CANOPY GROWTH CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

(IN CANADIAN DOLLARS)

CANOPY GROWTH CORPORATION

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CANOPY GROWTH CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

UNAUDITED

(Expressed in CDN $000's)		September 30, 2016		March 31, 2016
Assets				
Current assets				
Cash and cash equivalents (Note 16)	$	45,379	$	15,397
Restricted short-term investment (Note 4)		250		-
Accounts receivable		1,625		1,110
HST recoverable		277		376
Biological assets (Note 5)		13,748		5,321
Inventory (Note 5)		27,579		22,153
Prepaid expenses and other assets		1,019		489
		89,877		44,846
Property, plant and equipment (Note 6)		48,492		44,581
Assets in process (Note 7)		4,702		403
Restricted investment (Note 4)		-		246
Goodwill		20,867		20,867
Intangible assets (Note 8)		31,713		31,861
Other assets		553		557
	$	196,204	$	143,361
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$	7,492	$	6,107
Deferred revenue		296		533
Current portion of long-term debt (Note 9)		1,080		553
		8,868		7,193
Long-term debt (Note 9)		6,362		3,469
Acquisition consideration related liabilities (Note 17)		1,556		1,258
Deferred tax liability		7,575		7,413
Other long-term liabilities		224		243
		24,585		19,576
Commitments and contingencies (Note 15)				
Shareholders' equity				
Share capital (Note 12)		175,970		131,080
Share-based reserve		7,943		5,804
Warrants		-		676
Deficit		(12,294)		(13,775)
		171,619		123,785
	$	196,204	$	143,361

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

CANOPY GROWTH CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

UNAUDITED (Expressed in CDN $000's except share amounts)	Three months ended		Six months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Revenue	**$ 8,498**	$ 2,466	**$ 15,482**	$ 4,176
Unrealized gain on changes in fair value of biological assets (Note 5)	**(16,076)**	(12,480)	**(22,760)**	(17,755)
Inventory expensed to cost of sales	**8,414**	2,678	**15,068**	4,171
Other production costs	**333**	2,820	**3,902**	4,218
Recovery to cost of sales, net of the unrealized gain on changes in fair value of biological assets	**(7,329)**	(6,982)	**(3,790)**	(9,366)
Gross margin	**15,827**	9,448	**19,272**	13,542
Sales and marketing	**2,810**	873	**5,070**	1,881
Research and development	**503**	210	**906**	249
General and administration	**4,031**	2,239	**6,881**	3,655
Acquisition costs	**592**	1,139	**592**	1,139
Share of (income) loss in equity investments	**(170)**	-	**50**	-
Share-based compensation expense (Note 12)	**960**	574	**1,848**	945
Depreciation and amortization	**984**	452	**1,895**	720
	9,710	5,487	**17,242**	8,589
Income from operations	**6,117**	3,961	**2,030**	4,953
Interest expense, net	**(42)**	(31)	**(89)**	(12)
Increase in fair value of acquisition consideration related liabilities	**(286)**	-	**(298)**	-
	(328)	(31)	**(387)**	(12)
Net income and comprehensive income before income taxes	**5,789**	3,930	**1,643**	4,941
Income tax expense	**(359)**	-	**(162)**	-
Net income and comprehensive income after income taxes	**$ 5,430**	$ 3,930	**$ 1,481**	$ 4,941
Net income per share, basic (Note 13):	**$ 0.05**	$ 0.06	**$ 0.01**	$ 0.09
Weighted average number of outstanding common shares, basic:	**108,872,770**	63,838,863	**106,248,781**	57,357,148
Net income per share, diluted (Note 13):	**$ 0.05**	$ 0.05	**$ 0.01**	$ 0.07
Weighted average number of outstanding common shares, diluted:	**112,254,363**	76,057,904	**108,879,226**	69,576,190

