farms purchase liability	**-**	-	**-**	(1,500)
Purchase of property, plant and equipment (Note 6)	**(1,301)**	(302)	**(4,449)**	(3,670)
Acquisition of subsidiaries (Note 9)	**154**	-	**1,054**	-
	(2,111)	(2,620)	**(9,206)**	(11,391)
Net cash inflow, (outflow)	**11,993**	(2,583)	**(1,727)**	(1,926)
Cash and cash equivalents, beginning of period	**7,726**	8,357	**21,446**	7,700
Cash and cash equivalents, end of period	**19,719**	5,774	**19,719**	5,774

See Note 15 for supplementary cash flow information

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

1. Description of business

On September 17, 2015, at the annual and special general meeting, shareholders approved changing the name of Tweed Marijuana Inc. to Canopy Growth Corporation.

Canopy Growth Corporation or the "Company", formerly LW Capital Pool Inc. (“LW Capital”), is the parent company of Tweed Inc. (“Tweed”), Tweed Farms Inc. (formerly Prime 1 Construction Services Corp.) (“Tweed Farms”) and Bedrocan Cannabis Corp. (“Bedrocan’) which are all licensed producers of medical marijuana in Canada. The principal activities of Tweed and Bedrocan 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 (“MMPR”). Canopy Growth Corporation 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 TSXV, under the trading symbol “CGC”.

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.

On August 28, 2015, the Company acquired Bedrocan which included all of the issued and outstanding securities of Bedrocan Canada Inc. Bedrocan Canada Inc. became a subsidiary of the Company upon the closing of the transaction. There were 35,202,818 common shares issued for the acquisition (see Note 9).

On October 1, 2015, the Company acquired all of the issued and outstanding shares of several companies, which collectively operated as “MedCann Access”, by way of an amalgamation with 9421653 Canada Inc., a shell company which was a wholly-owned subsidiary of the Company, pursuant to an Amalgamation Agreement (the “Amalgamation”). 9388036 Canada Inc. is the post-amalgamation company resulting from the acquisition of MedCann Access. In connection with the acquisition of MedCann Access, the Company issued 3,316,902 common shares at $1.73 per share to former shareholders of MedCann Access, of which 2,449,887 common shares are being held in escrow and will be either (i) released to the former shareholders of MedCann Access upon the satisfaction of certain milestones, or (ii) released to the Company for cancellation (see Note 9 b).

2. Basis of preparation

Statement of compliance

The condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") 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 February 24, 2016.

Basis of measurement

These condensed 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.

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.

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. The Company does not anticipate a significant impact arising from the application of this new standard.

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

(Expressed in CDN $000's except share amounts)

3. Changes to accounting standards and interpretations (continued)

- 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. The Company does not anticipate any impact arising from the application of this new standard.

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 does not anticipate a significant impact arising from the application of this new standard.

4. Restricted short-term investment

The restricted short-term investment balance of $296 consists of a $50 guaranteed investment certificate maturing April 15, 2016 bearing an annual interest rate of 0.65%. 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 is a guaranteed investment certificate maturing 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 plants. The continuity of biological assets for the nine months ended December 31, 2015 and March 31, 2015 is as follows:

	December, 2015	March 31, 2015
	$	$
Carrying amount, March 31, 2015 and December 31, 2013	**2,028**	-
Purchase (use) of seeds	**(101)**	367
Changes in fair value less costs to sell due to biological transformation	**29,019**	8,208
Transferred to inventory upon harvest	**(28,059)**	(6,548)
Carrying amount, December 31, 2015 and March 31, 2015	**2,887**	2,028

(Expressed in CDN $000's except share amounts)

5. Biological assets and inventory (continued)

As at December 31, 2015, included in the carrying amount of biological assets is $266 in seeds and $2,621 in live plants ($367 in seeds and $1,661 in live plants as at March 31, 2015).

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 to 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;
- estimated harvest date.

