

Condensed interim consolidated financial statements  
(Unaudited)

# **Canopy Growth Corporation**

for the three months ended June 30, 2016 and 2015  
(in Canadian dollars)

# Canopy Growth Corporation

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# Canopy Growth Corporation

## Condensed interim consolidated statements of financial position

(Expressed in CDN \$000's)

	June 30, 2016	March 31, 2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 14)	\$ 19,527	\$ 15,397
Restricted short-term investment (Note 4)	250	-
Accounts receivable	1,410	1,110
HST recoverable	272	376
Biological assets (Note 5)	4,049	5,321
Inventory (Note 5)	24,237	22,153
Prepaid expenses and other assets	630	489
	<b>50,375</b>	44,846
Property, plant and equipment (Note 6)	46,119	44,581
Leasehold construction in process (Note 7)	2,576	403
Restricted investment (Note 4)	-	246
Goodwill	20,867	20,867
Intangible assets (Note 8)	31,787	31,861
Other assets	509	557
	<b>\$ 152,233</b>	<b>\$ 143,361</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 6,785	\$ 6,107
Deferred revenue	216	533
Current portion of long-term debt (Note 9)	639	553
	<b>7,640</b>	7,193
Long-term debt (Note 9)	3,489	3,469
Acquisition consideration related liabilities	1,270	1,258
Deferred tax liability	7,216	7,413
Other long-term liabilities	237	243
	<b>19,852</b>	19,576
<b>Shareholders' equity</b>		
Share capital (Note 10)	143,184	131,080
Share-based reserve	6,921	5,804
Warrants	-	676
Deficit	(17,724)	(13,775)
	<b>132,381</b>	123,785
	<b>\$ 152,233</b>	<b>\$ 143,361</b>

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

# Canopy Growth Corporation

## Condensed interim consolidated statements of net (loss) income and comprehensive (loss) income for the three-months ended June 30, 2016 and 2015

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

	June 30, 2016	June 30, 2015
Revenue	\$ 6,984	\$ 1,710
Unrealized gain on changes in fair value of biological assets (Note 5)	(6,684)	(5,275)
Inventory expensed to cost of sales	6,654	1,492
Production costs	3,569	1,398
Cost of sales (recovery to cost of sales), net of the unrealized gain on changes in fair value of biological assets	3,539	(2,385)
Gross margin	3,445	4,095
Sales and marketing	2,260	1,009
Research and development	403	38
General and administration	2,850	1,415
Share of loss in equity investments	220	-
Share-based compensation expense (Note 10)	888	372
Depreciation and amortization	911	268
	7,532	3,102
(Loss) income from operations	(4,087)	993
Interest income (expense), net	(47)	19
Increase in fair value of acquisition consideration related liabilities	(12)	-
	(59)	19
Net (loss) income and comprehensive (loss) income before income taxes	(4,146)	1,012
Income tax recovery	197	-
Net (loss) income and comprehensive (loss) income after income taxes	\$ (3,949)	\$ 1,012
Net (loss) income per share, basic:	\$ (0.04)	\$ 0.02
Weighted average number of outstanding common shares, basic:	103,663,724	50,875,433
Net (loss) income per share, diluted:	\$ (0.04)	\$ 0.02
Weighted average number of outstanding common shares, diluted:	103,663,724	56,260,530

# Canopy Growth Corporation

## Condensed interim consolidated statements of changes in shareholders' equity for the three-months ended June 30, 2016 and 2015