CANOPY GROWTH CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

UNAUDITED

(Expressed in CDN $000's except share amounts)	**Number of shares**	**Share capital**	**Share-based reserve**	**Warrants**	**Deficit**	**Shareholders' equity**
Balance at March 31, 2015	50,752,666 -	$ 49,826	$ 1,724	$ 138	$ (10,279)	$ 41,409
Exercise of warrants	213,105	195	-	(69)	-	126
Share-based compensation	-	-	372	-	-	372
Net income	-	-	-	-	1,012	1,012
Balance at June 30, 2015	50,965,771 -	$ 50,021	$ 2,096	$ 69	$ (9,267)	$ 42,919
Exercise of warrants	472,379	434	-	-	-	434
Exercise of stock options	10,655	7	-	-	-	7
Share-based compensation	-	-	574	-	-	574
Issuance of shares for Bedrocan acquisition (Note 10)	35,202,818	64,404				64,404
Net income	-	-	-	-	3,930	3,930
Balance at September 30, 2015	**86,651,623 -**	**$ 114,866**	**$ 2,670**	**$ 69**	**$ (5,337)**	**$ 112,268**
Balance at March 31, 2016	98,818,213	$ 131,080	$ 5,804	$ 676	$ (13,775)	$ 123,785
Exercise of warrants (Note 12)	213,104	195	607	(676)	-	126
Exercise of ESOP stock options (Note 12)	623,715	1,016	(357)	-	-	659
Equity financing - April 15, 2016 (Note 12)	5,002,500	11,506	- -	-	-	11,506
Share issue costs	-	(721)	-	-	-	(721)
Issuance of shares per XIB agreement (Note 12)	38,656	108	-	-	-	108
Shares released from escrow related to the MedCann Access acquisition (Note 12)	288,861	-	-	-	-	-
Share-based compensation	-	-	867	-	-	867
Net loss	-	-	-	-	(3,949)	(3,949)
Balance at June 30, 2016	104,985,049 -	$ 143,184	$ 6,921	$ -	$ (17,724)	$ 132,381
Exercise of ESOP stock options (Note 12)	231,239	704	(235)	-	-	469
Equity financing - August 24, 2016 (Note 12)	9,453,000	34,503	- -	-	-	34,503
Share issue costs	-	(2,421)	-	-	-	(2,421)
Share-based compensation	-	-	1,257	-	-	1,257
Net income	-	-	-	-	5,430	5,430
Balance at September 30, 2016	**114,669,288 -**	**$ 175,970**	**$ 7,943**	**$ -**	**$ (12,294)**	**$ 171,619**

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

UNAUDITED (Expressed in CDN $000's)	**September 30, 2016**	September 30, 2015
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income	**$ 1,481**	$ 4,941
Items not affecting cash:		
Depreciation of property, plant and equipment	**1,747**	715
Amortization of intangible assets	**148**	5
Share of loss in equity investments	**50**	-
Unrealized gain on change in fair value of biological assets	**(22,760)**	(17,755)
Inventory allowance to net realizeable value	**(105)**	859
Net changes in inventory and biological assets	**9,012**	2,985
Share-based compensation (Note 12)	**2,232**	945
Income tax expense	**162**	-
Increase in fair value of acquisition consideration related liabilities	**298**	-
Changes in non-cash operating working capital items (Note 16)	**(1,190)**	334
Net cash used in operating activities	**(8,925)**	(6,971)
Financing		
Proceeds from issuance of common shares	**46,009**	-
Proceeds from exercise of stock options	**1,128**	7
Proceeds from exercise of warrants	**126**	561
Payment of share issue costs	**(3,030)**	(189)
Issuance of long-term debt	**3,500**	-
Increase in capital lease obligations	**260**	-
Repayment of long-term debt	**(339)**	(60)
Increase (decrease) in other long-term liabilities	**(19)**	27
Net cash provided by financing activities	**47,635**	346
Investing		
Purchases of property, plant and equipment	**(4,728)**	(3,148)
Purchases of assets in process	**(4,000)**	(4,561)
Acquisition of Bedrocan (Note 10)	**-**	900
Purchases of restricted investment	**-**	(286)
Net cash used in investing activities	**(8,728)**	(7,095)
Net cash inflow (outflow)	**29,982**	(13,720)
Cash and cash equivalents, beginning of period	**15,397**	21,446
Cash and cash equivalents, end of period	**$ 45,379**	$ 7,726

Supplemental disclosure of cash flow data:

Assets in process purchased and unpaid at period end	**1,841**	690
Property, plant and equipment purchased and unpaid at period end	**265**	211
Share issuance costs unpaid at period end	**181**	-

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

1. DESCRIPTION OF BUSINESS

Canopy Growth Corporation or the "Company" is the parent company of Tweed Inc. ("Tweed"), Tweed Farms Inc. ("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 Access to Cannabis for Medical Purposes Regulations ("ACMPR").

