CANOPY GROWTH CORPORATION

Management's Discussion and Analysis of the Financial Condition and Results of Operations for the year ended March 31, 2016

Consolidated Financial Statements and Notes to the Financial Statements for the year ended March 31, 2016 and the fifteen-month period ended March 31, 2015

CANOPY GROWTH CORPORATION

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THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2016

At the Annual and Special Shareholders' Meeting held on September 17, 2015, the shareholders approved changing the name of the Company from Tweed Marijuana Inc. to Canopy Growth Corporation. The Company also changed its trading symbol on the TSX Venture Exchange ("TSXV") from "TWD" to "CGC". On June 8, 2016, the Company announced it had received conditional approval from the Toronto Stock Exchange ("TSX") to graduate from the TSXV and list its common shares on the TSX. Final approval of the listing is subject to the Company meeting certain standard requirements of the TSX on or before September 1, 2016.

This Management's Discussion and Analysis (MD&A) is dated July 8, 2016. It should be read in conjunction with Canopy Growth Corporation's ("the Company" or "Canopy Growth") audited consolidated financial statements (the "Financial Statements") for the year ended March 31, 2016, including the accompanying notes.

Unless otherwise indicated, all financial information in this MD&A is reported in thousands of Canadian dollars, except share amounts. We prepared this Management's Discussion and Analysis of the Financial Condition and Results of Operations ("MD&A") with reference to National Instrument 52-109 – Continuous Disclosure Obligations of the Canadian Securities Administrators. This MD&A provides information for the year ended March 31, 2016 and up to and including July 8, 2016.

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

The accompanying Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and include the accounts of the Company and its wholly-owned subsidiaries Tweed Inc. ("Tweed") located in Smiths Falls, Ontario, Tweed Farms Inc. ("Tweed Farms") located in Niagara-on-the-Lake, Ontario, Bedrocan Canada Inc. ("Bedrocan") located in Toronto, Ontario, and 9388036 Canada Inc. (a non-operating company). All inter-company balances and transactions have been eliminated on consolidation.

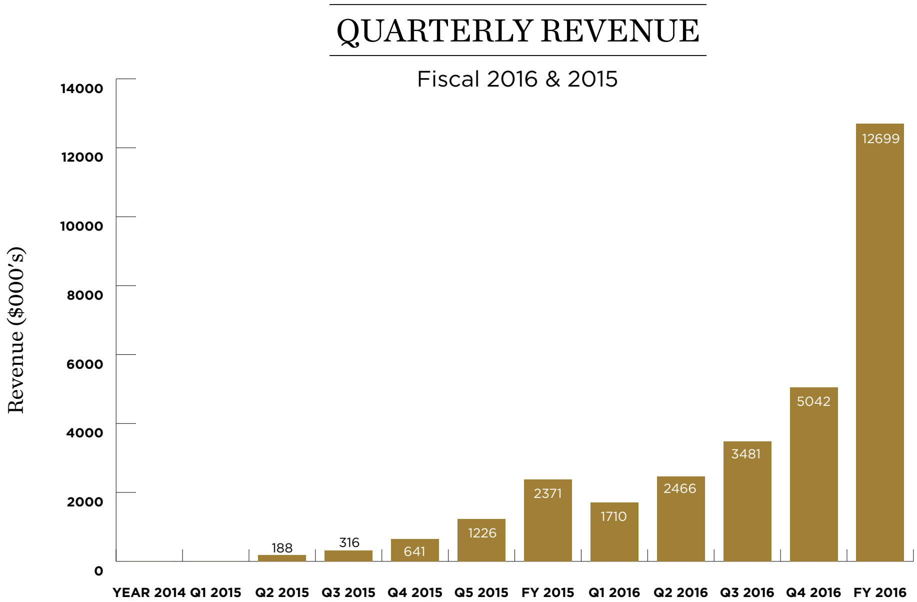
Additional information filed by us with the Canadian Securities Administrators, including quarterly reports, annual reports and annual information forms, and Short Form Prospectus with respect to the bought deals dated November 11, 2015 and April 8, 2016 are available on-line at www.sedar.com and also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

FISCAL 2016 HIGHLIGHTS

- Revenue of $12,699; a 436% increase over the fifteen-month period ended March 31, 2015 when revenue totaled $2,371;
- 1,696 kilograms and kilogram equivalents[1] sold, representing an increase of 424% over the fifteen-month period ended March 31, 2015 when 324 kilograms were sold;
- Adjusted Product Contribution[2] of $8.1 million or 64.1% of revenue in Fiscal 2016;
- Over 11,000 active registered patients at March 31, 2016;
- Cash and cash equivalents were $15,397 at year end.

Note 1. Kilogram equivalents refers to 10:1 cannabis oils sold where 10 ml is the equivalent of 1 gram of dried cannabis.

Note 2. A Non-GAAP measure used by management, described elsewhere in this MD&A



RECENT DEVELOPMENTS

Bought Deal

On April 15, 2016, the Company announced that it had closed its previously announced short form prospectus offering, on a bought deal basis, including the exercise in full of the underwriters' over-allotment option. A total of 5,002,500 common shares in the capital of the Company were sold at a price of $2.30 per Share, for aggregate gross proceeds of $11,505,750 (the "Offering"). The Offering was underwritten by a syndicate of underwriters led by Dundee Securities Ltd. and including GMP Securities L.P.

Conditional Approval Received to Graduate to the TSX

On June 8, 2016, the Company announced it had received conditional approval from the TSX to graduate from the TSXV and list its common shares on the TSX. Final approval of the listing is subject to the Company meeting certain standard requirements of the TSX on or before September 1, 2016.

Business Partnerships

On April 7, 2016, the Company announced that it had entered into an agreement with XIB Consulting Inc. ("XIB"), to assist the Company with corporate development initiatives including, but not limited to, acquisitions, strategic networking and market awareness. The agreement is for an initial term of six months. Under the agreement, the Company granted a total of 38,656 shares at a price of $2.59 per common share.

On May 9, 2016, the Company announced that it had entered into a partnership with AusCann Group Holdings Ltd of Australia. Under this partnership, the Company will offer its expertise in a number of areas including production, quality assurance and operations, and provide strategic advisory services to AusCann in exchange for an initial 15% ownership stake in the company, as well as further options.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

NON-GAAP AND ADDITIONAL GAAP MEASURES

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

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

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

DESCRIPTION OF THE BUSINESS

MEDICAL MARIJUANA REGULATORY FRAMEWORK IN CANADA

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

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

DESCRIPTION OF THE BUSINESS (CONTINUED)

MEDICAL MARIJUANA REGULATORY FRAMEWORK IN CANADA (CONTINUED)

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

On February 24, 2016, the Federal Court of Canada rendered a decision in the Allard et al v the Federal Government of Canada case. This case began as a result of the government's decision to repeal the Marihuana Medical Access Regulations ("MMAR") and enact the Marihuana for Medical Purposes Regulations ("MMPR"). The plaintiffs in the Allard case argued that the MMPR violates their Charter rights and the court, in a lengthy and detailed judgment, agreed with the plaintiffs.

Canopy Growth's preliminary interpretation of the Federal Court's ruling is as follows:

- the decision reaffirms the right of Canadians to possess marijuana for medical purposes;
- the decision stipulates that the Marijuana for Medical Purposes Regulations ("MMPR"), under which Canopy Growth subsidiaries Tweed, Bedrocan, and Tweed Farms are licensed producers, does not provide sufficient access to cannabis;
- the current MMPR regulations remain in force; and
- the decision gives the Canadian Federal Government until August 24, 2016 to determine how existing regulations should be amended to ensure that patients have the access to medical marijuana that they need;

Health Canada estimates that 40,000 patients in Canada used doctor prescribed medical marijuana in 2015, establishing a market worth $80 million. By 2024, Health Canada estimates that the number of patients using medical marijuana will grow to 450,000, creating a market worth an estimated $1.3 billion.

LEGALIZATION OF RECREATIONAL USE OF MARIJUANA IN CANADA

On April 20, 2016, the Canadian Federal Government announced its intention to introduce, by the spring of calendar 2017, legislation to legalize the recreational use of marijuana in Canada. At this time, the form that this legislation will take is not known. Canopy Growth believes that the legislation will allow for controlled and highly regulated production by licensed producers along with limited grow-at-home options. Canopy Growth believes that, in the event recreational use of marijuana is legalized, that the majority of people will choose to purchase from a regulated production source rather than growing marijuana in their homes. CIBC World Markets reports estimates of the potential value of the recreational marijuana market in Canada range from $5 billion to $10 billion per year. The lower market value of $5 billion per year translates into yearly consumption of 770,000 kilograms of marijuana, assuming a price of approximately $6.50 per gram. To put the potential size of the Canadian recreational market in context, Statistics Canada valued the beer market in Canada, in 2014, at $8.7 billion.

INTERNATIONAL DEVELOPMENT

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

DESCRIPTION OF THE BUSINESS (CONTINUED)

OVERVIEW OF CANOPY GROWTH CORPORATION

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

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

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

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

In addition, management believes that a significant opportunity exists today and will develop further in the future, to leverage the Company's expertise, financial strength and business model in legal marijuana markets around the world. The Company has received inquiries concerning strategic business opportunities from third-parties in many countries, including Australia, Brazil, Chile, Germany, Serbia, and South Africa. Canopy Growth is actively pursuing opportunities in a number of jurisdictions where medical marijuana is legally allowed presently, or where the government is actively moving towards such a legal framework. For example, on May 9, 2016, the Company announced a partnership with AusCann Group Holdings Ltd. (AusCann), an early leader in the nascent Australian medical cannabis industry. Through this partnership, Canopy Growth will offer its expertise in a number of areas including production, quality assurance and operations, and provide strategic advisory services to AusCann in exchange for an initial 15% ownership stake in the company, as well as further options. AusCann and Canopy Growth will also aim to work together in Australian and international markets in a preferential but nonexclusive arrangement.

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

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

At March 31, 2016, there were 156 full-time employees in the Company as compared to 75 at March 31, 2015.

TWEED INC.

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

DESCRIPTION OF THE BUSINESS (CONTINUED)

TWEED INC. (CONTINUED)

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

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

On May 5, 2014, Tweed made its first shipment of products to customers. Tweed sells its dried cannabis at prices ranging from $6 per gram, for value strains, to up to $12 per gram for premium strains. Typically, growth time, strain yield and market comparatives determine a strain's price. Very particular strains may be priced higher, but this would be the exception. Tweed does not offer volume discounts to end users, but has developed an income-tested Compassionate Pricing Promise whereby eligible low-income patients may obtain a 20% discount off regular prices.

On August 19, 2015, Health Canada approved Tweed's supplemental license to produce cannabis oils. Following inspection of Tweeds cannabis oil production practices, testing and product specifications, Health Canada granted Tweed a license to sell cannabis extracts on February 23, 2016. This license to sell cannabis oil extracts will be up for renewal on January 19, 2017.

On February 24, 2016, Tweed began selling 10:1 Cannabis Oils made with GMO-free, organic sunflower oil. Starting with popular offerings of Argyle, Princeton and Highlands, Tweed will introduce new strain-specific 10:1 Cannabis Oils on an ongoing basis. The 10:1 Cannabis Oils product line is sold in 100ml bottles equivalent to 10 dried grams of the same dried flower. Each 10 ml contains the equivalent of 1 gram of the corresponding Tweed dried-flower variety.

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

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

In support of its brand, Tweed focuses heavily on its social media presence as an engagement strategy. Further engagement with the Tweed brand will be facilitated by the Company's expanding network of Tweed Main Street Community Engagement Centers. Building upon the MedCann Access Centers acquired in the third quarter of fiscal 2016, these centers, since renamed Tweed Main Street, in Southern Ontario (Barrie, Etobicoke, Guelph and Hamilton) provide an opportunity for interested individuals to learn about medical marijuana in a helpful, supportive and consumer-friendly environment. The Company is actively seeking partners to expand the network of Tweed Main Street locations, through licensing partnerships, to strategic locations across Canada.

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

DESCRIPTION OF THE BUSINESS (CONTINUED)

TWEED INC. (CONTINUED)

Since the founding of Tweed, the Company has provided a variety of support to patients and doctors in order to improve knowledge with respect to marijuana for medical purposes and ultimately advance the sector. In December 2014, the Company announced support to the Canadian AIDS Society ("CAS") in the form of an unrestricted grant to CAS for the development of a patient-focused series that explains the science of cannabis as a therapy, the rules and regulations surrounding access and different ways to consume cannabis for safer use and better health. In addition, the Company has research partnerships in place with researchers from the University of Ottawa and Ryerson University, and has provided funding for education to the Chronic Pain Association of Canada.