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

	Number of shares	Share capital	Share-based reserve	Warrants	Deficit	Shareholders' equity
<b>Balance at March 31, 2015</b>	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
<b>Balance at June 30, 2015</b>	<b>50,965,771</b>	<b>\$ 50,021</b>	<b>\$ 2,096</b>	<b>\$ 69</b>	<b>\$ (9,267)</b>	<b>\$ 42,919</b>
<b>Balance at March 31, 2016</b>	98,818,213	\$ 131,080	\$ 5,804	\$ 676	\$ (13,775)	\$ 123,785
Exercise of warrants (Note 10)	213,104	195	607	(676)	-	126
Exercise of ESOP stock options (Note 10)	623,715	1,016	(357)	-	-	659
Equity financing - April 15, 2016 (Note 10)	5,002,500	11,506	-	-	-	11,506
Share issue costs	-	(721)	-	-	-	(721)
Issuance of shares per XIB agreement (Note 10)	38,656	108	-	-	-	108
Shares released from escrow related to the MedCann Access acquisition	288,861	-	-	-	-	-
Share-based compensation	-	-	867	-	-	867
Net loss	-	-	-	-	(3,949)	(3,949)
<b>Balance at June 30, 2016</b>	<b>104,985,049</b>	<b>\$ 143,184</b>	<b>\$ 6,921</b>	<b>\$ -</b>	<b>\$ (17,724)</b>	<b>\$ 132,381</b>

# Canopy Growth Corporation

## Condensed interim consolidated statements of cash flows for the three-months ended June 30, 2016 and 2015

(Expressed in CDN \$000's)

	June 30, 2016	June 30, 2015
Net inflow (outflow) of cash related to the following activities:		
<b>Operating</b>		
Net income (loss)	\$ (3,949)	\$ 1,012
Items not affecting cash:		
Depreciation of property, plant and equipment (Note 6)	837	265
Amortization of intangible assets (Note 8)	74	3
Share of loss in equity investments	220	-
Unrealized gain on change in fair value of biological assets	(6,684)	(5,275)
Share-based compensation (Note 10)	975	372
Income tax recovery	(197)	-
Inventory allowance to net realizable value	541	-
Increase in fair value of acquisition consideration related liabilities	12	-
Changes in non-cash operating working capital items (Note 14)	4,405	326
<b>Net cash used in operating activities</b>	<b>(3,766)</b>	<b>(3,297)</b>
<b>Financing</b>		
Proceeds from issuance of common shares	11,506	-
Proceeds from exercise of stock options	659	-
Proceeds from exercise of warrants	126	126
Payment of share issue costs	(790)	(189)
Increase in capital lease obligations	260	-
Repayment of long-term debt	(153)	(62)
Increase (decrease) in other long-term liabilities	(6)	27
<b>Net cash provided by (used in) financing activities</b>	<b>11,602</b>	<b>(98)</b>
<b>Investing</b>		
Purchases of property, plant and equipment	(2,531)	(1,410)
Purchases of leasehold construction in process	(1,175)	(1,186)
Purchases of restricted investment	-	(286)
<b>Net cash used in investing activities</b>	<b>(3,706)</b>	<b>(2,882)</b>
Net cash inflow (outflow)	4,130	(6,277)
Cash and cash equivalents, beginning of period	15,397	21,446
<b>Cash and cash equivalents, end of period</b>	<b>\$ 19,527</b>	<b>\$ 15,169</b>
<b>Supplemental disclosure of cash flow data:</b>		
Leasehold construction in process purchased and unpaid at period end	1,185	2,706
Property, plant and equipment purchased and unpaid at period end	534	48

## 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 Marihuana for Medical Purposes Regulations ("MMPR").

Canopy Growth Corporation is a publicly traded corporation, incorporated in Canada, with its head office located at 1 Hershey Drive, Smiths Falls, Ontario. The Company's common shares were listed on the TSXV as at June 30, 2016, under the trading symbol "CGC". On July 26, 2016, the Company graduated to the TSX and began trading on that day, continuing with the CGC trading symbol (see Note 18. Subsequent Events).

## 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. 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 August 28, 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.

## 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:

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

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

# Canopy Growth Corporation

## Notes to the condensed interim consolidated financial statements for the three months ended June 30, 2016 and 2015

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

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### 3. Changes to accounting standards and interpretations (continued)

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

*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.

*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.