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 TSX, under the trading symbol "CGC".

2. BASIS OF PRESENTATION

Statement of compliance

The condensed interim consolidated financial statements have been prepared in compliance with International Financial Reporting Standard 34 Interim Financial Reporting ("IAS 34"), in accordance with subparagraph 3.2(1)(b) of NI 52-107, following the same accounting policies and methods of application as those disclosed in the annual audited consolidated financial statements for the year ended March 31, 2016. The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements of the Company for the year ended March 31, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on November 13, 2016.

Basis of measurement

These condensed interim consolidated financial statements have been prepared in Canadian dollars on a historical cost basis except for biological assets and acquisition related contingent liabilities and derivatives, 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 condensed interim consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries.

The table below lists the Company's subsidiaries and equity investments and the ownership interests in each.

Subsidiary	% ownership	Accounting method
Tweed Inc.	100%	Consolidation
Tweed Farms Inc.	100%	Consolidation
Bedrocan Canada Inc.	100%	Consolidation
9388036 Canada Inc.	100%	Consolidation
Entourage Phytolab S.A.	50%	Consolidation
Bedrocan Brazil S.A.	41.75%	Consolidation
CannScience Innovations Inc.	33%	Equity
AusCann Holdings	15%	Equity

3. CHANGES TO ACCOUNTING STANDARDS AND INTERPRETATIONS

New and revised IFRS in issue but not yet effective

Amendments to IAS 12

Amends IAS 12 *Income Taxes* are amended to clarify the following aspects:

- Unrealized 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. On April 12, 2016, the IASB published final clarifications to IFRS 15 with respect to identifying performance obligations, principal versus agent considerations, and licensing. 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.

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

3. CHANGES TO ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

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 SHORT-TERM INVESTMENT

The short-term restricted investment balance consists of a $250 guaranteed investment certificate maturing May 28, 2017 bearing an annual interest rate of 1.6%. This investment is held by the bank as collateral for an issued Letter of Credit for the Industrial Electricity Incentive Contract Stream 3.

5. BIOLOGICAL ASSETS AND INVENTORY

The Company's biological assets consists of seeds and medical cannabis plants. The continuity of biological assets for the six months ended September 30, 2016 and the year ended March 31, 2016 was as follows:

		September 30, 2016		March 31, 2016
Carrying amount, March 31, 2016 and March 31, 2015	**$**	**5,321**	$	2,028
Use of seeds		**(7)**		(92)
Acquired biological assets		**-**		1,799
Changes in fair value less costs to sell due to biological transformation		**22,767**		38,897
Transferred to inventory upon harvest		**(14,333)**		(37,311)
Carrying amount, September 30, 2016 and March 31, 2016	**$**	**13,748**	$	5,321

As at September 30, 2016, included in the carrying amount of biological assets was $269 in seeds and $13,479 in live plants ($275 in seeds and $5,046 in live plants as at March 31, 2016).

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; and
- 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 as at September 30, 2016, on average, were 56% from harvest (compared to 45% average 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. Once mature, bearer plants are plants that are held solely to grow produce over their useful life. Bearer plants are critical to the success of the business, however are not measured for accounting purposes.