The Company estimates the harvest yields for the plants at various stages of growth. 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:

	December, 2015	March 31, 2015
	$	$
Finished goods	**23,283**	4,992
Oils work-in-process	**1,020**	-
Less: adjustment to net realizeable value	**(1,701)**	(687)
	22,602	4,305
Product for resale (vaporizers, and other)	**43**	30
Supplies and consumables	**163**	20
	22,808	4,355

6. Property, plant and equipment

During the three months ended December 31, 2015 there were additions of $3,869 (2014 - $2,697) in property, plant and equipment. Included in the $3,869 of fixed asset additions is a capital lease totalling $268 for furniture and fixtures. There were no leases recorded for the same period in the prior year.

Property, plant and equipment additions for the nine months ended were $5,943 (2014 - $15,996). Included in the $5,943 of additions were capital leases totalling $369. There were no leases recorded for the same period in the prior year.

(Expressed in CDN $000's except share amounts)

7. Leasehold construction in process

During the three months ended December 31, 2015, there was $964 of construction in process additions of which $919 related to the expansion at Tweed Farms (2014 - $NIL). The remaining $45 is for ongoing projects at Tweed. During the three months ended December 31, 2015, $2,820 was transferred from Construction in Process to Leasehold Improvements.

During the nine months ended December 31, 2015, there was $7,091 of construction in process additions of which $5,864 related to the expansion at Tweed Farms (2014 - $NIL). The remaining $1,227 is for ongoing projects and construction at Tweed. During the nine months ended December 31, 2015, $3,982 was transferred from Construction in Process to Leasehold Improvements. The construction in process additions relate to production lighting, growing benches, irrigation and nutrient systems and construction of growing rooms.

8. Intangibles

Intangible assets are comprised of the following:

	December 31, 2015	March 31, 2015
	$	$
Product rights	**28,000**	-
Health Canada license	**3,867**	-
Goodwill	**26,154**	-
Domain name	**30**	38
Total	**58,051**	38

All of the intangibles with the exception of the domain name and $2,520 of the goodwill originated from the Bedrocan acquisition (see Note 9). Provisionally, the estimated useful life of the Health Canada license is fourteen years based upon the lease term of the building plus the renewal option. The product rights and the goodwill have an indefinite life but will be subject to an annual impairment test. The MedCann Access acquisition (see Note 9) resulted in the remaining goodwill of $2,520.

9. Acquisitions

(a) 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 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"). The transaction was treated as an asset acquisition. Terms of the purchase were $500 cash payable with $400 on closing and $100 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 was to be satisfied by the issuance of common shares (519,031 shares at $2.89 per share) of Canopy Growth Corporation based on certain conditions and milestones.

The conditions to the issuance of the 519,031 shares have been met or waived by Canopy Growth Corporation and the first 346,020 of such shares were issued in the prior fiscal year. The remaining 173,011 were issued on October 23, 2015.

(Expressed in CDN $000's except share amounts)

9. Acquisitions (continued)

(b) Bedrocan acquisition

On August 28, 2015, the Company purchased 100% of the issued and outstanding shares of Bedrocan Canada Inc. ("Bedrocan"). The transaction was accounted for as a business combination. The consideration for the transaction was 35,202,818 shares issued at a value of $1.8295 per share which totalled $64,403 less cash acquired of $900. Bedrocan shares were exchanged at a ratio of 0.4650 to 1.