# Canopy Growth Corporation

## Notes to the condensed interim consolidated financial statements for the three months ended June 30, 2016 and 2015

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

### 5. Biological assets and inventory

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

	June 30, 2016	March 31, 2016
Carrying amount, March 31, 2016 and March 31, 2015	\$ 5,321	\$ 2,028
Use of seeds	(4)	(92)
Acquired biological assets	-	1,799
Changes in fair value less costs to sell due to biological transformation	6,688	38,897
Transferred to inventory upon harvest	(7,956)	(37,311)
Carrying amount, June 30, 2016 and March 31, 2016	\$ 4,049	\$ 5,321

As at June 30, 2016, included in the carrying amount of biological assets is \$271 in seeds and \$3,778 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;
- percentage of costs incurred for each stage of plant growth was estimated.

On average, the grow cycle is 12 weeks. All of the plants are to be harvested as agricultural produce (i.e., medical cannabis) and all of the plants, on average, were 26% from harvest as at June 30, 2016. Mother plants, or bearer plants, are plants grown for the purpose of taking cuttings in order to grow more quantity of the same plant. Bearer plants are critical to the success of the business however, are not measured for accounting purposes. Bearer plants are plants that, once mature, are held solely to grow produce over their useful life.

The Company estimates the harvest yields for the plants at various stages of growth. As of June 30, 2016, it is expected that the Company's biological assets will yield approximately 2,755 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 June 30, 2016, the Company held 4,925 kg of dry cannabis and 1,368 L of cannabis oils compared to 4,447 kg of dry cannabis and 570 L of cannabis oils held at March 31, 2016.

Inventory is comprised of the following items:

	June 30, 2016	March 31, 2016
Finished goods - dry cannabis	\$ 22,576	\$ 21,649
Less: allowance to net realizable value, dry cannabis	(2,047)	(1,633)
Finished goods - cannabis oils	1,473	462
Work-in-process - cannabis oils	2,112	1,412
Less: allowance to net realizable value, cannabis oils	(238)	(111)
	23,876	21,779
Product for resale (vaporizers, and other)	169	172
Supplies and consumables	192	202
	\$ 24,237	\$ 22,153

# Canopy Growth Corporation

## Notes to the condensed interim consolidated financial statements for the three months ended June 30, 2016 and 2015

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

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### 5. Biological assets and inventory (continued)

Included in inventory expensed to cost of sales is the provision related expense of \$541 to reduce inventory to net realizable value. The adjustments to net realizable value takes the compassionate pricing promise into account, whereby eligible low-income patients obtain discounts off regular prices.

### 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 June 30, 2016 there were additions of \$2,375 (for the three-month period ended June 30, 2015 - \$173) in property, plant and equipment. Included in the fixed asset additions were capital leases totalling \$343 for furniture and fixtures (for the three-month period ended June 30, 2015 - \$37 for furniture and fixtures).

### 7. Leasehold construction in process

During the three months ended June 30, 2016, there were additions of \$2,276 (for the three-month period ended June 30, 2015 - \$3,606) to leasehold construction in process of which \$975 related to the expansion at Tweed Farms (for the three-month period ended June 30, 2015 - \$2,892). The remaining \$1,301 is mainly for ongoing projects at Tweed. During the three months ended June 30, 2016, \$103 (for the three-month period ended June 30, 2015 - \$0) was transferred from leasehold construction in process to leasehold improvements.

The \$2,576 in leasehold construction in process relates to improvements to expand and improve the facilities for operations as well as amounts spent towards the implementation of a new enterprise resource planning system.

### 8. Intangible assets

Intangible assets are comprised of the following:

	<b>June 30, 2016</b>	March 31, 2016
Product rights	\$ 28,000	\$ 28,000
Health Canada license	3,762	3,834
Domain name	25	27
<b>Total</b>	<b>\$ 31,787</b>	<b>\$ 31,861</b>

The intangible assets, with the exception of the domain name, originated from the Bedrocan acquisition and total \$31,762. 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.

