Tweed Marijuana Inc.

Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three and twelve months ended December 31, 2014 and 2013

Notice of No Auditor Review of Interim Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of Tweed Marijuana Inc. for the three and twelve months ended December 31, 2014 have been prepared by Management and approved by the Board of Directors. The Company's independent auditors have not performed a review of these financial statements, in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Tweed Marijuana Inc.
Condensed Interim Consolidated Statements of Financial Position
As at December 31, 2014 and 2013
(In Canadian dollars)
(Unaudited)

	December 31, 2014	December 31, 2013
	$	$
Assets		
Current assets		
Cash	**5,773,922**	2,089,794
Restricted short-term investment	**10,000**	10,000
Accounts receivable	**182,631**	-
HST recoverable	**346,082**	282,044
Biological assets (Note 7)	**2,087,870**	-
Inventory (Note 7)	**1,110,071**	-
Prepaid expenses	**766,347**	720,347
	10,276,923	3,102,185
Property, plant and equipment (Note 8)	**15,627,836**	2,005,208
Intangible assets	**57,458**	46,046
	25,962,217	5,153,439
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**2,419,523**	1,279,843
Current portion of long-term debt (Note 15)	**320,610**	5,318
	2,740,133	1,285,161
Long-term debt (Note 15)	**1,554,390**	35,099
	4,294,523	1,320,260
Shareholders' equity		
Share capital (Note 10)	**29,758,693**	4,404,855
Share-based reserve	**1,565,816**	153,764
Warrants	**207,485**	207,485
Deficit	**(9,864,300)**	(932,925)
	21,667,694	3,833,179
	25,962,217	5,153,439

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

On behalf of the Board of Directors: *"Bruce Linton"* Director *"Chris Schnarr"* Director

Tweed Marijuana Inc.
Condensed Interim Consolidated Statements of Comprehensive Loss
For the three and twelve months ended December 31, 2014 and 2013
(In Canadian dollars)
(Unaudited)

	Three months ended Dec 31,		Twelve months ended Dec 31,	
	2014	2013 (Note 3)	2014	2013 (Note 3)
	$	$	$	$
Sales	641,309	-	1,145,662	-
Cost of goods sold	410,714	-	731,313	-
Gross margin	230,595	-	414,349	-
Sales and marketing	728,503	191,717	1,994,521	191,717
Research and development	41,180	-	159,648	-
General and administration	1,207,858	431,547	3,758,690	586,176
Share-based compensation expense (Note 10)	407,681	153,764	1,238,595	153,764
Share-based compensation expense -Tweed Farms acquisition (Note 9)	499,999	-	999,998	-
	2,885,221	777,028	8,151,452	931,657
Loss from operations	(2,654,626)	(777,028)	(7,737,103)	(931,657)
Other income (expenses)				
Interest income/(expense)	16,440	215	65,815	215
Foreign exchange gain (loss)	-	(1,315)	(295)	(1,483)
Reverse acquisition transaction costs	-	-	(293,489)	-
Listing expense	-	-	(966,303)	-
	16,440	(1,100)	(1,194,272)	(1,268)
Net loss and comprehensive loss	(2,638,186)	(778,128)	(8,931,375)	(932,925)
Net loss per share, basic and diluted:	$(0.07)	$(11.00)	$(0.30)	$(15.77)
Weighted average number of outstanding common shares:				
Basic and diluted	40,318,150	70,751	29,945,250	59,156

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

Tweed Marijuana Inc.
Condensed Interim Consolidated Statements of Changes in Equity
For the twelve months ended December 31, 2014 and 2013
(In Canadian dollars)
(Unaudited)

	Number of shares	Share capital	Share-based reserve	Warrants	Deficit	Shareholders' equity
	#	$	$	$	$	$
Balance at January 1, 2013	55,000	100	-	-	-	100
Equity financing	37,635	4,980,100	-	-	-	4,980,100
Share issue costs		(367,860)				(367,860)
Warrants		(137,982)		137,982		-
Share-based compensation			153,764			153,764
Agent Options		(69,503)		69,503		-
Net loss					(932,925)	(932,925)
Balance at December 31, 2013	**92,635**	**4,404,855**	**153,764**	**207,485**	**(932,925)**	**3,833,179**