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

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

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

TWEED FARMS INC.

Tweed Farms in Niagara-on-the-Lake, Ontario was acquired by the Company on June 18, 2014 when it was in the process of obtaining its license to cultivate under the MMPR. The Tweed Farms facility is 375,000 square feet, on approximately 9 acres, of which 350,000 square feet represents the greenhouse and 25,000 square feet is used for storage, shipping and offices.

Tweed Farms' license has a current term ending January 13, 2017 and allows Tweed Farms to produce, possess and ship 1,200 kg of dried marijuana at its facilities in Niagara-on-the-Lake, Ontario. Consistent with Health Canada's process, Tweed Farms will seek to expand the licensed capacity and permission to sell based upon actual production from the initial 1,200kg. Today, approximately 100,000 square feet of the total 350,000 square foot greenhouse is in production. It is estimated that when in full production, the 350,000 square foot greenhouse can support the production of up to 15,000 kilograms per year.

Prior to receiving its amended license on March 31, 2016, all marijuana cultivated by Tweed Farms pursuant to its prior Cultivation License was transferred from the Tweed Farms facility to Tweed's Smiths Falls facility for final processing and sale by Tweed pursuant to its Commercial License. The first product grown in the Tweed Farms greenhouse facility was shipped to customers as a finished product from Tweed in December 2014.

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

DESCRIPTION OF THE BUSINESS (CONTINUED)

BEDROCAN CANADA INC.

On August 28, 2015, the Company acquired Bedrocan pursuant to a definitive plan of arrangement, in which the Company acquired all of the issued and outstanding securities of Bedrocan. The transaction closed on August 28, 2015 following approval by Bedrocan Canada shareholders and the TSX Venture Exchange and completion of conditions precedent to closing. Bedrocan became a wholly-owned subsidiary of the Company upon closing of the transaction. Management believes this acquisition marks the beginning of the structured evolution of the Canadian cannabis sector, and it is intended that the Company's portfolio of technologies, brands and geographies may continue to expand. Under the terms of the acquisition, Bedrocan shareholders received 0.4650 common shares of the Company for each common share of Bedrocan held. The Company issued a total of 35,202,818 common shares on closing of the acquisition.

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

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

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

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

On February 23, 2016, Bedrocan was granted a license by Health Canada to transfer cannabis oil extracts during the license period, which ends January 19, 2017. Bedrocan received its license to sell cannabis oil extracts in the first quarter of Fiscal 2017. Bedro Oil was first sold through the Tweed store on June 9, 2016 and then through the Bedrocan store on June 20, 2016.

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

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

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

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

DESCRIPTION OF THE BUSINESS (CONTINUED)

ACQUISITION OF MEDCANN ACCESS

On October 1, 2015, the Company acquired MedCann Access ("MCA") by way of amalgamation in an all-equity transaction that aims to extend the Company's customer experience beyond on-line and telephone access. The MCA operations were re-branded in the first quarter of Fiscal 2017, as Tweed Main Street. Through the integration of MCA, Tweed can offer in-person client services through Tweed Main Street's network of community engagement centres in the key market of Ontario, making Tweed the first Licensed Producer in Canada to offer in-person services in the medical marijuana industry.

The acquisition was completed by way of an amalgamation with a wholly-owned subsidiary of the Company pursuant to the terms of an Amalgamation Agreement dated September 3, 2015 (the "Amalgamation Agreement"). Pursuant to the Amalgamation Agreement, 3,316,902 common shares in the capital of the Company (the "Common Shares") were issued to former shareholders of MCA, of which 2,449,887 are being held in escrow and will be either (i) released to the former shareholders of MCA upon the satisfaction of specific milestones, or (ii) released to the Company for cancellation. The Common Shares were deemed to have been issued at a price of $1.62 per share. In addition to the Common Shares, 924,998 common share purchase warrants (the "Warrants") were issued to the former holders of common share purchase warrants of MCA. The Warrants have an exercise price between $3.68 and $5.70, all of which expired on May 6, 2016.

Through the acquisition of MCA, the Company acquired a 33% stake in CannScience Innovations Inc. ("CannScience"), a drug development company based out of the MaRS Centre in Toronto working collaboratively with the University Health Network. CannScience conducts in-depth extracts research, with the ultimate goal of delivering standardized metered dosing in a range of alternate delivery methods, a priority for the Company as the emerging cannabis extract market evolves. CannScience's lead product in development incorporates the Generex Biotechnology Corporation proprietary RapidMist™ drug delivery technology, which is specially engineered to propel metered doses into the buccal cavity where the active pharmaceutical ingredient is absorbed, providing patients with a safe, simple, and easy way to achieve rapid on-set with no deposit in the lungs.

RESULTS OF OPERATIONS

During the year ended March 31, 2016, the Company's wholly-owned operating subsidiaries, Tweed, Tweed Farms and Bedrocan, focused on production with the objective of producing a sustainable increase and availability in inventory. Bedrocan was acquired on August 28, 2015 and its results of operations are included since the date of acquisition.

The Company moved its fiscal year end from December 31 to March 31 in its 2015 fiscal year. As such, the comparative period is the fifteen months ended March 31, 2015.

OVERALL PERFORMANCE

The following table sets forth consolidated statements of operations data, which is expressed in thousands of Canadian dollars, except share and per share amounts, for the indicated years as well as certain balance sheet data as at March 31, 2016 and March 31, 2015.

RESULTS OF OPERATIONS (CONTINUED)

OVERALL PERFORMANCE (CONTINUED)

SELECTED ANNUAL INFORMATION *(CDN $000's, except share amounts)*	**Year Ended Mar 31, 2016**	Fifteen Months Ended Mar 31, 2015
Consolidated statements of comprehensive loss		
Revenue	**12,699**	2,371
Gross margin, including the unrealized gain on changes in fair value of biological assets	**18,986**	2,826
Gross margin %	**150%**	119%
Operating expenses	**21,735**	11,032
Loss from operations	**(2,749)**	(8,206)
Net loss after taxes	**(3,496)**	(9,346)
Net loss per share - basic and diluted	**(0.05)**	(0.29)
Weighted average shares - basic and diluted	**77,023,935**	32,181,688
Selected statements of financial position information		
Cash and cash equivalents	**15,397**	21,446
Working capital	**37,653**	24,851
Long-term debt	**3,469**	1,669
Shareholders' Equity	**123,785**	41,409

Results of Operations for the year ended March 31, 2016 as compared to the fifteen months ended March 31, 2015.

REVENUE

Revenue for the year ended March 31, 2016 and for the fifteen-month period ended March 31, 2015 was $12,699 and $2,371, respectively. The increase in revenue, period-over-period, is due primarily to growth in the Company's patient base from approximately 2,800 at the end of March 31, 2015 to over 11,000 at March 31, 2016.

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

The total grams sold during the year was 1,696 kilograms and kilogram equivalents at an average price of $7.34 per gram, up from 324 kilograms sold during the fifteen-month period ended March 31, 2015 at an average price of $7.17 per gram.

COST OF SALES

Plants that are in pre-harvest are considered biological assets and are capitalized on the balance sheet at fair market value less cost to sell at their point of harvest. Costs to sell include trimming, fulfillment, testing and shipping costs. As they continue to grow through the pre-harvest stages, a corresponding non-cash unrealized gain is recognized in income through cost of sales, reflecting the changes in fair value of the biological assets. At

RESULTS OF OPERATIONS (CONTINUED)

COST OF SALES (CONTINUED)

harvest, the biological assets are transferred to inventory at their fair value, which becomes the deemed cost for inventory. Inventory is later expensed to cost of sales when sold and offsets against the gain on biological assets. In addition, the cost of production is expensed through cost of sales and represents overheads and other production costs of growing and selling the plants. Together, the gain from changes in the fair value of biological assets, inventory expensed and the cost of production comprise cost of sales.

The recovery to cost of sales during the year ended March 31, 2016 was comprised of an unrealized gain on changes in the fair value of biological assets of $38,805, which was offset by the inventory expensed of $12,796 and $19,722 for production costs, for a net recovery to cost of sales of $6,287.

The recovery to cost of sales during the fifteen-month period ended March 31, 2015 was comprised of an unrealized gain on changes in the fair value of biological assets of $8,576, which was offset by the inventory expensed of $2,400 and production costs of $5,721, for a net recovery to cost of sales of $455.

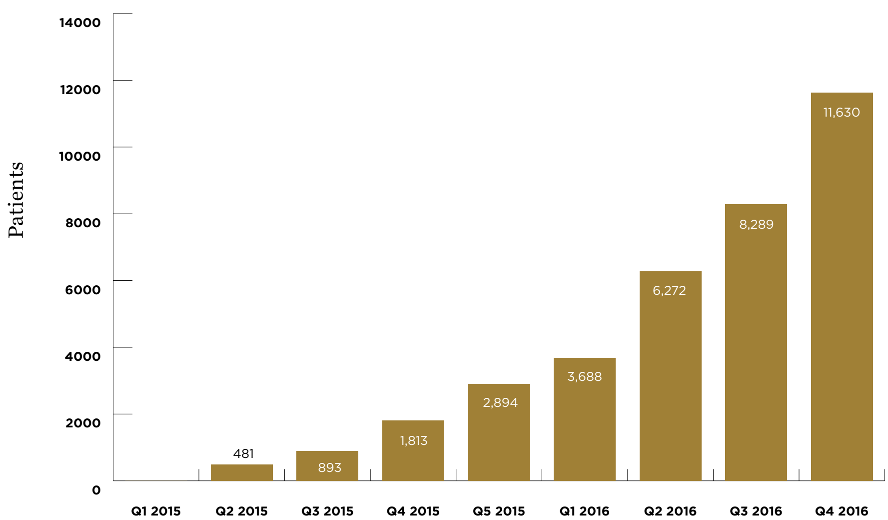
We expect cost of sales to vary from quarter to quarter based on the number of pre-harvest plants, the strains being grown, and where the pre-harvest plants are in the grow cycle at the end of the period.

GROSS MARGIN, INCLUDING UNREALIZED GAIN ON CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS

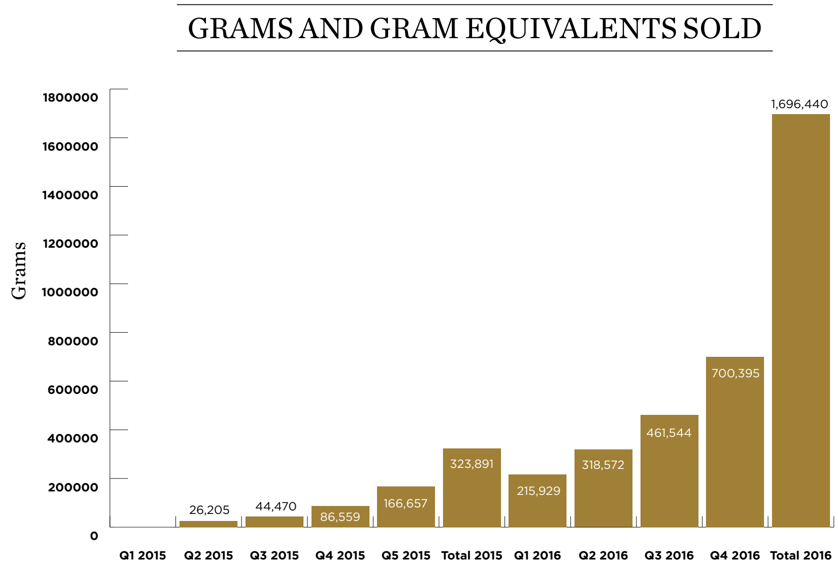
Gross margin for the year ended March 31, 2016 and the fifteen-month period ended March 31, 2015, including unrealized gain on changes in fair value of biological assets, was $18,986 and $2,826, or 150% and 119% of revenue, respectively.