The purchase price has been allocated as follows:

	$
Net assets acquired	16,203
Product rights	28,000
License	4,000
Goodwill	16,200
Total provisional purchase price	64,403

The net assets acquired included the following:

	$
Cash	900
Accounts receivable	373
Taxes receivable	113
Biological assets	2,051
Prepaids	95
Inventory	538
Fixed assets	17,224
Total assets	21,294
Accounts payable	1,060
Accrued expenses	25
Loan payable	2,059
Long-term loan	1,947
Total liabilities	5,091
Net assets acquired	16,203

Net cash outflow on acquisition of Bedrocan Canada Inc. is as follows:

	$
Consideration paid in cash	-
Less: Cash and cash equivalents acquired	900
Net cash inflow	900

9. Acquisitions (continued)

(b) Bedrocan acquisition (continued)

Goodwill arose in the acquisition of Bedrocan Canada Inc. because the cost of acquisition included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected revenue growth, future market development and the assembled work force of Bedrocan. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

During the third quarter, the goodwill was adjusted for a deferred tax liability that arose from the temporary tax differences at acquisition. This resulted in an additional amount of goodwill of $7,434 with a corresponding entry to the deferred tax liability account.

Acquisition related costs of $1,051 have been excluded from the consideration transferred and have been recognized as an expense in the current year.

Included in the profit for the year is a profit of $937 attributable to the Bedrocan Canada Inc. acquisition since August 28, 2015. This amount included $6,408 of unrealized gain on changes in fair value of biological assets and revenues of $685.

Had the business combination been effected at April 1st, 2015, management estimates that the revenue of the Company would be $773 higher and the income of the Company would be reduced by $2,343.

Additional purchase consideration included replacements options offered to employees and directors of Bedrocan Canada Inc. The calculation of the amount to be recognized as purchase consideration is not complete as of the date of the finalization of these consolidated financial statements. It is anticipated that this additional consideration will increase goodwill.

The purchase price allocation relating to the acquisition is not yet finalized and the allocation of the price to the various assets acquired is subject to change.

(c) MedCann Access acquisition

On October 1, 2015, the Company acquired all of the issued and outstanding shares of several companies, which collectively operated as “MedCann Access”, by way of an amalgamation with 9421653 Canada Inc., a shell company which was a wholly-owned subsidiary of the Company, pursuant to an Amalgamation Agreement (the “Amalgamation”). 9388036 Canada Inc. is the post-amalgamation company resulting from the acquisition of MedCannAccess.

In connection with the acquisition of MedCannAccess, the Company issued 3,316,902 common shares at $1.73 per share to former shareholders of MedCannAccess, of which 2,449,887 common shares are being held in escrow and will be either (i) released to the former shareholders of MedCannAccess upon the satisfaction of certain milestones, or (ii) released to the Company for cancellation.

The purchase price included elements of consideration contingent on future performance related to employment and customer milestones, certain marketing milestones, and specific achievements within one to two years of the acquisition date. In aggregate, the amount of contingent consideration is up to $4,240. The elements related to employment will be treated ratably as stock based compensation over two years from October 1, 2015. Elements related to customer and marketing milestones are measured as liabilities at their estimated discounted fair value. Adjustments to the fair values are recorded in earnings. Certain other elements of contingent consideration are recorded as equity based on the estimated probability of occurring over the one to two years following the date of acquisition.

(Expressed in CDN $000's except share amounts)

9. Acquisitions (continued)

(c) MedCann Access acquisition (continued)

Through the acquisition of MedCannAccess, the Company also acquired a 33% stake in CannScience Innovations Inc. ("CannScience"), a drug development company. CannScience conducts in-depth extracts research, with the ultimate goal of delivering standardized metered dosing in a range of alternate delivery methods. Also in connection with the acquisition, the Company acquired a 20% interest in CannSoft Inc., an early stage software development company focused on solutions for companies licensed under the MMPR system.

The purchase price has been allocated as follows:

	$
Net assets acquired	107
Goodwill	2,520
Total provisional purchase price	2,627

The net assets acquired included the following:

	$
Cash	154
HST Receivable	106
Prepaids	20
Inventory	12
Property, plant and equipment	35
Total assets	327
Accounts payable and accrued liabilities	220
Total liabilities	220
Net assets acquired	107

Net cash outflow on acquisition of MedCannAcccess is as follows:

	$
Consideration paid in cash	-
Less: Cash and cash equivalents acquired	154
Net cash inflow	154

Acquisition costs of $85 have been excluded from the consideration transferred and have been recognized as an expense in the current year.