	Number of shares	Share capital	Share-based reserve	Warrants	Deficit	Shareholders' equity
Balance at January 1, 2014	**92,635**	**4,404,855**	**153,764**	**207,485**	**(932,925)**	3,833,179
Equity financings	4,739,534	23,941,841	-	-	-	23,941,841
Share issue costs	-	(2,012,093)	173,457	-	-	(1,838,636)
Opening balance of LW Capital (Note 1)	7,260,000	570,984	63,010	-	(251,367)	382,627
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	-	(188,357)	(63,010)	-	251,367	-
Issuance of shares to former Tweed Inc. shareholders (Note 1)	32,042,607	966,303	-	-	-	966,303
Issuance of shares pursuant to Tweed Rights obligation (Note 10)	1,575,501	-	-	-	-	-
Issuance of shares to former Tweed Farms Inc. owner	346,020	999,998	-	-	-	999,998
Exercise of stock options	542,764	1,075,162	-	-	-	1,075,162
Share-based compensation	-	-	1,238,595	-	-	1,238,595
Net loss	-	-	-	-	(8,931,375)	(8,931,375)
Balance at December 31, 2014	**40,640,700**	**29,758,693**	**1,565,816**	**207,485**	**(9,864,300)**	**21,667,694**

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

Tweed Marijuana Inc.
Condensed Interim Consolidated Statements of Cash Flows
For the three and twelve months ended December 31, 2014 and 2013
(In Canadian dollars)
(Unaudited)

	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	**2014**	2013
	$	$	**$**	$
Net inflow (outflow) of cash related to the following activities:				
Operating				
Net loss	**(2,638,186)**	(778,128)	**(8,931,375)**	(932,925)
Items not affecting cash:				
Amortization of property, plant and equipment	**170,640**	892	**353,034**	897
Amortization of intangible assets	**2,467**	3,289	**9,867**	3,289
Non-cash marketing and promotion expense	**-**	70,619	**-**	70,619
Share-based compensation	**907,680**	153,764	**2,238,593**	153,764
Listing expense	**-**	-	**966,303**	-
Changes in non-cash operating working capital items:				
Accounts receivable	**(91,792)**	-	**(182,631)**	-
HST recoverable	**714,852**	(263,470)	**(64,038)**	(272,862)
Biological assets	**(865,547)**	-	**(2,087,870)**	-
Inventory	**(457,557)**	-	**(1,110,071)**	-
Prepaid expenses	**49,339**	(719,376)	**(46,000)**	(720,347)
Accounts payable and accrued liabilities	**(824,858)**	315,680	**(890,991)**	315,680
	(3,032,962)	(1,216,730)	**(9,745,180)**	(1,381,885)
Financing				
Issuance of common shares from private placements	**-**	4,400,300	**23,941,841**	4,900,300
Exercise of stock options	**215,081**	-	**1,075,162**	-
Share issue costs	**6,780**	(367,860)	**(1,838,636)**	(367,860)
Issuance of long-term debt	**1,875,000**	-	**1,875,000**	-
Payment of long-term debt			**(40,417)**	
Reverse acquisition, net assets acquired	**-**	-	**382,626**	-
	2,096,861	4,032,440	**25,395,576**	4,532,440
Investing				
Purchase of restricted short-term investment	**-**	(10,000)	**-**	(10,000)
Purchase of leasehold improvements	**(1,490,285)**	(967,432)	**(6,227,967)**	(967,432)
Purchase of intangibles	**(7,335)**	(8,919)	**(21,278)**	(8,919)
Purchase of land	**-**	-	**(722,821)**	-
Incorporation cost	**-**	1,356	**-**	-
Purchase of property, plant and equipment	**(149,553)**	(62,720)	**(4,994,202)**	(74,510)
	(1,647,173)	(1,047,715)	**(11,966,268)**	(1,060,861)
Increase/(decrease) in cash	**(2,583,274)**	1,767,995	**3,684,128**	2,089,694
Cash, beginning of period	**8,357,196**	321,799	**2,089,794**	100
Cash, end of period	**5,773,922**	2,089,794	**5,773,922**	2,089,794