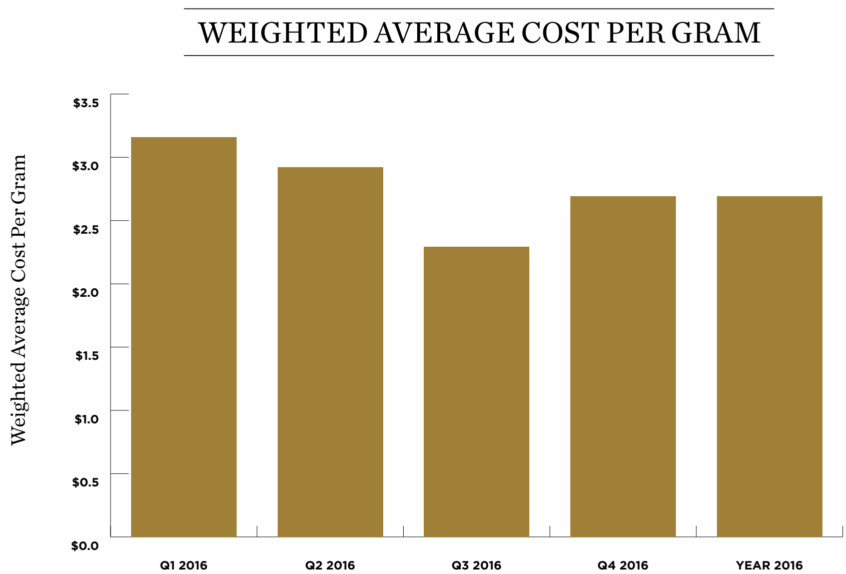
The gross margin was mostly due to the unrealized gain on changes in the fair value of biological assets. Tweed and Bedrocan's completed and planned grow rooms plus Tweed Farms are expected to yield harvests which will produce increased volumes of available inventories and strains for our registered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

PATIENTS AT QUARTER'S END



RESULTS OF OPERATIONS (CONTINUED)





ADJUSTED PRODUCT CONTRIBUTION (NON-GAAP MEASURE)

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

RESULTS OF OPERATIONS (CONTINUED)

ADJUSTED PRODUCT CONTRIBUTION (NON-GAAP MEASURE) (CONTINUED)

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

The Adjusted Product Contribution is $8,136, or 64.1% of revenue, for the year ended March 31, 2016.

The weighted average cost per gram increased in the fourth quarter over the prior quarter due to the timing of the harvest at Tweed Farms to just after year-end when approximately 11,600 plants were harvested and to grow rooms at Tweed temporarily diverted to phenotype testing rather than product for sale.

Unaudited Non-GAAP Measure (In CDN$000's, except gram amounts)	Three Months Ended	Three Months Ended	Three Months Ended	Three Months Ended	**Three Months Ended**
Adjusted product contribution[1]	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	**March 31, 2016**
Weighed average cost per gram	$ 3.16	$ 2.92	$ 2.29	$ 2.69	**$ 2.69**
Grams sold in the period	215,929	318,572	461,544	700,395	**1,696,440**
Revenue	$ 1,710	$ 2,466	$ 3,481	$ 5,042	**$ 12,699**
Adjusted cost of sales[2]	(682)	(931)	(1,059)	(1,884)	**(4,563)**
Adjusted product contribution	$ 1,028	$ 1,535	$ 2,422	$ 3,158	**$ 8,136**
Adjusted product contribution percentage of sales	60.1%	62.2%	69.6%	62.6%	**64.1%**
As compared to the gross margin per IFRS:					
Gross margin, including the unrealized gain on changes in fair value of biological assets as reported on the Statements of Comprehensive Loss	$ 4,095	$ 9,448	$ 2,756	$ 2,688	**$ 18,986**
Gross margin percentage of sales, including the unrealized gain on changes in fair value of biological assets as reported on the Statement of Comprehensive Loss	239.5%	383.1%	79.2%	53.3%	**149.5%**

Notes:

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

2 – Based on the weighted average of cost per gram from seed to sale of $2.69 per gram in both the fourth quarter and for the year and applied to the number of grams sold in the period.

RESULTS OF OPERATIONS (CONTINUED)

OPERATING EXPENSES

Sales and marketing expenses for the year ended March 31, 2016 and the fifteen-month period ended March 31, 2015 were $5,653 and $2,685, respectively. These costs include the Company's medical outreach program, branding programs and the client care center, which interfaces directly with our clients. The outreach program is targeted towards ensuring that healthcare practitioners understand how they can incorporate medical marijuana into their practices. These expenditures are consistent with the Company's view that early-mover advantage and strong brand recognition are essential to our successful ongoing customer acquisition strategy. These costs represent a strategic investment, which management believes will have a future benefit in customer acquisition and retention.

Research and Development ("R&D") expenses for the year ended March 31, 2016 and the fifteen-month period ended March 31, 2015 were $721 and $267, respectively. Our development team is researching a variety of intellectual property opportunities, including those relating to growth patterns under different environmental scenarios and the genetics of various strains. The Company has been in discussion with several research partners and has been working towards obtaining appropriate licensing that would allow research and development with respect to the extraction of cannabis oils and the development or licensing of potential delivery mechanisms.

General and Administrative (G&A) expenses for the year ended March 31, 2016 and the fifteen-month period ended March 31, 2015 were $8,177 and $4,875, respectively. G&A includes extensive use of consultants and advisory services while expanding and commercializing the Company's operations, facility costs in Smiths Falls, Tweed Farms and Bedrocan and security services at all licensed facilities, compliance costs associated with meeting Health Canada requirements, as well as public company related expenses. Overall, the increase in G&A reflects the Company's growth from the early start-up of last year, building commercial capacity and capability.

The acquisition costs were mostly incurred in the second quarter of Fiscal 2016 and total $1,155 for the year ended March 31, 2016. The costs relate to fees paid to investment advisors, legal costs and accounting services related to the Bedrocan acquisition which closed on August 28, 2015.

The loss from operations for the year ended March 31, 2016 amounted to $2,749 (for the fifteen-month period ended March 31, 2015 - $8,206), inclusive of share-based compensation of $3,678 (for the fifteen-month period ended March 31, 2015 - $2,559) and depreciation and amortization of $2,256 (for the fifteen-month period ended March 31, 2015 - $646), both of which are non-cash expenses. Included in share-based compensation is $181 that was recorded in sales and marketing expenses.

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

Interest income is interest received from the cash the Company has deposited with a Schedule A Canadian financial institution and is offset by long-term debt interest expense for loans at Tweed Farms and Bedrocan and miscellaneous interest charges such as on capital leases. For the year ended March 31, 2016 and the fifteen-month period ended March 31, 2015, it netted to interest expense (income) of $140 and ($51), respectively. The higher net interest expense (income) related to higher long-term debt outstanding mainly from the acquired debt from the Bedrocan acquisition.

The MCA acquisition includes consideration which is contingent on future performance. This consideration is recognized as a liability on the balance sheet at its estimated fair value. The change in the fair value of the contingent consideration associated with the MCA acquisition is recorded in earnings and resulted in an expense of $481 for the year ended March 31, 2016.

The Company recorded an income tax expense of $126 for the year ended March 31, 2016 which was related to the change in the deferred tax liability arising from the acquired Bedrocan temporary differences.

Net loss for the year ended March 31, 2016 and the fifteen-month period ended March 31, 2015 was $3,496 and $9,346, respectively, or $0.05 and $0.29 per share on a basic and diluted basis.

FOURTH QUARTER REVIEW

Results of Operations for the three months ended March 31, 2016 as compared to the three months ended March 31, 2015

SELECTED CONSOLIDATED QUARTERLY RESULTS (UNAUDITED)

Selected annual & Quarterly Information (CDN $000's, except share amounts)	Three Months Ended			
	Mar 31, 2016	Dec 31, 2015	Sept 30, 2015	June 30, 2015
Revenue	**5,042**	3,481	2,466	1,710
Gross margin, including the unrealized gain on changes in fair value of biological assets	**2,688**	2,756	9,448	4,094
Gross margin %	**53%**	79%	383%	239%
Operating expenses	**7,687**	5,459	5,487	3,102
(Loss) income from operations	**(4,999)**	(2,703)	3,961	992
Net (loss) income after taxes	**(5,122)**	(3,316)	3,930	1,012
Net (loss) income per share - basic	**(0.05)**	(0.04)	0.06	0.02
Weighted average shares - basic	**98,529,186**	93,355,021	63,838,863	0,875,433
Net (loss) income per share - diluted	**(0.05)**	(0.04)	0.05	0.02
Weighted average shares - diluted	**98,529,186**	93,355,021	76,057,904	50,875,433

Selected annual & Quarterly Information (CDN $000's, except share amounts)	Three Months Ended				
	Mar 31, 2015	Dec 31, 2014	Sept 30, 2014	June 30, 2014	Mar 31, 2014
Revenue	1,226	641	316	188	-
Gross margin, including the unrealized gain on changes in fair value of biological assets	2,412	230	75	109	-
Gross margin %	197%	36%	24%	58%	0%
Operating expenses	2,881	2,885	2,493	1,282	1,491
(Loss) income from operations	(469)	(2,655)	(2,419)	(1,172)	(1,491)
Net (loss) income after taxes	(415)	(2,638)	(2,377)	(1,160)	(2,756)
Net (loss) income per share - basic	(0.01)	(0.07)	(0.06)	(0.03)	(1.40)
Weighted average shares - basic	42,142,658	40,318,150	40,014,430	37,646,785	1,965,713
Net (loss) income per share - diluted	(0.01)	(0.07)	(0.06)	(0.03)	(1.40)
Weighted average shares - diluted	42,142,658	40,318,150	40,014,430	37,646,785	1,965,713

FOURTH QUARTER REVIEW (CONTINUED)

Results of Operations for the three months ended March 31, 2016 as compared to the three months ended March 31, 2015

SELECTED CONSOLIDATED QUARTERLY RESULTS (UNAUDITED) (CONT.)

REVENUE

Revenue for the three months ended March 31, 2016 and March 31, 2015 was $5,042 and $1,226, respectively. The increase in revenue, period-over-period, is due primarily to growth in the Company's patient base from approximately 2,800 at the end of March 31, 2015 to over 11,000 at March 31, 2016. The increase is also due, in part, to the sale of Tweed 10:1 Cannabis Oil products, through Tweed, which commenced February 24, 2016.

The total grams sold in three months ended March 31, 2016 was 700 kilograms and kilogram equivalents at an average price of $7.16 per gram, up from 167 kilograms sold at an average price of $7.24 in the three months ended March 31, 2015. The lower average selling price was partially due to the higher proportion of Bedrocan sales which were priced at $5 per gram since January 25, 2016.

COST OF SALES

Recovery to cost of sales in the three months ended March 31, 2016 was comprised of an unrealized gain on changes in the fair value of biological assets of $12,037, which was offset by the inventory expensed of $4,842 and $9,549 for production costs, for a net cost of sales of $2,354.

Recovery to cost of sales in the three months ended March 31, 2015 was comprised of an unrealized gain on changes in the fair value of biological assets of $7,711, which was offset by the inventory expensed of $1,225 and production costs of $5,300, for a net recovery of cost of sales of $1,186.

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

SELECTED CONSOLIDATED QUARTERLY RESULTS (UNAUDITED) (CONT.)

GROSS MARGIN, INCLUDING UNREALIZED GAIN ON CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS

Gross margin for the three months ended March 31, 2016 and March 31, 2015, including unrealized gain on changes in fair value of biological assets, was $2,688 and $2,412, or 53% and 197% of revenue, respectively.

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

OPERATING EXPENSES

Sales and marketing expenses for the three months ended March 31, 2016 and March 31, 2015 were $2,401 and $691, respectively. The higher sales and marketing expenses reflect the costs incurred to grow the customer base from almost 2,900 at the end of Fiscal 2015 to over 11,000 customers at the end of Fiscal 2016, including branding, medical outreach and expansion of the client care center.

Research and Development ("R&D") expenses for the three months ended March 31, 2016 and March 31, 2015 were $281 and $107, respectively. The R&D expense in the fourth quarter was consistent with prior quarters in Fiscal 2016, reflecting current efforts as described in the annual summary above.

General and Administrative (G&A) expenses for the three months ended March 31, 2016 and March 31, 2015 were $2,558 and $1,539, respectively. The G&A expense in the fourth quarter is reflective of the expanded operations of the company, including the Bedrocan operations, and ongoing public company costs associated with compliance and governance.