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

5. BIOLOGICAL ASSETS AND INVENTORY (CONTINUED)

The Company estimates the harvest yields for the plants at various stages of growth. As of September 30, 2016, it is expected that the Company's biological assets will yield approximately 4,419 kg compared to 2,121 kg at March 31, 2016. 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 September 30, 2016, included in the carrying amount of inventory was $21,071 in dry cannabis and $6,153 in cannabis oils ($20,016 in dry cannabis and $1,763 in cannabis oils as at March 31, 2016). As at September 30, 2016, the Company held 4,887 kg of dry cannabis (831 kg of which was finished goods, 1,251 kg awaiting release, and 2,805 kg held for extract production) and 1,736 L of cannabis oils, compared to 4,447 kg of dry cannabis (1,198 kg of which was finished goods, 787 kg awaiting release, and 2,462 held for extract production) and 570 L of cannabis oils held at March 31, 2016.

Inventory was comprised of the following items:

		September 30, 2016		March 31, 2016
Finished goods - dry cannabis	**$**	**5,467**	$	7,808
Work-in-process - dry cannabis		**16,890**		13,841
Less: allowance to net realizeable value, dry cannabis		**(1,286)**		(1,633)
Finished goods - cannabis oils		**1,662**		462
Work-in-process - cannabis oils		**4,844**		1,412
Less: allowance to net realizeable value, cannabis oils		**(353)**		(111)
		27,224		21,779
Product for resale (vaporizers, and other)		**306**		172
Supplies and consumables		**49**		202
	$	**27,579**	$	22,153

Included in inventory expensed to cost of sales was the change in the provision to arrive at net realizable value of $646 and $105 for the three and six months ended September 30, 2016, respectively. The adjustments to net realizable value takes the compassionate pricing promise into account, whereby eligible low-income patients obtain discounts off regular prices.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment relate to the infrastructure build out for growing production and operations. During the three months ended September 30, 2016 there were additions of $3,283 (for the three-month period ended September 30, 2015 - $1,901) in property, plant and equipment and there were no new capital leases included in the fixed asset additions (for the three-month period ended September 30, 2015 - $64 for furniture and fixtures).

During the six months ended September 30, 2016 there were additions of $5,658 (for the six-month period ended September 30, 2015 - $2,074) in property, plant and equipment. Included in the fixed asset additions were capital leases totaling $343 for furniture and fixtures (for the six-month period ended September 30, 2015 - $101 for furniture and fixtures).

7. ASSETS IN PROCESS

During the three months ended September 30, 2016, there were additions of $3,481 (for the three-month period ended September 30, 2015 - $2,521) to assets in process of which $3,292 related to the expansion at Tweed (for the three-month period ended September 30, 2015 - $2,053 was related to the expansion at Tweed Farms). The remaining $189 was mainly for ongoing projects at Tweed. During the three months ended September 30, 2016, $1,355 (for the three-month period ended September 30, 2015 - $1,162) was transferred from assets in process to property, plant and equipment as the assets were placed in service.

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

7. ASSETS IN PROCESS (CONTINUED)

During the six months ended September 30, 2016, there were additions of $5,757 (for the six-month period ended September 30, 2015 - $6,127) to assets in process of which $4,566 primarily related to the expansion at Tweed (for the six-month period ended September 30, 2015 - $4,945 primarily related to the expansion at Tweed Farms). The remaining $1,191 was mainly for ongoing projects at Tweed Farms.

During the six months ended September 30, 2016, $1,458 (for the six-month period ended September 30, 2015 - $1,162) was transferred from assets in process to property, plant and equipment as the assets were placed in service.

The $4,702 in assets in process relates to improvements to expand and improve the facilities for operations.

8. INTANGIBLE ASSETS

Intangible assets are comprised of the following:

	September 30, 2016	March 31, 2016
Product rights	**$ 28,000**	$ 28,000
Health Canada license	**3,692**	3,834
Domain name	**21**	27
Total	**$ 31,713**	$ 31,861

The intangible assets, with the exception of the domain name, originated from the Bedrocan acquisition and total $31,692 (See Note 10. Bedrocan Acquisition). 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.