# Canopy Growth Corporation

## Notes to the condensed interim consolidated financial statements for the three months ended June 30, 2016 and 2015

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

### 9. Long-term debt

	June 30, 2016		March 31, 2016
Mortgage payable with a five-year term and amortization period of seven years bearing an annual interest rate of 5.3%	\$ 1,529	\$	1,588
Term loan at 10% interest with monthly repayment	1,834		1,869
Capital lease obligations with an interest rate between 7.0% - 17.1%, and terms between 2-5 years, lien against the related leased equipment	765		565
	4,128		4,022
Less: current portion	(639)		(553)
Long-term portion	\$ 3,489	\$	3,469

The mortgage payable is secured by a first charge on the Tweed Farms property. In addition, the Company must maintain a fixed coverage charge ratio (meaning earnings before interest, taxes, depreciation and amortization plus any contributions during the year divided by principal and interest payments) of 1.30:1 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 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. 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 in relation to the MedCann Access purchase 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 is for an initial term of six months. Under the agreement, the Company granted a total of 38,656 shares at a price of \$2.59 per common share.

On 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.

During the quarter ended June 30, 2016, 213,104 warrants were exercised at a price of \$0.59 and 623,715 non-ESOP options were exercised ranging in price from \$0.64 to \$1.92 for gross proceeds of \$126 and \$659, respectively. As at June 30, 2016, there were no warrants issued or outstanding.

# Canopy Growth Corporation

## Notes to the condensed interim consolidated financial statements for the three months ended June 30, 2016 and 2015

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

### 10. Share capital (continued)

#### Option plan

The Company has an employee stock option plan ("ESOP") that is administered by the Board of Directors of the Company who establish exercise prices, at not less than market price at the date of grant, and expiry dates, which have been set at six years from issuance. Options under the Plan remain exercisable in increments with 1/3<sup>rd</sup> being exercisable on each of the first, second and third anniversaries from the date of grant, with the exception of the Bedrocan replacement options which vest over one to two years. The maximum number of common shares reserved for issuance for options that may be granted under the Plan is 10% of the common shares outstanding, which amounts to 10,739,704 at June 30, 2016.

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

	Options issued	Average exercise price
Balance outstanding at 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
<b>Balance outstanding at June 30, 2016</b>	<b>8,500,462</b>	<b>\$2.19</b>

The Company recorded \$975 for the quarter ended June 30, 2016 (for the quarter period ended June 30, 2015 - \$372) in share-based compensation expense related to options and shares which are measured at fair value at the date of grant and are expensed over the option's vesting period. Included in share-based compensation is \$108 that was recorded in relation to the 38,656 shares issued per the XIB agreement and \$87 that was recorded in sales and marketing expenses relating to shares issued to LBC Holdings, Inc., a company controlled by the recording artist known as Snoop Dogg.

In determining the amount of share-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of options granted by applying the following assumptions:

	June 30, 2016	March 31, 2016
Risk-free interest rate	1.13%	0.75% - 1.35%
Expected life of options (years)	1 - 6	1 - 6
Expected annualized volatility	61%	55%
Expected dividend yield	Nil	Nil
Weighted average Black-Scholes value of each option	\$1.01	\$0.92 - \$0.99

Volatility was estimated by using the historical volatility of the Company and other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options.

### 11. Earnings per share

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

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

# Canopy Growth Corporation

## Notes to the condensed interim consolidated financial statements for the three months ended June 30, 2016 and 2015

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

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### 12. 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. For the quarter ended June 30, 2016, the expense incurred under this lease including base rent and operating costs was \$632 (for the three-month period ended June 30, 2015 - \$630). The Company had \$216 owing related to rent associated with these leased premises at June 30, 2016 (March 31, 2016 - \$488) and has prepaid rent of \$509, which is 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 quarter ended June 30, 2016 for rent and operating costs from the date of the Bedrocan acquisition is \$192.

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-month period ended June 30, 2016 consulting expenses totalled \$100 (for the three-month period ended June 30, 2015 - \$50). The Company had \$300 owing in accounts payable and accrued liabilities at June 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-month period ended June 30, 2016 is an amount of \$46. No such loan existed during the three-month period ended June 30, 2015.

During the three-month period ended June 30, 2016, \$60 was expensed in director's fees (for the three-month period ended June 30, 2015 - \$40). The Company had \$5 owing in accounts payable and accrued liabilities at June 30, 2016. No amounts remained outstanding at March 31, 2016.