The loss from operations for the three months ended March 31, 2016 amounted to $4,999 (for the three months ended March 31, 2015 - $469), inclusive of share-based compensation of $1,571 (for the three months ended March 31, 2015 - $320) and depreciation and amortization of $781 (for the three months ended March 31, 2015 - $224), both of which are non-cash expenses. Included in share-based compensation is $181 that was recorded in sales and marketing expenses.

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

Interest income is interest received from the cash the Company has deposited with a Schedule A Canadian financial institution and is offset by long-term debt interest expense for loans at Tweed Farms and Bedrocan and miscellaneous interest charges such as on capital leases. For the three months ended March 31, 2016 and March 31, 2015, it netted to interest expense of $29 and $15, respectively. The higher net interest expense related to higher long-term debt outstanding mainly from the acquired debt from the Bedrocan acquisition.

The MCA acquisition includes consideration which is contingent on future performance. This consideration is recognized as a liability on the balance sheet at its estimated fair value. The change in the fair value of the contingent consideration associated with the MCA acquisition is recorded in earnings and resulted in an expense of $260 for the three months ended March 31, 2016.

The Company recorded an income tax expense of $354 for the three months ended March 31, 2016 which was related to the change in the deferred tax liability arising from the acquired Bedrocan temporary differences.

Net loss for the three months ended March 31, 2016 and March 31, 2015 was $5,122 and $415, respectively, or $0.05 and $0.01 per share on a basic and diluted basis.

SELECTED CONSOLIDATED QUARTERLY RESULTS (UNAUDITED) (CONT.)

LIQUIDITY

As at March 31, 2016, the Company had cash and cash equivalents available of $15,397, down from $21,446 at the end of Fiscal 2015. The decrease since the end of Fiscal 2015 was due to both the capital expansion at Tweed and Tweed Farms totaling $12,196, repayment of long-term debt of $1,900 and to fund the net loss of $3,496, offset by cash received from the "bought deal" in the third quarter and warrants and options exercised, together totaling $20,756, net of share issue costs. While the Company has incurred cash losses to date, management anticipates success and eventual cash profitability of the business, though there can be no assurance that the Company will gain adequate market acceptance for its products or be able to generate sufficient positive cash flow to reach profitability.

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

The table below sets out the cash, short-term investments, long-term debt and working capital at March 31, 2016 and March 31, 2015.

(CDN $000s)	**March 31, 2016**	March 31, 2015
Cash & cash equivalents	**$ 15, 397**	$ 21, 446
Restricted short-term investments	–	10
Long-term debt	**3,469**	1,669
Working capital	**37,653**	23,342

The increase in working capital is due to the $14,376 "bought deal" equity financing raised in the third quarter of fiscal 2016 and the increasing inventory levels to meet growth expectations through customer acquisition and the extracts market. The Company's inventory available for sale and biological assets (plants in various stages of growth) were as follows: Inventory at March 31, 2106 amounted to $22,153 (March 31, 2015 - $4,355) and biological assets amounted to $5,321 (March 31, 2015 - $2,028), together totaling $27,474 (March 31, 2015 - $6,383). The biological assets increased from FY'15 due to roughly 23,000 more plants in their growth cycle at a later stage of growth (less than 50%) than the plants were at by the end of the prior year (less than 20%). Harvested plants were added to inventories during the quarter and quantities maintained to meet the continued growth in sales expected with strain availability, and the introduction of oils. The last four quarters have seen sequential sales growth of approximately 40% or more. In addition, from time to time, the Company may opportunistically sell inventory to the wholesale market. As at March 31, 2016, the Company held 4,447 kg of dry cannabis and 570 L of cannabis oils compared to 655 kg of dry cannabis held at March 31, 2015. There were no cannabis oils held at March 31, 2015.

The increase in long-term debt resulted from debt assumed with the Bedrocan acquisition in the second quarter of Fiscal 2016.

The long-term assets which total $98,515 (March 31, 2015 - $18,398) are comprised principally of intangible assets of $52,728, of which $50,440 resulted from the Bedrocan acquisition in the second quarter of this fiscal year and the remainder to the MCA acquisition in the third quarter, property, plant and equipment of $44,581, assets in process of $403 that relate to the infrastructure build out for growing production and operations and the implantation of a new enterprise resource planning system, $246 in a long-term restricted investment held as collateral for an issued letter of credit for the Industrial Electricity Incentive Contract Stream 3, and other long-term assets of $557 that primarily relate to long-term deferred rent.

SELECTED CONSOLIDATED QUARTERLY RESULTS (UNAUDITED) (CONT.)

LIQUIDITY (CONTINUED)

In total, the Company received $13,109 from the bought deal for common shares issued on November 18, 2015, net of share issue costs, and $8,022 in cash proceeds from the exercise of warrants and options during the year ended March 31, 2016. In the prior fiscal year end March 31, 2015, the Company raised equity of $13,482, net of share issue costs, in a bought deal which closed on May 14, 2014. In addition, stock options were exercised to result in cash proceeds of $325 in the same period last year.

The table below highlights the Company's cash flows during the year ended March 31, 2016 and the fifteen-month period ended March 31, 2015.

(CDN $000s)

Net cash provided by (used in)		**Twelve Months Ended March 31, 2016**		Fifteen Months Ended March 31, 2015
Operating activities	**$**	**(13,599)**	$	(10,892)
Financing activities		**18,928**		45,633
Investing activities		**(11,378)**		(15,385)
Cash and cash equivalents, beginning of period		**21,446**		2,090
Cash and cash equivalents, end of period	**$**	**15,397**	$	21,446

CASH USED IN OPERATING ACTIVITIES

The cash used in operating activities during the year ended March 31, 2016 of $13,599, primarily due to changes in non-cash operating working capital items of $21,535 and funding a net loss of $3,496 which included the non-cash unrealized gain on biological assets of $38,805, partially offset by depreciation and amortization of $2,256 and share-based compensation of $3,678. For the fifteen-month period ended March 31, 2015, cash used in operating activities was $10,891, primarily due to changes in non-cash operating working capital items of $2,858 and funding a net loss of $9,346 which included the non-cash unrealized gain on biological assets of $8,575, partially offset by depreciation and amortization of $646 and share-based compensation of $2,559.

CASH FROM FINANCING ACTIVITIES

The cash provided by financing activities during the year ended March 31, 2016 of $18,928 mainly resulted from the bought deal which closed on November 18, 2015 for net proceeds net of $13,109 and the proceeds from the exercise of warrants and stock options amounting to $8,022. The cash proceeds were partially offset by the repayment of the related party loan and interest payable amounting to $1,900 on November 30, 2015, as required by an acceleration of the maturity date due to the Bedrocan acquisition. The cash provided by financing activities during the fifteen-month period ended March 31, 2015 of $45,633 resulted from the bought deals for net proceeds of $42,166, proceeds from the exercise of stock options amounting to $1,084, and the issuance of debt of $1,876.

CASH USED IN INVESTING ACTIVITIES

The cash used in investing activities during the year ended March 31, 2016 of $11,378 was primarily due to purchases of property, plant, and equipment and assets in process of $12,196, partially offset by $1,054 cash on hand from the acquisitions during the year. The cash used in investing activities during the fifteen-month period ended March 31, 2015 of $15,386 was primarily due to purchases of property, plant, and equipment and assets in process of $15,381.

LIQUIDITY, FINANCING AND CAPITAL RESOURCES

The Company is subject to risks including, but not limited to, its inability to raise additional funds through debt and/or equity financing to support the Company's development and continued operations and to meet the Company's liabilities and commitments as they come due. Specifically, the Company has a history of losses with an accumulated deficit of $13,775, share capital of $131,080 and working capital of $37,653 as at March 31, 2016. This compares to an accumulated deficit of $10,279, share capital of $49,826 and working capital of $23,342 as at March 31, 2015. See below under the heading "Risk Factors".

CAPITAL ACTIVITIES

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

The Company's principal capital needs are for funds to expand its growing rooms, ancillary rooms, strategic acquisitions, and general working capital requirements to support growth including new opportunities to produce and sell cannabis oil and fresh marijuana buds and leaves. Since its formation, the Company has financed its cash requirements primarily through the issuance of capital stock. On November 7, 2014, a mortgage was obtained on the Tweed Farms property. The mortgage was obtained from a Canadian financial institution for $1,875 at an annual interest rate of 5.3% and had a term of 5 years and an amortization period of 7 years. Through the acquisition of Bedrocan on August 28, 2015, the Company assumed two long-term debt facilities totaling $3,936 each with an interest rate of 10%, of which $2,000 had an accelerated due date on December 26, 2015 and the remainder is due on July 1, 2024, payable in blended monthly payments (See "Transactions with Related Parties"). On November 30, 2015, the Company repaid the $2,000 loan with accumulated interest of $111.

The Company's authorized share capital is an unlimited number of common shares of which 98,818,213 common shares were issued and outstanding as at March 31, 2016, after excluding 2,700,852 escrowed shares to be released after meeting certain conditions (March 31, 2015 – 50,752,666 common shares); 1,138,104 common share warrants outstanding, exercisable at $0.59 to $5.59 at March 31, 2016 (March 31, 2015 – 426,209 warrants); No agents options were outstanding at March 31, 2016 as compared to 437,504 agent options outstanding exercisable at an average of $0.89 at March 31, 2015 and 8,446,182 shares under the Company employee stock option plan ("ESOP") at prices between $0.50 and $3.35 per share at March 31, 2016 (March 31, 2015 – 3,924,000 option shares).

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

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

The Company leases premises for the two Bedrocan facilities in Toronto from Murray Goldman, a director of Canopy Growth Corporation. The leases expire on October 15, 2018 and August 31, 2024. Details of the amounts expensed and owing related to these premises are detailed in Note 15 Related Parties in the Consolidated Financial Statements for the year ended March 31, 2016 and the fifteen-month period ended March 31, 2015.

LIQUIDITY, FINANCING AND CAPITAL RESOURCES (CONTINUED)

TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

The Chief Executive Officer has been engaged to provide services to the Company at $50 per quarter and is eligible for up to a $200 annual bonus. Details of the amounts expensed and owing related to these services are described in Note 15 Related Parties in the Consolidated Financial Statements for the year ended March 31, 2016 and the fifteen-month period ended March 31, 2015.

The Company currently has one loan payable to a director of Canopy Growth Corporation. Included in interest expense is an amount of $164, for the year ended March 31, 2016.

During the year ended March 31, 2016 and the fifteen-month period ended March 31, 2015, $238 and $226, respectively, was expensed as director's fees. At March 31, 2016, no amounts remained outstanding (2015 - $ 65).

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

RISKS AND UNCERTAINTIES

Many factors could cause our actual results, performance and achievements to differ materially from those expressed or implied by the forward-looking statements and forward-looking information, including without limitation, the following factors, which are discussed in greater detail under the heading "Risk Factors" in our AIF dated July 27, 2015 and in our Short-Form Prospectuses dated April 8, 2016 and November 11, 2015 filed with securities regulators and available on www.sedar.com, which risk factors are incorporated by reference into this document, and should be reviewed in detail by all readers:

- Our ability to grow, store and sell medical marijuana in Canada are dependent upon licenses from Health Canada which are subject to ongoing compliance and reporting requirements;
- The activities of the Company are subject to regulation by governmental authorities, particularly Health Canada;
- The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical marijuana but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment;
- Third parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's medical marijuana business activities;
- The operation of the Company can be impacted by adverse changes or developments affecting the facilities of the Company's wholly-owned subsidiaries;
- The Company's ability to recruit and retain management, skilled labour and suppliers is crucial to the Company's success;
- The Company's growth strategy contemplates outfitting its facilities with additional production resources. A variety of factors could cause these activities to not be achieved on time, on budget, or at all. As a result, there is a risk that the Company may not have product or sufficient product available to meet the anticipated demand or to meet future demand when it arises;
- The Company and its wholly-owned subsidiaries have limited operating histories;
- The Company has a history of net losses, may incur significant net losses in the future and may not achieve or maintain profitability;
- Even if its financial resources are sufficient to fund its current operations, there is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company may require additional financing and there can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company;

RISKS AND UNCERTAINTIES (CONTINUED)

- There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company;
- The Company believes the marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the marijuana produced. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of marijuana products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical marijuana market or any particular product, or consistent with earlier publicity;
- The Company and its wholly-owned subsidiaries face an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury;
- The products of the Company's wholly-owned subsidiaries could be subject to the recall or return of their products for a variety of reasons. If a product recall or return should happen, the Company could be required to incur unexpected expenses and divert management attention and could see harm caused to its image and product sales decline. In addition, as result of the product recall or re turn, the Company and its wholly-owned subsidiaries could face increase operational scrutiny by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses;
- Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating resultsof the Company;
- The Company is largely reliant on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the medical marijuana industry in Canada. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company;
- The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls;
- The Company may engage in acquisitions or other strategic transactions or make investments that could result in significant changes or management disruption;