9. LONG-TERM DEBT

	Maturity Date	**September 30, 2016**	March 31, 2016
Mortgage payable with a five year term and amortization period of seven years bearing an annual interest rate of 4.9%	August 1, 2021	**$ 3,473**	$ -
Mortgage payable with a five year term and amortization period of seven years bearing an annual interest rate of 5.3%	December 1, 2019	**1,469**	1,588
Term loan at 10% interest with monthly repayment	July 1, 2024	**1,798**	1,869
Capital lease obligations with interest rates between 7.0%-17.1%, and terms between 2-5 years, lien against the related leased equipment		**702**	565
		7,442	4,022
Less: current portion		**(1,080)**	(553)
Long-term portion		**$ 6,362**	$ 3,469

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

9. LONG-TERM DEBT (CONTINUED)

The mortgage with a maturity date of August 1, 2021, is secured by a first charge mortgage on the Tweed Farms property, a first position on a Tweed Farms general security agreement and a specific security interest, backed by a corporate guarantee from the Company. So long as the Company has positive cash on its balance sheet at year-end, it will be deemed to have met its financial covenant. 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.

In respect of the mortgage with a maturity date of December 1, 2019, the mortgage is secured by a first charge on the Tweed Farms property. The Company must maintain an annual 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 as measured at year-end. The Company was in compliance with this covenant as at March 31, 2016. 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 Company also has a revolving line of credit for up to $2,000, with a variable interest rate based on the CIBC prime rate plus 1.2% with a 5 year term and interest only payments on drawn amounts, but is payable on demand or may be prepaid at any time at the option of the Company. The line of credit is subject to disbursement conditions related to capital expenditures at Tweed Farms. The line of credit was undrawn as at September 30, 2016.

The two mortgages and revolving line of credit are with the same Canadian commercial financial institution.

The term loan 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.

10. BEDROCAN ACQUISTION

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

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

10. BEDROCAN ACQUISTION (CONTINUED)

The net assets acquired included the following:

Cash	$	900
Accounts receivable		373
Taxes receivable		113
Biological assets		1,799
Prepaids		96
Inventory		538
Property, plant and equipment		17,224
Total assets		21,043
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

Net cash inflow 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.

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 three and six months ended September 30, 2015, Bedrocan accounted for $724 in net income since August 28, 2015. This amount included $1,693 of unrealized gain on changes in fair value of biological assets and revenues of $347.

Had the business combination been effected at April 1, 2015, management estimates that the revenue of the Company would have been $773 higher and the loss of the Company would be increased by $2,343 for the six months ended September 30, 2015.

Additional purchase consideration included replacement options offered to employees and directors of Bedrocan.

11. INVESTMENTS

AusCann

On May 20, 2016, the Company closed a partnership with AusCann Group Holdings Ltd. ("AusCann"), whereby the Company obtained a 15% stake in AusCann, a leader in Australia's emerging medical cannabis industry, in exchange for its consultation in a number of areas including production, quality assurance and operations, and strategic advisory services.

The expertise and advisory services offered or performed by Canopy Growth subsidiaries will be exclusively carried out by Tweed Inc. and Tweed Farms Inc. At September 30, 2016, the investment in AusCann was $nil.

Bedrocan Brazil and Entourage

On June 28, 2016, the Company signed an agreement with Sao Paulo-based Entourage Phytolab S.A. ("Entourage"), which will see its wholly-owned subsidiary Bedrocan Canada Inc. ("Bedrocan Canada"), Bedrocan International BV (formerly Bedrocan Beheer BV) and local Brazilian partners create a new company called Bedrocan Brazil S.A. ("Bedrocan Brazil). Bedrocan Brazil will facilitate the importation of Bedrocan's proprietary standardized cannabis varieties and know-how into the Brazilian market. Additionally, the Company will partner with Entourage to develop cannabis-based pharmaceutical medical products for the Brazilian and international markets. The transactions to establish Bedrocan Brazil and the investment in Entourage was finalized and closed on September 20, 2016. On closing, the Company holds a 41.75% interest in Bedrocan Brazil S.A. through its subsidiary Bedrocan Canada and a 50% direct ownership interest in Entourage.

Bedrocan Brazil holds the sole local rights to use the Bedrocan brand, as well as the genetic material and cultivation technology of Bedrocan in Brazil. Initially, Bedrocan Brazil will import cannabis products into Brazil from Canada or the Netherlands, with a view to eventually establishing domestic cultivation facilities in Brazil.