Excluded from the statements of cash flows is a total of $1,057,554 in accounts payable and accrued liabilities relating to: $651,215 of leasehold improvement purchases, and $406,339 of equipment purchases

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

1. DESCRIPTION OF BUSINESS

Tweed Marijuana Inc. ("Tweed Marijuana" or the "Company"), formerly LW Capital Pool Inc. ("LW Capital"), is the parent company of Tweed Inc. ("Tweed") and Tweed Farms Inc. (formerly Prime 1 Construction Services Corp.) ("Tweed Farms"), both licensed producers of medical marijuana in Canada. The principal activities of Tweed are the production and sale of medical marijuana and the principal activity of Tweed Farms is the growing of medical marijuana as regulated by the *Marihuana for Medical Purposes Regulations*. Tweed Marijuana is a publicly traded corporation, incorporated in Canada, with its head office located at 1 Hershey Drive, Smiths Falls, Ontario. The Company's common shares are listed on the TSX Venture Exchange ("TSXV"), under the trading symbol "TWD".

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

On March 26, 2014, the Company completed its Qualifying Transaction which was effected pursuant to an agreement between the Company and Tweed. As part of the Qualifying Transaction, the Company changed its name to Tweed Marijuana Inc. and consolidated its 7,260,000 shares on a 5 to 1 basis to 1,452,000. Following this change, Tweed amalgamated with 2405882 Ontario Inc., a wholly owned subsidiary of Tweed Marijuana, formed solely for the purpose of facilitating the Qualifying Transaction. In connection with that amalgamation, Tweed Marijuana acquired all of the issued and outstanding shares of Tweed and the former shareholders of Tweed were issued a total of 32,042,607 post-consolidation common shares. In addition, 3,124,651 common shares of Tweed Marijuana have been reserved for options and warrants issued to the holders of Tweed options and warrants. Immediately following closing, Tweed Marijuana Inc. had a total of 35,070,108 common shares outstanding.

Upon closing of the transaction, the shareholders of Tweed owned 95.64% of the common shares of the Company and as a result, the transaction is considered a reverse acquisition of the Company by Tweed. For accounting purposes, Tweed is considered the acquirer and the Company the acquiree. Accordingly, the consolidated financial statements are in the name of Tweed Marijuana Inc. (formerly LW Capital Pool Inc.), however they are a continuation of the financial statements of Tweed. Additional information on the transaction is disclosed in Note 6.

Tweed Farms was acquired on June 18, 2014 and received its license to grow medical marijuana on August 15, 2014. Additional information on the transaction is disclosed in Note 9.

On November 24, 2014 Canada Revenue Agency approved the year end change for Tweed Marijuana Inc. to March 31. This was done to conform with Tweed's two operating subsidiaries, Tweed Inc. and Tweed Farms Inc., which have March 31 year ends. This means that the Company's March 31, 2015 year end statements will have five quarters and will be audited. These Interim Consolidated Financial Statements for the three and twelve months ended December 31, 2014 are the fourth quarter statements for the year ending March 31, 2015.

2. BASIS OF PREPARATION

Statement of compliance

These condensed interim consolidated financial statements of the Company were prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting**.**

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on February 25, 2015. The consolidated financial statements include the accounts of Canadian entities Tweed Marijuana Inc. and its wholly owned subsidiaries Tweed Inc. and Tweed Farms Inc. All companies have the same reporting period. All intercompany transactions, balances, revenues and expenses have been eliminated. These condensed interim consolidated financial statements do not contain all of the information and disclosures required for annual financial statements, and should be read in conjunction with the Company's July 31, 2013 annual audited consolidated financial statements as well as Tweed Inc.'s December 31, 2013 annual audited financial statements as included in the Company's March 26, 2014 Filing Statement as disclosed on Sedar (www.sedar.com).

Basis of measurement

These condensed interim consolidated financial statements have been prepared in Canadian dollars on a historical cost basis except for warrants, options, the reverse acquisition transaction and biological assets, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets. The expenses within the statements of comprehensive loss are presented by function.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared using the same accounting policies as those used in Tweed Inc.'s annual financial statements at December 31, 2013 with the one exception noted below.