RISKS AND UNCERTAINTIES (CONTINUED)

- The Company could fail to integrate acquired companies into the business of the Company;
- Completed acquisitions, strategic transaction or investments could fail to increase shareholder value;
- Certain of the Directors and Officers of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directorsof the Company and as officers and directors of such other companies;
- The Company may become party to litigation, mediation and/or arbitration from time to time in the ordinary course of business which could adversely affect its business;
- The market price for the common shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control;
- There can be no assurance that an active and liquid market for the common shares will be maintained and an investor may find it difficult to resell any securities of the Company;
- A substantial number of common shares are owned by a limited number of existing shareholders and as such these shareholders are in a position to exercise influence over matters requiring share holder approval or cause delay or prevent a change in control of the Company that could otherwise be beneficial to the Company's shareholders;
- The Company does not anticipate paying any dividends on the common shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings;
- The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land; the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety; and
- While listed on the TSXV, the Company's required undertaking to the TSXV that it would only con duct the business of the production, acquisition, sale and distribution of medical marijuana in Canada could have an adverse effect on the Company's ability to export marijuana from Canada and on its ability to expand its business into other areas including the provision of non-medical marijuana in the event that the laws were to change to permit such sales and the Company is still list ed on the TSXV and still subject to such undertaking at the time. Such a restriction does not apply to the Company when listed on the TSX, for which the Company has received conditional approval to graduate to the TSX on or before September 1, 2016.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canopy Growth Corporation,

We have audited the accompanying consolidated financial statements of Canopy Growth Corporation (formerly Tweed Marijuana Inc.), which comprise the consolidated statements of financial position as at March 31, 2016 and 2015, and the consolidated statements of net loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the year ended March 31, 2016 and the fifteen-month period ended March 31, 2015, 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Canopy Growth Corporation as at March 31, 2016 and 2015, and its financial performance and its cash flows for the year ended March 31, 2016 and the fifteen-month period ended March 31, 2015, in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

July 8, 2016

CONSOLIDATED STATEMENTS OF
FINANCIAL POSITION

(CDN $000s) *as at March 31, 2016 and March 31, 2015.*		**March 31, 2016**		March 31, 2015
Assets				
Current assets				
Cash and cash equivalents (Note 17)	**$**	**15,397**	$	21,446
Restricted short-term investment		–		10
Accounts receivable, net (Note 18)		**1,110**		342
HST recoverable		**376**		431
Biological assets (Note 6)		**5,321**		2,028
Inventory (Note 6)		**22,153**		4,355
Prepaid expenses and other assets		**489**		764
		44,486		29,376
Property, plant and equipment (Note 7)		**44,581**		17,745
Assets in process (Note 8)		**403**		615
Restricted investment (Note 4)		**246**		–
Goodwill (Note 9)		**20,867**		–
Other intangible assets (Note 9)		**31,861**		38
Other assets		**557**		–
	$	**143,361**	$	47,774
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**6,107**	$	4,278
Deferred revenue		**533**		–
Current portion of long-term debt (Note 11)		**533**		247
		7,193		4,278
Long-term debt (Note 11)		**3,469**		1,669
Acquisition consideration related liabilities (Note 10 c)		**1,258**		–
Deferred tax liability (Note 10 b)		**7,413**		–
Other long-term liabilities		**243**		171
		19,576		6,365
Shareholders' equity				
Share capital (Note 12)		**131,080**		49,826
Share-based reserve		**5,804**		1,724
Warrants		**676**		138
Deficit		**(13,775)**		(10,279)
		123,785		41,409
	$	**143,361**	$	47,774

ON BEHALF OF THE BOARD:

Bruce Linton
– *Director*

Chris Schnarr
– *Director*

CONSOLIDATED STATEMENTS OF
NET LOSS AND COMPREHENSIVE LOSS

(CDN $000s)
as at March 31, 2016 and March 31, 2015.

	March 31, 2016	March 31, 2015 (15 months)
Revenue	**$ 12,699**	$ 2,371
Unrealized gain on changes in fair value of biological assets (Note 6)	**(38,805)**	(8,576)
Inventory expensed to cost of sales	**12,796**	2,400
Production costs	**19,722**	5,721
Recovery to cost of sales, net of the unrealized gain on changes in fair value of biological assets	**(6,287)**	(455)
Gross margin, including the unrealized gain on changes in fair value of biological assets	**18,986**	2,826
Sales and marketing	**5,653**	2,685
Research and development	**721**	267
General and administration	**8,177**	4,875
Share of loss in equity investments	**276**	-
Acquisition costs	**1,155**	-
Share-based compensation expense (Note 12)	**3,110**	1,559
Share-based compensation expense - Tweed Farms acquisition (Note 12)	**387**	1,000
Depreciation and amortization	**2,256**	646
	21,735	11,032
Loss from operations	**(2,749)**	(8,206)
Interest income (expense), net	**(140)**	51
Increase in fair value of acquisition consideration related liabilities (Note 10 c)	**(481)**	-
Reverse acquisition transaction costs (Note 5)	-	(225)
Listing expense (Note 5)	-	(966)
	(621)	(1,140)
Net loss and comprehensive loss before income taxes	**(3,370)**	(9,346)
Income tax expense	**(126)**	-
Net loss and comprehensive loss after income taxes	**$ (3,496)**	$ (9,346)
Net loss per share, basic and diluted:	**$ (0.05)**	$ (0.29)
Weighted average number of outstanding common shares:		
Basic and diluted	**77,023,935**	32,181,868

CONSOLIDATED STATEMENTS OF
CASH FLOWS

(CDN $000s) *as at March 31, 2016 and March 31, 2015.*	**March 31, 2016**	March 31, 2015
Operating		
Net loss	**$ (3,496)**	$ (9,346)
Items not affecting cash:		
Depreciation of property, plant and equipment (Note 7)	**2,079**	634
Amortization of intangible assets (Note 9)	**177**	13
Share of loss in equity investments	**276**	-
Unrealized gain on change in fair value of biological assets	**(38,805)**	(8,575)
Share-based compensation (Note 12)	**3,678**	2,559
Income tax expense	**126**	-
Increase in fair value of acquisition consideration related liabilities	**481**	-
Issuance of shares per LBC agreement (Note 16)	**350**	-
Listing expense (Note 5)	-	966
Changes in non-cash operating working capital items (Note 17)	**21,535**	2,858
Net cash used in operating activities	**(13,599)**	(10,891)
Financing		
Proceeds from issuance of common shares	**14,376**	45,652
Proceeds from exercise of stock options	**319**	1,084
Proceeds from exercise of warrants	**7,703**	-
Payment of share issue costs	**(1,642)**	(3,486)
Issuance (repayment) of long-term debt	**(1,900)**	1,876
Increase in other long-term liabilities	**72**	171
Reverse acquisition, net of assets acquired (Note 5)	-	336
Net cash provided by financing activities	**18,928**	45,633
Investing		
Purchases of property, plant and equipment	**(3,541)**	(4,996)
Purchases of assets in process	**(8,655)**	(10,385)
Purchases of restricted investment	**(236)**	-
Acquisition of subsidiaries	**1,054**	-
Purchases of intangible assets	-	(5)
Net cash used in investing activities	**(11,378)**	(15,386)
Net cash inflow (outflow)	**(6,049)**	19,356
Cash and cash equivalents, beginning of period	**21,446**	2,090
Cash and cash equivalents, end of period	**$ 15,397**	$ 21,446
Supplemental disclosure of cash flow data:		
Assets in process purchased and unpaid at period end	**84**	286
Property, plant and equipment purchased and unpaid at period end	**793**	1,323
Accrued liability for share issuance costs	**69**	189

CONSOLIDATED STATEMENTS OF

CHANGES IN SHAREHOLDERS' EQUITY

(CDN $000s) *as at March 31, 2016 and March 31, 2015.*	Number of Shares	Share Capital	Share-based Reserve
Balance at December 31, 2013	92,635	$ 4,405	$ 154
Equity financing - January 30, 2014	7,297	1,000	-
Share issue costs	-	(83)	23
Equity financing - February 5, 2014	10,526	1,442	-
Equity financing - March 7, 2014	34,211	6,500	-
Share issue costs	-	(674)	150
Opening balance of LW Capital (Note 1)	7,260,000	571	63
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	-	(235)	(63)
Issuance of shares to former Tweed Inc. shareholders (Note 1)	32,042,607	966	-
Issuance of shares pursuant to Tweed Rights obligation (Note 12)	1,575,501	-	-
Equity financing - May 14 2014	4,687,500	15,000	-
Share issue costs	-	(1,255)	-
Issuance of shares to acquire Tweed Farms (Note 10)	346,020	1,000	-
Equity financing - March 23, 2015	10,097,760	21,710	-
Share issue costs	-	(1,836)	-
Exercise of ESOP stock options	177,919	108	(14)
Exercise of non-ESOP options	379,051	1,207	(148)
Share-based compensation	-	-	1,559
Net loss	-	-	-
Balance at March 31, 2015	50,752,666	49,826	1,724
Exercise of warrants	4,314,225	7,772	-
Exercise of ESOP stock options	360,643	461	(142)
Issuance of shares for Bedrocan acquisition (Note 10 b)	35,202,818	57,733	931
Issuance of shares to former Prime 1 Construction Services owner (Note 10 a)	173,011	387	-
Issuance of shares for MedCannAccess acquisition (Note 10 c)	867,015	1,696	-
Equity financing - November 18, 2015	7,012,700	14,376	-
Share issue costs	-	(1,521)	-
Issuance of shares per LBC agreement (Note 16)	135,135	350	-
Share-based compensation	-	-	3,291
Net loss	-	-	-
Balance at March 31, 2016	**98,818,213**	**$ 131,080**	**$ 5,804**

CONSOLIDATED STATEMENTS OF

CHANGES IN SHAREHOLDERS' EQUITY (CONT.)

(CDN $000s) *as at March 31, 2016 and March 31, 2015.*	Warrants	Deficit	Shareholders' Equity
Balance at December 31, 2013	$ 207	$ (933)	$ 3,833
Equity financing - January 30, 2014	-	-	1,000
Share issue costs	-	-	(60)
Equity financing - February 5, 2014	-	-	1,442
Equity financing - March 7, 2014	-	-	6,500
Share issue costs	-	-	(524)
Opening balance of LW Capital (Note 1)	-	(298)	336
Consolidation of LW Capital shares (Note 1)	-	-	-
Eliminate capital stock of Tweed Inc. (Note 1)	-	-	-
Eliminate LW Capital contributed surplus and deficit	-	298	-
Issuance of shares to former Tweed Inc. shareholders (Note 1)	-	-	966
Issuance of shares pursuant to Tweed Rights obligation (Note 12)	-	-	-
Equity financing - May 14 2014	-	-	15,000
Share issue costs	-	-	(1,255)
Issuance of shares to acquire Tweed Farms (Note 10)	-	-	1,000
Equity financing - March 23, 2015	-	-	21,710
Share issue costs	-	-	(1,836)
Exercise of ESOP stock options	-	-	94
Exercise of non-ESOP options	(69)	-	990
Share-based compensation	-	-	1,559
Net loss	-	(9,346)	(9,346)
Balance at March 31, 2015	138	(10,279)	41,409
Exercise of warrants	(69)	-	7,703
Exercise of ESOP stock options	-	-	319
Issuance of shares for Bedrocan acquisition (Note 10 b)	607	-	59,271
Issuance of shares to former Prime 1 Construction Services owner (Note 10 a)	-	-	387
Issuance of shares for MedCannAccess acquisition (Note 10 c)	-	-	1,696
Equity financing - November 18, 2015	-	-	14,376
Share issue costs	-	-	(1,521)
Issuance of shares per LBC agreement (Note 16)	-	-	350
Share-based compensation	-	-	3,291
Net loss	-	(3,496)	(3,496)
Balance at March 31, 2016	**$ 676**	**$ (13,775)**	**$ 123,785**

NOTES TO THE 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"), Bedrocan Canada Inc. ("Bedrocan"), which are all licensed producers of medical marijuana in Canada, and 9388036 Canada Inc. 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, possession and shipping 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" (see Note 21 b. Subsequent events).