The Company has invested a total of $625 and $897 for the three and six months ended September 30, 2016, respectively, and $1,066 to date, to incorporate Bedrocan Brazil and invest in Entourage.

In addition, the Company will partner with Entourage to use the medical cannabis provided by Bedrocan Brazil to develop innovative medical cannabis products for the Brazilian and international markets. Entourage will be responsible for developing the standardized cannabis extracts for pre-clinical and clinical trials.

The Company accounts for these investments using the consolidation method of accounting. As at September 30, 2016, the combined net assets amounted to $143. The allocation relating to the investment is not yet finalized and is subject to change.

12. SHARE CAPITAL

Authorized

An unlimited number of common shares.

On April 1, 2016, the Company released 288,861 of the 2,449,887 shares held in escrow (See Note 20. Subsequent Events) in relation to the MedCann Access purchase, which was acquired on October 1, 2015, as certain milestones of the acquisition had been met.

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 was for an initial term of six months. Under the agreement, the Company issued a total of 38,656 shares at a price of $2.59 per common share.

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

12. SHARE CAPITAL (CONTINUED)

Authorized (continued)

On April 15, 2016, the Company completed a "bought deal" financing of 5,002,500 common shares which included an over-allotment of 652,500 shares for aggregate gross proceeds of $11,506.The offering price was $2.30 per share and included a cash commission. Transactions costs of $721 were paid as part of the common share issuance.

On August 24, 2016, the Company completed a "bought deal" financing of 9,453,000 common shares which included an over-allotment of 1,233,000 shares for aggregate gross proceeds of $34,503. The offering price was $3.65 per share and included a cash commission. Transactions costs of $2,421 were paid as part of the common share issuance.

During the six months ended September 30, 2016, 213,104 warrants were exercised at a price of $0.59 and 854,954 employee stock option plan ("ESOP") options were exercised ranging in price from $0.64 to $2.96 for gross proceeds of $1,254. As at September 30, 2016, there were no warrants issued or outstanding.

Option plan

The Company has an ESOP that is administered by the Board of Directors of the Company who establish exercise prices, at not less than market price at the date of grant, and expiry dates, which have been set at six years from issuance. Options under the Plan remain exercisable in increments with 1/3 being exercisable on each of the first, second and third anniversaries from the date of grant, except as otherwise approved by the Board of Directors. 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 amounts to 11,708,128 at September 30, 2016.

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

	Options issued	Weighted average exercise price
Balance outstanding at March 31, 2016	8,446,182	$2.05
Options granted	1,042,500	2.68
Options exercised	(623,715)	1.06
Options forfeited/cancelled	(364,505)	2.16
Balance outstanding at June 30, 2016	8,500,462	$2.19
Options granted	1,641,201	3.77
Options exercised	(231,239)	2.03
Options forfeited/cancelled	(270,272)	2.62
Balance outstanding at September 30, 2016	**9,640,152**	**$2.45**

The Company recorded $1,257 and $2,232 for the three and six months ended September 30, 2016, respectively (for the three and six months ended September 30, 2015 - $574 and $945, respectively) in share-based compensation expense related to options and shares which are measured at fair value at the date of grant and expensed over the option's vesting period. Included in share-based compensation was $297 and $384 for the three and six months ended September 30, 2016, respectively, that was recorded in sales and marketing expenses relating to previously issued escrowed shares.

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

12. SHARE CAPITAL (CONTINUED)

Option plan (continued)

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 six-months ended September 30, 2016 and 2015 by applying the following assumptions:

	September 30, 2016	September 30, 2015
Risk-free interest rate	0.57% - 0.68%	1.60% - 1.64%
Expected life of options (years)	3 - 5	3 - 6
Expected annualized volatility	55%	70%
Expected dividend yield	Nil	Nil
Weighted average Black-Scholes value of each option	$1.07 - $1.73	$0.29 - $2.04

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 was based on the zero coupon Canada government bonds with a remaining term equal to the expected life of the options.