Had the business combination been effected April 1, 2015, the revenue of the Company would be unchanged, and the income of the Company would be $180 lower.

The purchase price allocation relating to the acquisition is not yet finalized and the allocation of the price to the various assets acquired is subject to change.

(Expressed in CDN $000's except share amounts)

10. Related party term loan payable and long-term debt

In connection with the Bedrocan acquisition the Company acquired a short term loan of $2,000 from a shareholder and director of the Company. The loan was secured by Bedrocan's assets, with original maturity date of June 1, 2016 and carried annual interest of 10% compounded monthly with no penalty for early repayment. As a result of the Bedrocan acquisition, the maturity date was accelerated under the terms of the loan to December 26, 2015. On November 30, 2015, the loan of $2,111 which included principal and interest was settled in full.

The details of the Company's long-term debt are as follows:

	December 31, 2015	March 31, 2015
	$	$
Mortgage payable with a five year term and amortization period of seven years bearing an annual interest rate of 5.3%	**1,648**	1,819
Term loan at 10% interest with monthly repayment	**1,903**	-
Capital lease obligations with an interest rate between 9.6%-14.4%, and terms between 3-5 years, lien against the related leased equipment	**423**	97
	3,974	1,916
Less: current portion	**364**	247
Long-term portion	**3,610**	1,669

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.

The term loan is a $2,000, loan that was added to the existing lease agreement for the Toronto Bedrocan facilities. The loan accrues interest at 10% annually and is payable over the initial ten-year term of the amended lease to July 1, 2024 by way of additional monthly rent of $27, which includes principal and interest payments.

11. Share capital

Authorized

An unlimited number of common shares.

On May 8, 2015, 213,105 warrants were exercised for gross cash proceeds of $126. In addition, an amount of $69 was reclassified from warrants to share capital.

On August 10, 2015, 437,504 Non-ESOP options were exercised for gross cash proceeds of $390.

On August 28, 2015, 35,202,818 common shares were issued for the Bedrocan acquisition at $1.8295 for a total of $64,403 being added to share capital. The transaction also resulted in a nominal fractional share adjustment.

On September 23, 2015, 10,655 options were exercised for total cash proceeds of $7 and 34,875 warrants were exercised for cash proceeds of $45,

During the quarter ended December 31, 2015, 183,821 options were exercised for gross proceeds of $235. In addition, an amount of $113 was reclassified from share-based reserve to share capital.

(Expressed in CDN $000's except share amounts)

11. Share capital (continued)

During the quarter ended December 31, 2015, 2,968,44 warrants and 439,423 Non-ESOP options were exercised for gross cash proceeds of $6,858.

On October 1, 2015, 3,316,902 common shares were issued for the purchase of all the outstanding shares of MedCann Access (see Note 9). Of the 3,316,902 shares, 2,449,887 are held in escrow of which 216,725 shares are to be released in the fourth quarter as certain milestones of the acquisition have been met.

On October 23, 2015, 173,011 common shares of the Company were issued at $2.24 as the final condition of the Tweed Farms acquisition was deemed by the Board to have been met.

On November 18, 2015, the Company completed a "bought deal" financing of 7,012,700 common shares which included an over-allotment of 914,700 shares for aggregate gross proceeds of $14,376. The offering price was $2.05 per share and included a cash commission. Transactions costs of $1,267 were paid as part of the common share issuance.