Tweed Farms was acquired on June 18, 2014. Additional information on the transaction is disclosed in Note 10 a.

On November 24, 2014, the Canada Revenue Agency approved the year-end change for Canopy Growth Corporation to March 31 and the Company officially changed its year end date. This was done to conform with the Company's two operating subsidiaries, Tweed Inc. and Tweed Farms Inc., which had March 31 year ends. As a result, the Company's March 31, 2015 year end consolidated financial statements include 15 months.

On August 28, 2015, the Company acquired Bedrocan Cannabis Corp. which included all of the issued and outstanding securities of Bedrocan. Bedrocan became a subsidiary of the Company upon the closing of the transaction. Additional information on the transaction is disclosed in Note 10 b.

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. Additional information on the transaction is disclosed in Note 10 c.

2. BASIS OF PRESENTATION

Statement of compliance

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

These consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on July 8, 2016.

Basis of measurement

These consolidated financial statements have been prepared in Canadian dollars on a historical cost basis except for biological assets and acquisition related contingent liabilities and derivative, 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 consolidation

These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency translation

All figures presented in the consolidated financial statements and tabular disclosures to the consolidated 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. Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the results of operations of the related year.

(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 the initial 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 the lower of cost and net realizable value.

(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	2–3 years
Office/lab equipment	5 years
Furniture and fixtures	3–10 years
Production, security equipment and other	20 years
Leasehold/building improvements	3–20 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Finite-lived and indefinite-lived intangible assets

Finite-lived intangible assets are comprised of a domain name and an acquired Health Canada license which are recorded at cost less accumulated amortization and accumulated impairment losses. The domain name and Health Canada license are amortized on a straight-line basis over five years and fourteen years, respectively. 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.

Intangible assets with indefinite useful lives are comprised of acquired product rights which are carried at cost less accumulated impairment losses.

(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) Goodwill

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill is allocated to the CGU or CGUs to which it relates. The Company has determined that the goodwill associated with the Bedrocan and MedCann Access acquisitions belongs to the medical marijuana segment. Currently, the Company has one reportable segment.

Goodwill is evaluated for impairment annually or more often if events or circumstances indicate there may be an impairment. Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

(h) Investment in associates

The Company has an interest in an associate. Associates are entities over which the Company exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. The Company accounts for associates using the equity method of accounting. Interests in associates accounted for using the equity method are initially recognized at cost. Subsequent to initial recognition, the carrying value of the Company's interest in an associate is adjusted for the Company's share of comprehensive income and distributions of the investee. The carrying value of associates is assessed for impairment at each balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) 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.

(j) 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.

(k) Research and development

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

(l) 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.

(m) 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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Share-based compensation (continued)

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.

(n) 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.

(o) 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 or 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 or 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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 through profit or loss
Accounts Receivable	loans and receivables
Short-Term Investment	loans and receivables
Restricted Investment	loans and receivables
Accounts Payable and Accrued Liabilities	other liabilities
Long Term Debt	other liabilities
Acquisition Consideration Related Liabilities	fair value through profit or loss

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 or 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.

(p) Critical accounting estimates and judgments

The preparation of the consolidated 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 to estimated net realizable value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) 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 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.

BUSINESS COMBINATIONS

In determining the allocation of the purchase price in a business combination, including any acquisition-related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss. Judgment is used in determining whether an acquisition is a business combination or an asset acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 likeli hood 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 change from its current policy as the carrying cost of bearer plants is negligible.

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 gener ated by an activity that includes the use of an intangible asset is inappropriate which can only be over come 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 infor mation, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

AMENDMENTS TO IAS 12

AMENDS IAS 12 INCOME TAXES ARE AMENDED TO CLARIFY THE FOLLOWING ASPECTS:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;
- The carrying amount of an asset does not limit the estimation of probable future taxable profits;
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; and
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

This amendment is applicable to annual periods beginning on or after January 1, 2017.

DISCLOSURE INITIATIVE (AMENDMENTS TO IAS 7)

Amends IAS 7 Statement of Cash Flows to improve information provided to users of financial statements about an entity's financial activities by making the following changes:

- The following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes;
- The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition; and
- Changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

This amendment is applicable to annual periods beginning on or after January 1, 2017.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

IFRS 16 LEASES

IFRS 16 was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted.

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 INVESTMENT

The long-term restricted investment balance consists of a $246 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. REVERSE ACQUISITION

On March 26, 2014, LW Capital completed its Qualifying Transaction, which was effected pursuant to an agreement between LW Capital and the Company. Pursuant to the agreement, LW Capital acquired all of the issued and outstanding shares of the Company. The former shareholders of the Company received an aggregate of 32,042,607 common shares of LW Capital for all of the outstanding company common shares. The transaction is a reverse acquisition of LW Capital and has been accounted for under, Share-based Payment. Accordingly, the transaction has been accounted for at the fair value of the equity instruments granted by the shareholders of the Company to the shareholders and option holders of LW Capital. The difference between the fair value of the consideration paid of $1,302 (based on the fair value of common shares just prior to the reverse acquisition) and the LW Capital net assets acquired of $336, of $966, has been recognized as a listing expense in the statement of net loss and comprehensive loss for the fifteen months ended March 31, 2015. Costs of the transaction of $225 were also expensed during the fifteen months ended March 31, 2015.

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

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)	$ 1,302
Cash	449
Prepaid Expenses	5
Accounts Payable and Accrued Liabilities	(118)
Net Assets Acquired	$ 336
Listing Expense	$ 966

6. BIOLOGICAL ASSETS AND INVENTORY

The Company's biological assets consists of seeds and medical cannabis plants. The continuity of biological assets for the year ended March 31, 2016 and the fifteen-month period ended March 31, 2015 is as follows:

	March 31, 2016		March 31, 2015	
Carrying Amount, March 31, 2015	**$**	**2,028**	$	–
Purchase (use) of seeds		**(92)**		367
Acquired Biological Assets		**1,799**		–
Changes in fair value less costs to sell due to biological transformation		**38,897**		8,208
Transferred to Inventory upon Harvest		**(37,311)**		(6,547)
Carrying amount, March 31, 2016 and 2015	**$**	**5,321**	$	2,028

As at March 31, 2016, included in the carrying amount of biological assets is $275 in seeds and $5,046 in live plants ($367 in seeds and $1,661 in live plants as at March 31, 2015).

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.

On average, the grow cycle is 12 weeks. All of the plants are to be harvested as agricultural produce (i.e., medical cannabis) and all of the plants, on average, were 42% from harvest as at March 31, 2016. Mother plants, or bearer plants, are plants grown for the purpose of taking cuttings in order to grow more quantity of the same plant. Bearer plants are critical to the success of the business however, are not measured for accounting purposes. Bearer plants are plants that, once mature, are held solely to grow produce over their useful life.

The Company estimates the harvest yields for the plants at various stages of growth. As of March 31, 2016, it is expected that the Company's biological assets will yield approximately 2,121 kg compared to 558 kg at March 31, 2015. 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. As at March 31, 2016, the Company held 4,447 kg of dry cannabis and 570 L of cannabis oils compared to 655 kg of dry cannabis held at March 31, 2015. There were no cannabis oils held at March 31, 2015.

6. BIOLOGICAL ASSETS AND INVENTORY (CONTINUED)

Inventory is comprised of the following items:

	March 31, 2016	March 31, 2015
Finished Goods - Dry Cannabis	**$ 21,649**	$ 4,992
Finished Goods - Cannabis Oils	**462**	–
Work-In-Process - Cannabis Oils	**1,412**	–
Less: Allowance to net realized value	**(1,744)**	(687)
	21,779	4,305
Product for resale (vaporizers, and other)	**172**	30
Supplies and Consumables	**202**	20
	$ 22, 153	$ 4,355

Included in inventory expensed to cost of sales is the provision related expense of $1,057 to reduce inventory to net realizable value. The adjustments to net realizable value takes the compassionate pricing promise into account, whereby eligible low-income patients obtain discounts off regular prices.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment relate to the infrastructure build out for growing production and operations. During the year ended March 31, 2016 there were additions of $11,759 (for the fifteen-month period ended March 31, 2015 - $14,605) and additions from acquisitions of $17,224 (for the fifteen-month period ended March 31, 2015 - $3,700) in property, plant and equipment. Included in the $11,759 of fixed asset additions were capital leases totalling $549 for furniture and fixtures, office equipment, and computer software equipment (for the fifteen-month period ended March 31, 2015 - $100 for furniture and fixtures).

A cost continuity of the account for the year ended March 31, 2016 is as follows:

	Balance at April 1, 2015	Additions	Additions from acquisitions	Disposals/ adjustments	**Balance at March 31, 2016**
Computer software and equipment	$ 289	$ 506	$ 100	$ -	**$ 895**
Office/lab equipment	417	351	-	-	**768**
Furniture and fixtures	833	867	312	(3)	**2,009**
Production, security equipment and other	1,375	168	-	-	**1,543**
Leasehold/building improvements	11,581	9,292	16,812	(65)	**37,620**
Building	110	26	-	-	**136**
Greenhouse	2,951	-	-	-	**2,951**
Land	723	-	-	-	**723**
	18,279	11,210	17,224	(68)	**46,645**
Assets under capital lease					
Furniture and fixtures	100	319	-	-	**419**
Office/lab equipment	-	167	-	-	**167**
Computer software and equipment	-	63	-	-	**63**
Total	$ 18,379	$ 11,759	$ 17,224	$ (68)	**$ 47,294**

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The accumulated depreciation continuity of property, plant and equipment for the year ended March 31, 2016 is as follows:

	Balance at April 1, 2015	Additions	Disposals/ adjustments	**Balance at March 31, 2016**
Computer software and equipment	$ 61	$ 187	$ -	**$ 248**
Office/lab equipment	36	108	-	**144**
Furniture and fixtures	46	161	-	**207**
Production, security equipment and other	66	73	-	**139**
Leasehold/building improvements	325	1,389	-	**1,714**
Building	6	8	-	**14**
Greenhouse	93	118	-	**211**
Land	-	-	-	**-**
	633	2,044	-	**2,677**
Assets under capital lease				
Furniture and fixtures	1	15	-	**16**
Office/lab equipment	-	13	-	**13**
Computer software and equipment	-	7	-	**7**
Total	$ 634	$ 2,079	$ -	**$2,713**
Net book value	$ 17,745			**$ 44,581**

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The cost continuity of property, plant and equipment for the fifteen-month period ended March 31, 2015 is as follows:

	Balance at January 1, 2014	Additions	Additions from Tweed Farms acquisition	Disposals / adjustments	Balance at March 31, 2015
Computer software and equipment	$ 18	$ 271	$ -	$ -	$ 289
Office/lab equipment	14	403	-	-	417
Furniture and fixtures	14	819	-	-	833
Production, security equipment and other	28	1,347	-	-	1,375
Leasehold/building improvements	-	11,581	-	-	11,581
Building	-	-	110	-	110
Greenhouse	-	84	2,867	-	2,951
Land	-	-	723	-	723
	74	14,505	3,700	-	18,279
Assets under capital lease					
Furniture and fixtures	-	100	-	-	100
Total	$ 74	$ 14,605	$ 3,700	$ -	$ 18,379

The accumulated depreciation continuity of property, plant and equipment for the fifteen-month period ended March 31, 2015 is as follows:

	Balance at January 1, 2014	Additions	Disposals / adjustments	Balance at March 31, 2015
Computer software and equipment	$ 1	$ 60	$ -	$ 61
Office/lab equipment	-	36	-	36
Furniture and fixtures	-	46	-	46
Production, security equipment and other	-	66	-	66
Leasehold/building improvements	-	325	-	325
Building	-	6	-	6
Greenhouse	-	93	-	93
Land	-	-	-	-
	1	632	-	633
Assets under capital lease				
Furniture and fixtures	-	1	-	1
Total	$ 1	$ 633	$ -	$ 634
Net book value	$ 73			$ 17,745

8. ASSETS IN PROCESS

During the year ended March 31, 2016, there were additions of $8,453 (for the fifteen-month period ended March 31, 2015 - $10,671) to assets in process of which $6,825 related to the expansion at Tweed Farms (for the fifteen-month period ended March 31, 2015 - $918). The remaining $1,628 is mainly for ongoing projects at Tweed. During the year ended March 31, 2016, $8,665 was transferred from assets in process to leasehold improvements.