13. EARNINGS PER SHARE

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

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

14. RELATED PARTIES

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 and the Company has the option to renew for a total of 15 years, in three 5 year terms. For the three and six months ended September 30, 2016, the expense incurred under this lease including base rent and operating costs was $659 and 1,291, respectively (for the three and six month period ended September 30, 2015 - $602 and 1,232, respectively). The Company had $297 owing related to rent associated with these leased premises at September 30, 2016 (March 31, 2016 - $488) and has a rent deposit of $509, which was included in other long-term assets.

The Company leases premises for the two Bedrocan facilities in Toronto from a company controlled by a director of Canopy Growth Corporation. The leases expire on October 15, 2018 and August 31, 2024. Included in the expenses for the three and six months ended September 30, 2016 for rent and operating costs was $197 and $390K, respectively (for the three and six month period ended September 30, 2015 - $55).

The CEO is providing consulting services to the Company at $50 per quarter and is eligible for up to an annual $200 bonus. For the three and six month period ended September 30, 2016 consulting expenses totalled $100 and $200, respectively (for the three and six month period ended September 30, 2015 - $50 and $100, respectively). The Company had $100 owing in accounts payable and accrued liabilities at September 30, 2016 (March 31, 2016 - $250). All amounts exclude HST.

The Company currently has a loan payable to a director of Canopy Growth Corporation. Included in interest expense for the three and six month period ended September 30, 2016 was an amount of $46 and $92, respectively (for the three and six month period ended September 30, 2015 - $33). At September 30, 2016, the loan balance was $1,798 (March 31, 2016 - $1,869). Refer to Note 9.

14. RELATED PARTIES (CONTINUED)

During the three and six month period ended September 30, 2016, $52 and 112 was expensed in director's fees (for the three and six month period ended September 30, 2015 - $68 and 109, respectively). No amounts remained outstanding at September 30, 2016 and March 31, 2016.

On September 19, 2016, the Company entered into an agreement with Delivra Inc. (Delivra) (TSX.V:DVA) to supply the Company's operating subsidiaries, including Tweed and Bedrocan Canada, with cannabis infused topical product formulations. A director of the Company is also an officer of Delivra, but has no significant holdings in Delivra. As at September 30, 2016, there were no transactions with nor amounts owing to Delivra.

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

15. COMMITMENTS AND CONTINGENCIES

The Company leases production and retail space under operating leases which range in expiration from June 30, 2017 to August 31, 2024 and also has royalty, equipment and other commitments with varying terms. All production and retail operating leases have optional renewal terms that the Company may exercise at its option.

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 since the amount cannot be reliably measured at this point.

On February 11, 2016, the Company announced that it had entered into a business agreement with the recording 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, LBC Holdings, Inc. will receive a combination of common shares, royalties, and monetary compensation, released over the course of the agreement. The share consideration was 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 are escrowed for release, subject to meeting certain service criteria, over the initial three years of the term.

Included in other long-term liabilities was $224 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.

A portion of the purchase price of MedCann Access, which was acquired on October 1, 2015, 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 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. At September 30, 2016, the contingent consideration fair value was $1,556.

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

16. SUPPLEMENTARY CASH FLOW INFORMATION

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

	September 30, 2016 (6 months)	September 30, 2015 (6 months)
Accounts receivable	**$ (515)**	$ (52)
HST receivable	**99**	(607)
Prepaid expenses and other assets	**(581)**	(131)
Accounts payable and accrued liabilities	**44**	1,124
Deferred revenue	**(237)**	-
Total	**$ (1,190)**	**$ 334**

Non-cash transactions

Excluded from the September 30, 2016 condensed interim consolidated statements of cash flows was a total of $2,287 in accounts payable and accrued liabilities as follows: $1,841 of assets in process purchases, $265 of property, plant and equipment purchases and $181 of share issue costs. In addition, the transfer of $1,458 from assets in process to property, plant and equipment has been excluded from the cash flows. Included for the September 30, 2016 condensed interim 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 property, plant and equipment purchases and $69 of share issue costs.

Excluded from the September 30, 2015 condensed interim consolidated statements of cash flows was a total of $901 in accounts payable and accrued liabilities as follows: $690 of assets in process purchases and $211 of property, plant and equipment purchases. Included for the September 30, 2015 condensed interim consolidated statements of cash flows was a total of $1,798 in accounts payable and accrued liabilities as follows: $286 of assets in process purchases, $1,323 of property, plant and equipment purchases and $189 of share issue costs.