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

4. CHANGES TO ACCOUNTING STANDARDS AND INTERPRETATIONS

(i) New standards effective for 2015

IAS 36 Impairment of Assets ("IAS 36")

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

IAS 32 Offsetting Financial Assets and Liabilities

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

4. CHANGES TO ACCOUNTING STANDARDS AND INTERPRETATIONS (CONT'D)

International Financial Reporting Standards ("IFRS") 2 Share based Payments

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

IFRIC 21 Levies

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

IFRS 3 Business Combinations (contingent consideration)

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

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017 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.

4. CHANGES TO ACCOUNTING STANDARDS AND INTERPRETATIONS (CONT'D)

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 measure initial recognition on a cost or revaluation basis in accordance with IAS 16
- Introduce a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales
- Clarify that produce growing on bearer plants remains within the scope of IAS 41.

Applicable to annual periods beginning on or after January 1, 2016

Amendments to IAS 16 and IAS 38

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

- clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment
- introduce a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated
- 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

Applicable to annual periods beginning on or after January 1, 2016

Disclosure Initiative (*Amendments to IAS 1)*

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

- clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply
- clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss
- 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

Applicable to annual periods beginning on or after January 1, 2016.

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

5. OPERATING SEGMENT INFORMATION

IFRS 8 "*Operating Segments*" defines an operating segment as (a) a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance and (c) for which discrete financial information is available.

For management purposes the Company's activities are attributable to a single operating segment, engaged in the production and sale of medical marijuana as regulated by the *Marihuana for Medical Purposes Regulations.*

Revenue by geographic area

The location of the customer determines the geographic areas for revenue. All of the Company's customers are located in Canada.

Assets by geographic area

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

6. REVERSE ACQUISITION

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

The transaction is a reverse acquisition of LW Capital and has been accounted for under IFRS 2, *Share-based Payments*. Accordingly, the transaction has been accounted for at the fair value of the equity instruments granted by the shareholders of Tweed to the shareholders and option holders of LW Capital. The difference between the fair value of the consideration paid of $1,302,374 (based on the fair value of Tweed shares just prior to the reverse acquisition) and the LW Capital net assets acquired of $336,071, of $966,303, has been recognized as a listing expense in the statement of comprehensive loss for the twelve months ended December 31, 2014. Costs of the transaction of $293,489 were also expensed in the twelve months ended December 31, 2014.

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

(In Canadian dollars)

6. REVERSE ACQUISITION (CONT'D)

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

7. BIOLOGICAL ASSETS AND INVENTORY

The Company's biological assets consists of seeds and cannabis on plants. Cannabis on plants is measured at fair value less costs to sell, considered as their percentage of grow to harvest less cost to sell at their point of harvest. Seeds are measured at fair market value. Biological assets become the basis for the cost of the finished goods inventory. Any costs incurred after harvest are added to the finished goods inventories. All finished goods inventories are valued at the lower of cost or net realizable value.

Included in the December 31, 2014 statement of comprehensive loss is a gain on biological assets of $865,547 recorded in cost of goods sold.

The Company's biological assets and inventory at December 31, 2014 is comprised of:

Biological assets	$ 2,087,870
Inventory	
Finished goods	$ 1,033,272
Product for resale (vaporizers etc)	35,242
Supplies and consumables	41,557
	$ 1,110,071

8. PROPERTY, PLANT AND EQUIPMENT

During the quarter ended December 31, 2014 there were $2,697,392 (2013 - $1,994,315) gross fixed assets purchased of which $2,141,500 (2013 - $1,931,595) was transferred from construction in progress to leaseholds improvements. A significant portion of the leasehold improvements related mainly to new grow rooms, which became available for use during December 2014.

8. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Fixed asset additions for the twelve months ended December 31, 2014 were $15,907,257 (2013 - $2,006,105) of which $9,631,139 (2013 - $1,931,595) represented leasehold improvements, $2,942,594 (2013 - $NIL) related to the Tweed Farms greenhouse (Note 9), $1,774,340 (2013 - $42,527) in property, plant and equipment, $722,821 (2013 - $NIL) for land, $110,100 (2013 - $NIL) for the Tweed Farms building as well as $726,263 (2013 - $31,983) in various purchases of computer hardware and office equipment.