The $403 in assets in process includes amounts spent on improvements at the Tweed location to expand the facility for operations as well as amounts spent towards the implementation of a new enterprise resource planning system. The additions during the year related to production lighting, growing benches, irrigation and nutrient systems and construction of growing rooms at both Tweed and Tweed Farms most of which were completed as at March 31, 2016.

A continuity of the account is as follows:

	Balance at April 1, 2015	Additions	Transfers	**Balance at March 31, 2016**
Assets in process	$ 615	$ 8,453	$ (8,665)	**$ 403**

	Balance at January 1, 2014	Additions	Transfers	Balance at March 31, 2015
Assets in process	$ 1,931	$ 10,671	$ (11,987)	$ 615

9. INTANGIBLE ASSETS

Intangible assets are comprised of the following:

	March 31, 2016		March 31, 2015	
Product Rights	**$**	**28,000**	$	–
Health Canada License		**3,834**		–
Domain Name		**27**		38
Total	**$**	**31,861**	$	38

The intangible assets, with the exception of the domain name, originated from the Bedrocan acquisition and total $31,834 (see Note 10 b). The estimated useful life of the Health Canada license is fourteen years based upon the lease term of the Bedrocan building plus the renewal option. The product rights have an indefinite life but will be subject to an annual impairment test.

A continuity of the account for the year ended March 31, 2016 is as follows:

Cost	Balance at April 1, 2015	Additions from acquisitions	Disposals/ adjustments	**Balance at March 31, 2016**
Product rights	$ -	$ 28,000	$ -	**$ 28,000**
Health Canada license	-	4,000	-	**4,000**
Domain name	54	-	-	**54**
Total	54	32,000	-	**32,054**
Accumulated amortization				
Product rights	$-	$ -	$ -	**$ -**
Health Canada license	-	166	-	**166**
Domain name	16	11	-	**27**
Total	16	177	-	**193**
Net book value	$ 38	$ 31,822	$ -	**$ 31,861**

A continuity of the account for the fifteen-month period ended March 31, 2015 is as follows:

Cost	Balance at January 1, 2014	Additions	Disposals/ adjustments	Balance at March 31, 2015
Domain name	$ 49	$ 5	$ -	$ 54
Total	$ 49	$ 5	$ -	$ 54
Accumulated amortization				
Domain name	$3	$ 13		$ 16
Total	$3	$ 13	$ -	$ 16
Net book value	$ 46		$ -	$ 38

10. 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.

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

The conditions to the issuance of the 519,031 shares were 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 at $2.24.

(b) Bedrocan acquisition

On August 28, 2015, the Company purchased 100% of the issued and outstanding shares of 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 $1.64 per share which totalled $57,733 less cash acquired of $900. Other consideration included $931 of replacement options and $607 of replacement warrants for total consideration of $1,538. Bedrocan shares were exchanged at a ratio of 0.4650 to 1.

The purchase price was allocated as follows:

Net assets acquired	$	8,665
Product Rights		28,000
License		4,000
Goodwill		18,606
Total Purchase Price	$	59,271

The net assets acquired included the following:

Cash		$ 900
Accounts Receivable		373
Taxes Receivable		113
Biological Assets		1,799
Prepaids		96
Inventory		538
Fixed Assets		17,224
Total Assets		21,044
Accounts Payable		1,060
Accrued Expenses		25
Loan Payable		2,059
Long-Term Loan		1,947
Deferred Income Tax Liability		7,287
Total Liabilities		12,378
Net Assets Acquired	$	8,665

10. ACQUISITIONS (CONTINUED)

(b) Bedrocan acquisition (continued)

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

Goodwill arose in the acquisition of Bedrocan because the cost of acquisition included a control premium. In addition, the consideration paid for the combination reflected the benefit of expected revenue growth, future market development and the assembled work force of Bedrocan. These benefits were 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 and fourth quarter of Fiscal 2016, the goodwill was adjusted to reflect the share exchange date price of the shares and for a deferred tax liability that arose from the temporary tax differences at acquisition. This resulted in a reduction of goodwill of $4,558 offset by an additional amount of goodwill of $7,287 with a corresponding entry to the deferred tax liability account.

Acquisition related costs of $1,051 were excluded from the consideration transferred and were recognized as an expense in the year ended March 31, 2016.

For the year ended March 31, 2016, Bedrocan accounted for $848 in net income since August 28, 2015. This amount included $10,766 of unrealized gain on changes in fair value of biological assets and revenues of $1,577.

Had the business combination been effected at April 1, 2015, management estimates that the revenue of the Company would be $773 higher and the loss of the Company would be increased by $2,343 for the year ended March 31, 2016.

Additional purchase consideration included replacement options offered to employees and directors of Bedrocan. The calculation of the amount to be recognized as purchase consideration is complete as of the date of the finalization of these consolidated financial statements.

(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 MedCann Access.

In connection with the acquisition of MedCann Access, the Company issued 3,316,902 common shares 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.

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.

10. ACQUISITIONS (CONTINUED)

(c) MedCann Access acquisition (continued)

Through the acquisition of MedCann Access, 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 Company later sold its 20% interest back to CannSoft Inc. for $7 for no gain or loss.

The purchase price was allocated as follows:

Net Assets Acquired	$	211
Goodwill		2,281
Total Purcahse Price	$	2,472

The net assets acquired included the following:

Cash	$	154
HST Receivable		95
Prepaids		19
Inventory		12
Property, Plant and Equipment		13
Investment in CannScience Innovations Inc.		154
Total Assets		447
Accounts Payable and Accrued Liabilities		236
Total Liabilities		236
Net Assets Acquired		$ 211

Net cash outflow on acquisition of MedCann Access is as follows:

Consideration Paid in Cash	$	–
Less: Cash and Cash Equivalents Acquired		154
Net Cash Flow	$	154

Acquisition costs of $85 were excluded from the consideration transferred and were recognized as an expense in the year ended March 31, 2016.

Had the business combination been effected April 1, 2015, the revenue of the Company would be unchanged, and the loss of the Company would be $180 higher for the year ended March 31, 2016.

The calculation of the amount to be recognized as purchase consideration is complete as of the date of the finalization of these consolidated financial statements.

11. LONG-TERM DEBT

		March 31, 2016		March 31, 2015
Mortgage payable with a five-year term and amortization period of seven years bearing an annual interest rate of 5.3%	**$**	**1,588**	$	1,819
Term loan at 10% interest with monthly repayment		**1,869**		-
Capital lease obligations with an interest rate between 7.0% - 17.1%, and terms between 2-5 years, lien against the related leased equipment		**565**		97
		4,022		1,916
Less: current portion		**(553)**		(247)
Long-term portion	**$**	**3,469**	$	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 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.

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.

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

2017	$	566
2018		574
2019		583
2020		1,108
2021		216
Thereafter		975
	$	4,022

12. SHARE CAPITAL

Authorized

An unlimited number of common shares

On August 28, 2015, 35,202,818 common shares were issued for the Bedrocan acquisition at $1.64 per share for a total of $57,733 being added to share capital. The transaction also resulted in a nominal fractional share adjustment.

On October 1, 2015, 3,316,902 common shares were issued for the purchase of all the outstanding shares of MedCann Access (see Note 10 c.). Of the 3,316,902 shares, 2,449,887 are held in escrow of which 216,725 shares were released subsequent to year end as certain milestones of the acquisition had been met.

On October 23, 2015, 173,011 common shares of the Company were issued at $2.24 per share 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.

On February 11, 2016, 135,135 common shares of the Company were issued at $2.59 per share as the share consideration under the agreement with LBC Holdings, Inc., a company controlled by the artist known as Snoop Dogg (See Note 16).

During the year ended March 31, 2016, 3,437,298 warrants were exercised ranging in price from $0.59 to $2.03 and 876,927 non-ESOP options were exercised ranging in price from $0.89 to $1.83 for gross proceeds of $6,482 and $1,194, respectively.

Warrants continuity schedule

As of March 31, 2016, the Company has the following warrants with average exercise prices and expiry dates outstanding:

	Number of whole warrants		Average exercise price	Expiry Date
Balance outstanding at December 31, 2013 and March 31, 2015	426,209	$	0.59	September 13, 2016
Replacement warrants issued as a result of Bedrocan acquisition	3,358,458	$	2.58	November 15, 2015
Replacement warrants issued as a result of Bedrocan acquisition	1,499,620		1.29	February 20, 2016
Replacement warrants issued as a result of MedCann Access acquisition	925,000		5.59	May 6, 2016
Exercise of warrants	(3,437,298)		1.89	
Expiration of warrants	(1,633,885)		2.58	
Balance at March 31, 2016	1,138,104	$	4.68	

12. SHARE CAPITAL (CONTINUED)

Option plan

The Company has an employee 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, with the exception of the Bedrocan replacement options which vest over one to two years. 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 10,151,907 at March 31, 2016.

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 December 31, 2013	618,003	$	0.43
Options granted	3,478,658		2.04
LW Capital options transferred on reverse acquisition (Note 5)"	144,600		0.50
Options exercised	(177,919)		0.54
Options forfeited/cancelled	(139,302)		1.92
Balance outstanding at March 31, 2015	3,924,040	$	1.81
Options granted	4,015,100		2.50
Replacement options issued as a result of the Bedrocan acquisition	1,786,530		1.28
Options exercised	(360,643)		0.88
Options forfeited/cancelled	(918,845)		1.97
Balance outstanding at March 31, 2016	**8,446,182**	**$**	**2.05**

The following is a summary of the outstanding stock options as at March 31, 2016.

At March 31, 2016, the weighted average exercise price of options outstanding and options exercisable was $2.05 and $1.65, respectively.

Options Outstanding			Options Exercisable	
Number Outstanding at March 31, 2016	Weighted Average Remaining Contractual Life (years)	Range of Exercise Prices	Number Exercisable at March 31, 2016	Range of Exercise Prices
1,995,342	2.49	$ 0.43 - $0.86	1,459,081	$ 0.43 - $0.86
1,130,397	3.45	$ 1.57 - $1.83	643,619	$ 1.57 - $1.83
1,828,500	5.04	$ 1.92 - $2.29	287,840	$ 2.11 - $2.29
2,413,415	5.65	$ 2.66 - $2.95	333,333	$ 2.66 - $2.95
1,078,528	4.14	$ 2.96 - $3.35	579,657	$ 2.96 - $3.35
8,446,182	4.28		3,303,530	

12. SHARE CAPITAL (CONTINUED)

The Company had agent options outstanding as at March 31, 2015, which were issued on March 26, 2014 in replacement of agent options issued by the Company prior to the reverse acquisition. These options were outside of the ESOP. The number originally issued by the Company 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, a ratio of 213.1045 to 1. These agent options vested on the date of issuance and carried a two-year term from their original date of issuance by the Company. 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 Company exchanged and issued 439,423 replacement agent options as a result of the Bedrocan acquisition and all outstanding non-ESOP options were exercised during the year ended March 31, 2016 for gross proceeds of $1,194.

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

	Non-ESOP Options		Average exercise price	Expiry Date
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	
Replacement Non-ESOP options issued as a result of the Bedrocan acquisition	439,423	$	1.83	
Non-ESOP options exercised	(876,927)	$	1.36	
Balance outstanding at March 31, 2016	-		-	

The Company recorded $3,678 for the year ended March 31, 2016 (for the fifteen-month period ended 2015 - $2,559) in share-based compensation expense related to options and shares which are measured at fair value at the date of grant and are expensed over the option's vesting period. Included in share-based compensation is $181 that was recorded in sales and marketing expenses.

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, 2016 (12 months ended)		March 31, 2015 (15 months ended)
Risk-free interest rate		**0.75% - 1.35%**		1.60% - 1.64%
Expected life of options (years)		**3 - 6**		3 - 6
Expected annualized volatility		**55%**		90%
Expected dividend yield		**Nil**		Nil
Weighted average Black-Scholes value of each option	**$**	**0.92 - $0.99**	$	0.29 - $0.36

12. SHARE CAPITAL (CONTINUED)

Volatility was estimated by using the historical volatility of the Company and 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.