Cash and cash equivalents consist of the following:

	September 30, 2016	March 31, 2016
Cash	**$ 12,479**	$ 5,397
Short-term guaranteed investment certificates	**32,900**	10,000
Total cash and cash equivalents	**$ 45,379**	$ 15,397

17. 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); and

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

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

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

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

17. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Cash and cash equivalents are classified as Level 1 financial instruments.

The short-term investments, restricted investments, and debt 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. See below.

The Company's other financial instruments, including accounts receivable, accounts payable and accrued liabilities, and other liabilities are carried at cost which approximates fair value due to the relatively short maturity of those instruments.

MedCann Access related contingent consideration

The Company's liability for the MedCann Access related 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 six months ended September 30, 2016:

	Contingent consideration	
Balance, beginning of fiscal year	$	1,258
Change in fair value		298
Ending Balance	$	1,556

The above changes in fair value for the contingent consideration of $298 was included in the increase in fair value of acquisition consideration related liabilities line of the statement of net income and comprehensive income.

18. 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 were principally generated in Canada during the three and six months ended September 30, 2016, except for $128 related to exported medical marijuana in the quarter ended September 30, 2016. All revenues were generated in Canada during the three and six months ended September 30, 2015.

19. 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.

19. CAPITAL MANAGEMENT (CONTINUED)

As at September 30, 2016 total managed capital was comprised of shareholders' equity and debt of $179,061 (March 31, 2016 - $127,807).

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 9).

20. SUBSEQUENT EVENTS

a) MedCann Access acquisition related shares held in escrow

On October 1, 2016, the Company assessed the milestones associated with the MedCann Access acquisition. Out of the remaining 2,161,026 shares held in escrow, 722,410 were released to former MedCann Access shareholders as certain milestones of the acquisition had been met and 1,149,860 were released to the Company and cancelled. 288,756 shares remain under escrow.

b) Acquisition of Quebec-based Licensed Producer Applicant Vert Médical Inc., and Licensed Hemp producer, Groupe H.E.M.P.Ca

On November 1, 2016, the Company announced that it has acquired 100% ownership of Vert Médical – Green Medical Inc. ("Vert Médical"), a Quebec-based company that began its application for federal government approval to produce medical cannabis in 2013. Vert Médical was renamed on amalgamation as Vert Cannabis Inc. ("Vert Cannabis") on the same date. Through the acquisition, Canopy Growth acquired a late stage license ACMPR applicant, the lease of 90 acres of land and a 7,000 sq. foot indoor growing and office facility (collectively, "the Vert Cannabis campus") as well as the right to acquire the Vert Cannabis campus. It is the Company's intent to apply its documented and compliant standard operating procedures to pursue completion of the ACMPR license application. In consideration for the acquired shares in Vert Cannabis, Canopy Growth will assume and immediately pay debt of approximately $500,000. In addition, Canopy Growth will issue up to 294,900 common shares of the Corporation, if and when specific licensing and capacity expansion related milestones are achieved, except for 58,978 common shares which will be issued on closing.

Also, on November 1, 2016, the Company announced that it had acquired 75% of Groupe H.E.M.P.CA Inc. ("HEMP"). Through the acquisition, the Company has obtained a hemp production license and Hemp.ca brands and digital properties. The acquisition serves to diversify Canopy Growth's business into the cultivation of Hemp, and the development, production and future sale of hemp-based medical, recreational and industrial products. In consideration for the acquired shares in Groupe Hemp, Canopy Growth will issue 258,037 common shares of the Corporation of which 50% will be issued on closing and the remainder released by April 1, 2017. In addition, the Corporation will pay $300,000 on closing and assume debt of approximately $276,000 which will be due on April 1, 2017.

c) XiB amendment

On September 29, 2016, the Company amended the agreement with XiB to renew to December 31, 2016 and issued an additional 18,899 shares, after TSX approval on October 18, 2016, at a price of $3.97 per share.