9. TWEED FARMS LIABILITY (FORMERLY PRIME 1 CONSTRUCTION SERVICES CORP.)

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

(i) the weighted average price of such shares on the three (3) trading days immediately preceding the public announcement of the transaction; and

(ii) the "Discounted Market Price" (as such term is defined in the policies of the Toronto Venture Exchange) of the common shares of Tweed Marijuana as of the date of the public announcement of this transaction which occurred on June 19, 2014.

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

(i) one third of the shares shall be issued upon Tweed Farms receiving a license from Health Canada permitting the cultivation of marijuana (Cultivation License) in the Greenhouse provided that the license is received on or before July 31, 2014 and provided further that a key individual continues to be employed or engaged as a consultant by Tweed Farms, other than in the event of a termination of such employment or engagement by Tweed Farms without cause, and continues to be eligible to be a Responsible Person in Charge ("RPIC) on the date of receipt of the license.

(ii) one third of the shares shall be issued upon Tweed Farms receiving a license from Health Canada as a Licensed Producer pursuant to the MMPR (Commercial License) permitting the production, sale, possession, transport, delivery and destruction of marijuana in the Greenhouse provided further that a key individual continues to be employed or engaged as a consultant by Tweed Farms, other than in the event of a termination of such employment or engagement by Tweed Farms without cause, and continues to be eligible to be an RPIC on the date of receipt of this license; and

(iii) one third of the shares shall be issued on June 18, 2015 provided that the Cultivation License and the Commercial License shall have been received by Tweed Farms and provided further that a key individual continues to be employed or engaged as a consultant by Tweed Farms, other than in the event of a termination of such employment or engagement by Tweed Farms without cause, and continues to be eligible to be an RPIC on June 18, 2015.

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

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

(In Canadian dollars)

9. TWEED FARMS LIABILITY (FORMERLY PRIME 1 CONSTRUCTION SERVICES CORP.) (CONT'D)

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

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

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

The purchase price of the assets acquired was as follows:

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

10. SHARE CAPITAL

Authorized

An unlimited number of common shares are available for issue.

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

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

On March 7, 2014, Tweed completed the closing of a brokered private placement of 34,211 Units at a price of $190 per Unit for gross cash proceeds of $6,500,090. Agent options were issued at 6% of the common shares issued, amounting to 2,053 options to purchase common shares of Tweed, exercisable at a price of $190 with a term of two years. Based on the Black-Scholes pricing model, these options have an estimated fair value of $150,331 (assumptions used were as follows: expected volatility - 70%, risk-free interest rate – 0.97%, expected dividend yield – 0%, expected life of options – 2 years). In addition, broker cash commissions of 6%, amounting to $390,005, were paid as part of the transaction. Other professional fees and costs associated with the private placement amounted to $122,823.

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

On March 31, 2014, pursuant to the terms of rights ("Tweed Rights") issued as part of the Tweed private placements from December 2013 to March 2014, and pursuant to the terms of the amalgamation agreement entered into by the Company in connection with the Qualifying Transaction, the Company issued an additional 1,575,501 shares to former shareholders of Tweed. The Tweed Rights issued by the Company provided that if certain liquidity events did not occur prior to 5:00 p.m. on March 31, 2014, the rights entitled the holder to receive, for no additional consideration, additional shares equal to 10% of the

10. SHARE CAPITAL (CONT'D)

total number of Tweed shares subscribed for in the private placements by such holder. These shares were recorded on a fair value basis at a price of $0.89 per share. This resulting amount of $1,402,196 was recorded to share capital and share issuance costs.

On May 14, 2014 Tweed completed a financing of 4,687,500 common shares for aggregate gross proceeds of $15,000,000. A syndicate of underwriters led by GMP Securities LP, and including Jacob Securities Inc. completed the offering at a price of $3.20 per common share. The over – allotment option of 703,125 common shares at the offering price was not exercised. In addition, transaction costs of $1,261,052 were paid as part of the common share issuance.