Warrants continuity schedule

As of December 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
	#	$	
Balance at March 31, 2015	426,209	0.59	September 13, 2016
Exercise of warrants during the quarter	(213,105)	0.59	
Balance at June 30, 2015	213,104	0.59	
Replacement warrants issued as a result of the Bedrocan acquisition	3,358,458	2.58	November 15, 2015
Replacement warrants issued as a result of the Bedrocan acquisition	1,499,620	1.29	February 20, 2016
Exercise of warrants during the quarter	(34,875)	1.29	
Balance at September 30, 2015	5,036,307	2.12	
Replacement warrants issued as a result of the MedCannAccess acquisition	925,000	5.59	May 6, 2016
Exercise of warrants during the quarter	(2,968,444)	2.03	
Warrants expired during the quarter	(1,633,885)	2.58	
Balance at December 31, 2015	1,358,978	4.11	

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 9,851,276 at December 31, 2015.

(Expressed in CDN $000's except share amounts)

11. Share capital (continued)

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 March 31, 2015	3,924,040	1.81
Options granted	1,105,000	1.92
Options forfeited	(294,551)	1.58
Balance outstanding at June 30, 2015	4,734,489	1.85
Options granted	436,685	1.79
Replacement options issued as a result of the Bedrocan acquisition	1,786,530	1.28
Options forfeited/cancelled	(203,737)	1.99
Options exercised	(10,655)	0.64
Balance outstanding at September 30, 2015	6,743,312	1.69
Options granted	589,365	2.66
Options forfeited/cancelled	(251,060)	1.79
Options exercised	(183,821)	1.28
Balance outstanding at December 31, 2015	**6,897,796**	**1.78**

During the quarter ended December 31, 2015 the remaining agent options related to the Bedrocan acquisition were exercised.

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

	Non-ESOP options	Average exercise price	Expiry date
	#	$	
Balance outstanding at June 30, 2015 and March 31, 2015	437,504	0.89	September 13, 2016
Non-ESOP options exercised in the quarter	(437,504)	0.89	
Replacement Non-ESOP options issued as a result of the Bedrocan acquisition	439,423	1.83	November 15, 2015
Balance outstanding at September 30, 2015	439,423	1.83	
Non-ESOP options exercised in the quarter	(439,423)	1.83	
Balance outstanding at December 31, 2015	-	-	

(Expressed in CDN $000's except share amounts)

11. Share capital (continued)

Share-based compensation

During the three and nine months ended December 31, 2015, the Company recorded $575 (2014 -$408) and $1,520 respectively (2014 -$1,081) 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. Also included in the quarter ended December 31, 2015 is $387 (2014 - $500) in share-based compensation for the 173,011 shares issued on October 23, 2015 to the previous owner of Tweed Farms, as well as $200 for the share element of the MedCann Access acquisition. 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:

	December 31, 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 calculated by using the historical volatility of the Company from the time the Company became 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.

12. 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 per common share is calculated by dividing the applicable net income 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 where there is a loss, diluted loss per share equals basic loss per share due to the anti-dilutive effect of options and warrants.

13. Related parties

The Company leases its premises for the Smiths Falls facility 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 and nine months ended December 31, 2015 the expense incurred under this lease including base rent and operating costs was $585 and $1,816 respectively (three months ended December 31, 2014 - $338 and $735 for the nine months ended December 31, 2014). The Company had $515 (March 31, 2015 - $665) owing related to rent associated with these leased premises at December 31, 2015 and has prepaid rent of $508 (March 31, 2015 - $508), which is included in prepaid expenses.

The Company leases premises for the two Bedrocan facilities in Toronto from a director of Canopy Growth Corporation. The leases expire on October 15, 2018 and August 31, 2024. Included in the expenses for the quarter for rent and operating costs is $227 and for the period from August 28, 2015 to December 31, 2015 is an amount of $282.

The CEO is providing consulting services to the Company at $50 per quarter and is eligible up to a $200 bonus. For the three months ended December 31, 2015, consulting expenses accrued totalled $200, and the nine months ended December 31, 2015 totalled $300 (three months ended December 31, 2014 - $50 and nine months ended December 31, 2014 - $100). An amount owing of $56 (March 2015- $226,000), was included in accounts payable at December 31, 2015 and an additional amount of $150 is recorded in accrued liabilities.