13. EARNINGS PER SHARE

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

Diluted net 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 net 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, 2016	March 31, 2015
Stock options (ESOP and non-ESOP)	**4,954,239**	4,361,544
Warrants	**213,104**	426,209
Total	**5,167,343**	4,787,753

14. 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, 2016 (12 months)		March 31, 2015 (15 months)
Expected tax rate		**26.5%**		26.5%
Expected tax benefit resulting from loss	**$**	**(893)**	$	(2,477)
Permanent differences		**935**		937
Tax loss carryforwards		**5,324**		3,351
Changes in other temporary differences		**(5,659)**		(1,590)
Other		**419**		(222)
Income tax expense	**$**	**126**	$	-

		March 31, 2016		March 31, 2015
Deferred tax asset	**$**	**2,387**	$	-
Deferred tax liability		**(9,800)**		-
Net deferred tax liability	**$**	**(7,413)**	$	-

14. 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 following deferred tax assets and liabilities have been recognized for accounting purposes:

		March 31, 2016		March 31, 2015
Deferred Tax Asset	$	**2,387**	$	–
Deferred Tax Liability		**(9,800)**		–
Total	**$**	**(7,413)**	$	–

The effect of temporary differences and loss carry forwards that give rise to significant portions of the deferred tax liability, which has been recognized during the year are as follows:

		March 31, 2015		Recognized in profit and loss		Recognized in goodwill		**March 31, 2016**
Deferred tax asset								
Loss carryforwards	$	–	$	652	$	1,511	**$**	**2,163**
SR&ED		–		-		18		**18**
Share issuance costs		–		(84)		290		**206**
		–		568		1,819		**2,387**
Deferred tax liability								
Fixed assets		–		203		(147)		**56**
Product rights		–		-		(7,420)		**(7,420)**
Health canada license		–		44		(1,060)		**(1,016)**
ITCs taxed in future years		–		-		(3)		**(3)**
Biological assets		–		(941)		(476)		**(1,417)**
		–		(694)		(9,106)		**(9,800)**
Net deferred taxes	$	–	$	(126)	$	(7,287)	**$**	**(7,413)**

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, 2016		March 31, 2015
Losses carried forward	**$**	**8,934**	$	3,555
Share issuance costs		**1,105**		1,332
Accounting amortization in excess of tax		**(1,153)**		123
Biological assets and inventory		**(5,784)**		(1,636)
Other		**270**		-
Total	**$**	**3,372**	$	3,374

14. INCOME TAXES (CONTINUED)

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

2030	$ 40
2031	77
2032	284
2033	1,754
2034	4,023
2035	14,787
2036	20,913

Certain of the above losses were acquired as part of the Company's acquisition of Bedrocan and MedCann Access.

As at March 31, 2016, the Company does not have any gross temporary differences associated with investments in subsidiaries.

15. 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 13.0% of the outstanding shares of the Company. Compensation provided to key management is as follows:

		March 31, 2016 (12 months)		March 31, 2015 (15 months)
Short-term employee benefits	**$**	**1,361**	$	1,288
Share-based compensation		**1,296**		507
	$	**5,167,343**	$	1,795

As of March 31, 2016, 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 in aggregate and all other Executive officers are entitled to a severance amount equal to at least thirty four week's annual base salary and in some cases, inclusive of their annual bonus.

Related party transactions

The Company leases its Smiths Falls premises from Tweed Hershey Drive Inc. ("Tweed Hershey"), which is related through common ownership (the Company's CEO and chairman is a significant shareholder of the lessor). The lease expires on December 31, 2018. For the year ended March 31, 2016, the expense incurred under this lease including base rent and operating costs was $2,368 (for the fifteen-month period ended March 31, 2015 - $1,822). The Company had $488 (2015 - $665) owing related to rent associated with these leased premises at March 31, 2016 and has prepaid rent of $508, which is included in other long-term assets.

15. RELATED PARTIES (CONTINUED)

Related party transactions (continued)

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 year ended March 31, 2016 for rent and operating costs from the date of the Bedrocan acquisition is $492.

The CEO is providing consulting services to the Company at $50 per quarter and is eligible up to a $200 bonus. For the year ended March 31, 2016 and the fifteen-month period ended March 31, 2015, consulting expenses totalled $400. The Company had $257 owing in accounts payable and accrued liabilities at March 31, 2016 ($226 at March 31, 2015).

The Company currently has a loan payable to a director of Canopy Growth Corporation. Included in interest expense for the year ended March 31, 2016 is an amount of $164. No such loan existed during the fifteen-month period ended March 31, 2015.

During the year ended March 31, 2016, $238 (for the fifteen-month period ended March 31, 2015 - $226) was expensed in director's fees. No amounts remain outstanding at March 31, 2016 ($65 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 fifteen-month period ended March 31, 2015. Proceeds received from the directors and management related to the private placements during the fifteen-month period ended March 31, 2015 totalled $70. There were no private placements during the year ended March 31, 2016.

16. COMMITMENTS AND CONTINGENCIES

The Company leases production and retail space under operating leases which range in expiration from June 30, 2017 to July 14, 2019 and also has royalty, equipment and other commitments with varying terms.

On February 11, 2016, the Company announced that it had entered into a business agreement with the artist known as Snoop Dogg. Under the agreement between the Company and LBC Holdings, Inc., a company controlled by Snoop Dogg, the two parties will partner on select content and brand strategy exclusively in Canada. The Company has determined the services received are best measured by reference to the fair value of the equity granted. The license agreement is for a term of up to five years. As partial consideration for the arrangement, the controlled company will receive a combination of common shares, royalties, and monetary compensation, released over the course of the agreement. The share consideration is comprised of common shares totaling 386,100 at a price of $2.59 per share, of which 135,135 common shares were issued on February 11, 2016 with the remainder of the 250,965 common shares escrowed for release, subject to meeting certain service criteria, over the initial three years of the term.

Future minimum lease and royalty payments due in each of the next five years are as follows:

2017	$	2,559
2018		2,576
2019		2,772
2020		698
2021		641
Thereafter		2,168
	$	11,414

16. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Included in other long-term liabilities is $243 related to the rent escalation for the Hershey Drive facility that is being amortized over the remaining lease term.

The production and retail space lease agreements contain a contingent condition for the lessee to remove fixtures at lessor's discretion.

In April 2014, the Company 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 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 year ended March 31, 2016.

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 $145 (inclusive of HST) with respect to placement fees owed; damages of $25 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. This issue was settled for $67 during the year ended March 31, 2016.

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 consolidated financial statements due to the fact that the amount cannot be reliably measured at this point.

17. SUPPLEMENTARY CASH FLOW INFORMATION

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

	March 31, 2016 (12 months)	March 31, 2015 (15 months)
Accounts Receivable	**$ (395)**	$ (342)
HST Receivable	**263**	(149)
Prepaid Expenses and other assets	**(290)**	(43)
Inventory	**20,063**	2,192
Accounts payable and Accrued Liabilities	**1,361**	1,200
Deferred Revenue	**533**	–
Total	**$ 21,535**	$ 2,858

17. SUPPLEMENTARY CASH FLOW INFORMATION (CONTINUED)

Non-cash transactions

Excluded from the March 31, 2016 consolidated statements of cash flows is a total of $946 in accounts payable and accrued liabilities as follows: $84 of assets in process purchases, $793 of equipment purchases and $69 of share issue costs. In addition, the transfer of $8,665 from assets in process to property, plant and equipment has been excluded from the cash flows.

Excluded from the March 31, 2015 but included for the March 31, 2016 consolidated statements of cash flows is a total of $1,798 in accounts payable and accrued liabilities as follows: $286 of leasehold assets in process purchases, $1,323 of equipment purchases and $189 of share issue costs. In addition, the transfer of $11,987 from assets in process to property, plant and equipment has been excluded from the cash flows.

Cash and cash equivalents consist of the following:

		March 31, 2016		March 31, 2015
Cash	**$**	**(2,117)**	$	1,713
Short-Term Guaranteed Investment Certificates		**10,000**		–
Investment Savings Account Mutual Fund		**3,280**		19,733
Total Cash and Cash Equivalents	**$**	**15,397**	$	21,446

18. FINANCIAL INSTRUMENTS

Currency risk

As at March 31, 2016, there are no financial assets and liabilities for which cash flows are denominated in U.S. dollars (2015 - $NIL 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 short-term investments and restricted investments consist of $10,256 in guaranteed investment certificates which have fixed rates 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. Trade accounts receivable are reported net of an allowance for doubtful accounts of $30.

18. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

The carrying amount of cash and cash equivalents, short-term and restricted investments and accounts receivable represents the maximum exposure to credit risk and at March 31, 2016, this amounted to $16,753 (2015 - $21,798). Since the inception of the Company, no losses have been suffered in relation to cash held by the bank.

As at March 31, 2016, the Company's aging of receivables was approximately as follows:

	March 31, 2016	March 31, 2015
0 – 60 days	**$ 810**	$ 326
61 – 120 days	**330**	16
Total	**$ 1,140**	$ 342

The Company's accounts receivable are primarily driven by sales to a government agency and credit card processors. At March 31, 2016, the government agency and credit card processor receivables accounted for 52% and 28%, respectively, of accounts receivable (2015 - 59% and 34%, respectively).

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 year ended March 31, 2016, the Company completed a private placement for gross cash proceeds of $14,376.

In addition to the commitments disclosed in Note 16, the Company is obligated to the following contractual maturities of undiscounted cash flows:

As at March 31, 2016	Carrying amount	Contractual cash flows	Year 1	Years 2 - 3	Years 4 and after - 5
Accounts payable and accrued liabilities	$ 6,107	$ 6,107	$ 6,107	$ -	$ -
Long-term debt	4,022	4,022	566	1,157	2,299
Total	$ 10,129	$ 10,129	$ 6,673	$ 1,157	$ 2,299

Fair values

The carrying values of cash, short-term investments, and restricted 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 $1,593 (carrying value of $1,588), which is based on the present value of future interest and principal payments using a discount rate of 6%. The term loan carrying value of $1,869 approximates fair value.

18. 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 are classified as Level 1 financial instruments. During the year, there were no transfers of amounts between Level 1 and Level 2.

The short-term investments and restricted investments are classified as Level 2 financial instruments. The warrants were valued using a Black-Scholes option pricing model and are also classified as a Level 2 financial instrument.

The acquisition consideration contingent on future performance related to the MedCann Access acquisition is classified as a level 3 financial instrument.

As described in Note 10 (c), a portion of the purchase price of MedCann Access is in the form of contingent consideration. The contingent consideration is 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. The Company's liability for this contingent consideration was measured at fair value based on unobservable inputs, and thus is considered a level 3 financial instrument. The fair value of the liability determined by this analysis was primarily driven by the Company's expectations of MedCann Access achieving the milestones. The expected milestones were assessed probabilities by management which was then discounted to present value in order to derive a fair value of the contingent consideration. The primary inputs of the calculation were the probabilities of achieving the milestones and a discount rate.

The following table provides a roll forward of the fair value, as determined by level 3 inputs, of the acquisition contingent consideration for the year ended March 31, 2016:

	Contigent Consideration
Balance, Beginning of fiscal year	$ –
Additions (see note 10(c))	777
Change in Fair Value	481
Ending Balance	$ 1,258

The above changes in fair value for the contingent consideration of $363 was included in the increase in fair value of acquisition consideration related liabilities line of the statement of net loss and comprehensive loss.

There were no level 3 financial instruments at March 31, 2015.

19. SEGMENTED INFORMATION

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

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

All revenues are generated in Canada.

20. 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, 2016 and 2015, total managed capital was comprised of shareholders' equity of $123,785 and $41,409, 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 11).

21. SUBSEQUENT EVENTS

a) On April 15, 2016, the Company announced that it had closed its previously announced short form prospectus offering, on a bought deal basis, of 5,002,500 common shares of the Company for aggregate gross proceeds of $11,506, inclusive of the over-allotment option granted to and exercised by the syndicate of underwriters. The Offering was completed at a price of $2.30 per common share (the "Offering Price") by two underwriters led by Dundee Securities Ltd. (the "Lead Underwriter") and GMP Securities L.P. (collectively, the "Underwriters").

b) On June 8, 2016, the Company announced it had received conditional approval from the Toronto Stock Exchange ("TSX") to graduate from the TSXV and list its common shares on the TSX. Final approval of the listing is subject to the Company meeting certain standard requirements of the TSX on or before September 1, 2016.

22. COMPARATIVE FIGURES

The comparative 15-month period general and administrative figure has been expanded to conform to the current year presentation to present depreciation and amortization.

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