On June 19, 2014 Tweed announced the acquisition of Tweed Farms for $2,000,000 plus the option (Note 9). The acquisition adds over 350,000 square feet of greenhouse facility located in Niagara-on-the-Lake, complementing Tweed's current 168,000 square foot indoor facility.

On August 25, 2014, 173,010 common shares of the Company were issued at $2.89 as the first condition for the Tweed Farms acquisition had been met. The offset to this was recorded in share-based compensation expense (Note 9).

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

On December 1, 2014, the second condition of the Tweed Farms acquisition was met and 173,010 common shares of the Company were issued at $2.89 to a key individual. The offsetting entry was to share-based compensation expense.

During the three and twelve months ended December 31, 2014, 12,000 and 216,075 options were exercised for gross proceeds of $6,000 and $866,081 respectively.

Warrants

As of December 31, 2014 the Company has 426,209 warrants outstanding with an average exercise price of $0.59. The warrants have a three year term and expire on September 13, 2016.

Option Plan

The Company has a stock option plan ("ESOP") that is administered by the Board of Directors of the Company who establish exercise prices, at not less than market price at the date of grant, and expiry dates, which have been set at five years from issuance. Options under the Plan remain exercisable in increments with 1/3rd being exercisable on each of the first, second and third anniversaries from the date of grant. The maximum number of common shares reserved for issuance for options that may be granted under the Plan is 10% of the common shares outstanding, which was 4,064,070 at December 31, 2014.

As of December 31, 2014, the Company has Agent Options outstanding, which were issued on March 26, 2014 in replacement of agent options issued by Tweed prior to the reverse acquisition. These options are outside of the ESOP. The number originally issued by Tweed was 3,805, which were then exchanged into 810,863 Agent Options of the Company based on the exchange ratio used for the reverse acquisition. These Agent Options vested on the date of issuance and carry a two year term from their original date of issuance by Tweed. On November 27, 2014, 326,689 agent options were exercised for a price of $0.64 for gross proceeds of $209,081.

During the three months ended December 31, 2014 NIL options were issued and for the twelve months ended December 31, 2014 1,708,682 options were issued at exercise prices between $2.29 and $3.35.

(In Canadian dollars)

10. SHARE CAPITAL (CONT'D)

Share-based Compensation

During the three and twelve months ended December 31, 2014, the Company recorded $407,681 (2013 – $153,764) and $1,238,595 respectively (2013 - $153,764) in share-based compensation expense related to employee stock options which are measured at fair value at the date of grant and are expensed over the option's vesting period. See Note 9 for additional share-based compensation expense in the amount of $499,999 that was recorded in the three month period and $999,998 in the twelve month period ended December 31, 2014. 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 during the period. The following assumptions were used in the model: risk free interest rate of 1.60%-1.64%, expected life of options was 5 years, the annualized volatility was 90%, the expected dividend yield was nil and the weighted average Black-Scholes value of each option was $.029 - $.036.

11. EARNINGS PER SHARE

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

	Twelve months ended December 31,	
	2014	2013
Stock options	**3,776,645**	1,830,994
Warrants	**426,209**	426,209
Total	**4,202,854**	2,257,203

12. RELATED PARTIES

The Company leases office premises from a company controlled by Tweed Hershey Drive Inc. ("Tweed Hershey"), a company of which Bruce Linton, a director of the company, is a shareholder. The lease expires on December 31, 2018. For the three and twelve month period ended December 31, 2014, the expense incurred under this lease was $338,328 (2013 - $7,397) and $1,062,085 (2013 - $7,397) respectively. The Company had $206,027 (2013 - $NIL) owing related to rent associated with these leased premises at December 31, 2014 of which $144,000 is in deferred rent relating to the escalation clause in the lease and as well has $508,500 (2013 - $567,450), which is included in prepaid expenses.

A director has been engaged to provide consulting services to the Company at $16,667 per month from July 1, 2013 to July 1, 2015. The expense in the period was $50,000 for the three months ended and $200,000 for the twelve months ended December 31, 2014 of which $56,500 remained outstanding at the end of the quarter.