The Company currently has a loan payable to a director of Canopy Growth Corporation. Included in interest expense for the quarter ended December 31, 2015 is an amount of $83, and $116 for the period from August 28, 2015 to December 31,2015.

During the three and nine months ended December 31, 2015, $73 and $182 respectively (three months ended December 31, 2014 - $66, nine months ended December 31, 2014 - $163) were expensed in director's fees. At December 31, 2015, $117 (March 31, 2015 - $65) was included in accounts payable.

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

14. Commitments and contingencies

In March 2015, a claim was commenced against Canopy Growth Corporation by the former CEO for $330 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 Marihuana 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 was of the view that no payment was required. During the second quarter ended September 30, 2015, and in order to avoid further legal costs associated with potentially lengthy court proceedings, the Company reached an out of court full and mutual release settlement, without either party admitting any liability, and included a release of any claim by the vendors on the seized inventory. The second quarter out of court settlement consisted of the Company paying $600 in cash and provided consultants associated with the vendors 100,000 fully vested options to purchase common stock at a price of $1.76 per share, being the opening price of the Company's common shares on the date of settlement, which expire on September 16, 2017. The Black Scholes value of the options was $109 which was included in share-based compensation expense for the nine months ended December 31, 2015.

(Expressed in CDN $000's except share amounts)

15. Supplementary cash flow information

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

	Three months ended		Nine months ended	
	Dec 31, 2015	Dec 31, 2014	**Dec 31, 2015**	Dec 31, 2014
	$	$	**$**	$
Accounts receivable	**40**	(92)	**(12)**	(183)
HST receivable	**404**	715	**(203)**	510
Prepaid expenses	**14**	49	**(116)**	(463)
Inventory	**6,212**	(384)	**10,056**	66
Accounts payable and accrued liabilities	**(942)**	148	**182**	798
Total	**5,728**	436	**9,907**	728

Non-cash transactions

Excluded from the condensed consolidated statements of cash flows for the three months ended December 31, 2015 is a total of $361 purchases related to leasehold construction in process and $287 in property, plant and equipment purchases included in accounts payable and accrued liabilities.

Excluded from the three month consolidated statements of cash flows at September 30, 2015 was a total of $901 in accounts payable and accrued liabilities as follows: $690 of leasehold construction in process purchases and $211 of property, plant and equipment purchases. These amounts are included in the condensed consolidated statement of cash flows for the three and nine months ended December 31, 2015.

Excluded from the consolidated statements of cash flows for the three months ended December 31, 2014 is a total of $1,057 in accounts payable and accrued liabilities of which $651 related to leasehold improvement purchases and $406 of property plant and equipment purchases.

Excluded from the consolidated statements of cash flows for the three months ended September 30, 2014 is a total of $973 in accounts payable and accrued liabilities of which $820 related to leasehold improvement purchases and $153 of property plant and equipment purchases. These amounts are included in the condensed consolidated statement of cash flows for the three and nine months ended December 31, 2014.

Cash and cash equivalents consist of the following:

	Dec 31, 2015	March 31, 2015
	$	$
Cash	**1,489**	1,713
Investment savings account mutual fund	**18,230**	19,733
Total	**19,719**	21,446

16. Financial instruments

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.

17. 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.

18. Subsequent events

The Company entered into a business partnership with an arm's-length company subsequent to December 31, 2015 for the provision of content and brand strategy exclusively in Canada. The license agreement is for a term of up to five years. As partial consideration for the arrangement, the business partner, through its controlled company, will receive a combination of the Company's common shares totaling 386,100 at a price of $2.59 per share, royalties, and monetary compensation, over the course of the agreement. On February 11, 2016, 135,135 common shares were issued with the remainder of 250,965 common shares escrowed for release over the initial three years of the term.

19. Comparative figures

The prior fiscal year Cost of Goods Sold comparative figures have been expanded to conform to the current year presentation.