During the three and twelve months ended December 31, 2014, $66,500 (2013 - $NIL) and $163,250 (2013 - $NIL) respectively was expensed in director's fees. An amount of $66,500 remains outstanding at December 31, 2014.

As at December 31, 2014 the remaining payment for Tweed Farms of $100,000 was still outstanding as well as the remaining contingent milestone of $500,000 in stock as outlined in Note 9 (iii).

These transactions are measured at the exchange amounts being the amounts agreed to by the parties.

12. RELATED PARTIES (CONT'D)

Certain directors and management of the Company participated in the private placements completed during the periods presented. Proceeds received from the directors and management relating to the private placements was $NIL for the three months ended December 31, 2014 and $70,007 for the twelve month period then ended (2013 - $NIL).

13. COMMITMENTS AND CONTINGENCIES

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

As indicated in Note 12, the Company leases office premises from a company controlled by Tweed Hershey. The lease expires on December 31, 2018. The monthly rent is $57,000, plus operating costs as well as amounts directly chargeable for tenant repairs.

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 $133,990 (inclusive of HST) with respect to placement fees owed; damages of $25,000 for fees owed for introductions to advertising agencies; and a declaration of entitlement to a 5% share interest in Tweed Farms for no consideration or in lieu of $100,000.

Tweed Farms has filed a Statement of Defence and intends to defend the action, which it views as without merit, vigorously. The financial effect is not determinable.

14. FINANCIAL INSTRUMENTS

Fair value hierarchy

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

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

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

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

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 the restricted short-term investments are classified as Level 1 financial instruments. During the year, there were no transfers of amounts between Level 1 and Level 2. The warrants were valued using a Black-Scholes option pricing model and are a Level 2 financial instrument.

14. FINANCIAL INSTRUMENTS (CONT'D)

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:

Cash is designated as at fair value through profit or loss, with changes in fair value being recorded in net earnings at each period end.

The restricted short-term investment and accounts receivable have been classified as loans and receivables and are measured at amortized cost less impairments.

Accounts payable and accrued liabilities and long-term debt have been classified as other financial liabilities.

Fair values

The carrying values of cash, restricted short-term investment, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity. The fair value of the long-term debt approximates its carrying value.

15. LONG-TERM DEBT

On November 7, 2014 a mortgage was issued on the Tweed Farms property in the amount of $1,875,000. The mortgage has a term of five years and an amortization period of seven years. The monthly payments are $26,717 per month and include principal and interest. The mortgage is secured by a first charge on the property as well as a general security agreement. It is repayable in full on December 1, 2019 and bears a fixed interest rate of 5.3%. Included in interest expense related to the mortgage is an amount of $6,460 for the three and twelve months ended December 31, 2014.

16. SUBSEQUENT EVENTS

On February 24, 2014 the Company announced that it has entered into an agreement with a syndicate of underwriters led by GMP Securities L.P. and including Dundee Securities Ltd. and M Partners Inc. (collectively, the "Underwriters"), pursuant to which the Underwriters have agreed to purchase, on a bought deal basis pursuant to the filing of a short form prospectus, 9,302,400 common shares (the "Common Shares") of the Company at a price of $2.15 per Common Share (the "Offering Price") for aggregate gross proceeds to the Company of $20,000,160 (the "Offering").

The Company has agreed to grant the Underwriters an over-allotment option to purchase up to an additional 1,395,360 Common Shares at the Offering Price, exercisable in whole or in part, at any time on or prior to the date that is 30 days following the closing of the Offering. If this option is exercised in full, an additional $3,000,024 will be raised pursuant to the Offering and the aggregate gross proceeds of the Offering will be $23,000,184.

The Common Shares will be offered by way of a short form prospectus to be filed in all of the provinces except Quebec. The Company intends to use the net proceeds from the Offering for facilities expansion and general corporate purposes. The Offering is expected to close on or about March 17, 2015 and is subject to certain conditions including, but not limited to, the receipt of all necessary regulatory and stock exchange approvals, including the approval of the TSX Venture Exchange and the applicable securities regulatory authorities.