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

### 13. 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.

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, the controlled company will receive a combination of common shares, royalties, and monetary compensation, released over the course of the agreement. The share consideration is comprised of common shares totaling 386,100 at a price of \$2.59 per share, of which 135,135 common shares were issued on February 11, 2016 with the remainder of the 250,965 common shares are escrowed for release, subject to meeting certain service criteria, over the initial three years of the term.

Included in other long-term liabilities is \$237 related to the rent escalation for the Hershey Drive facility that is being amortized over the remaining lease term.

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

In March 2015, a claim was commenced against Canopy Growth Corporation by the former CEO for \$330 in specified damages for breach of contract and wrongful dismissal. The litigation process will continue into the foreseeable future unless settled. No amount has been recorded in the consolidated financial statements due to the fact that the amount cannot be reliably measured at this point.

# Canopy Growth Corporation

## Notes to the condensed interim consolidated financial statements for the three months ended June 30, 2016 and 2015

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

### 14. Supplementary cash flow information

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

	June 30, 2016 (3 months)	June 30, 2015 (3 months)
Accounts receivable	\$ (300)	\$ (100)
HST receivable	104	(91)
Prepaid expenses and other assets	(318)	(56)
Inventory	5,331	1,058
Accounts payable and accrued liabilities	(95)	(485)
Deferred revenue	(317)	-
<b>Total</b>	<b>\$ 4,405</b>	<b>\$ 326</b>

#### *Non-cash transactions*

Excluded from the June 30, 2016 condensed interim consolidated statements of cash flows is a total of \$1,719 in accounts payable and accrued liabilities as follows: \$1,185 of leasehold construction in process purchases and \$534 of property, plant and equipment purchases. In addition, the transfer of \$103 from leasehold construction in process to property, plant and equipment has been excluded from the cash flows. Included for the June 30, 2016 condensed interim consolidated statements of cash flows is a total of \$946 in accounts payable and accrued liabilities as follows: \$84 of leasehold construction in process purchases, \$793 of property, plant and equipment purchases and \$69 of share issue costs.

Excluded from the June 30, 2015 condensed interim consolidated statements of cash flows is a total of \$2,754 in accounts payable and accrued liabilities as follows: \$2,706 of leasehold construction in process purchases and \$48 of property, plant and equipment purchases.

Cash and cash equivalents consist of the following:

	June 30, 2016	March 31, 2016
Cash	\$ 991	\$ 2,117
Short-term guaranteed investment certificates	10,000	10,000
Investment savings account mutual fund	8,536	3,280
<b>Total cash and cash equivalents</b>	<b>\$ 19,527</b>	<b>\$ 15,397</b>

### 15. Financial instruments

#### *Fair value hierarchy*

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

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

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

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

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

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

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

# Canopy Growth Corporation

## Notes to the condensed interim consolidated financial statements for the three months ended June 30, 2016 and 2015

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

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### 15. Financial instruments (continued)

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.

A portion of the purchase price of MedCann Access is in the form of contingent consideration. The contingent consideration is contingent on future performance related to employment and customer milestones, certain marketing milestones, and specific achievements within one to two years of the acquisition date. The Company's liability for this contingent consideration was measured at fair value based on unobservable inputs, and thus is considered a level 3 financial instrument. The fair value of the liability determined by this analysis was primarily driven by the Company's expectations of MedCann Access achieving the milestones. The expected milestones were assessed probabilities by management which was then discounted to present value in order to derive a fair value of the contingent consideration. The primary inputs of the calculation were the probabilities of achieving the milestones and a discount rate.

The following table provides a roll forward of the fair value, as determined by level 3 inputs, of the acquisition contingent consideration for the quarter ended June 30, 2016:

	Contingent consideration	
Balance, beginning of fiscal year	\$	1,258
Additions		-
Change in fair value		12
Ending Balance	\$	1,270

The above changes in fair value for the contingent consideration of \$12 was included in the increase in fair value of acquisition consideration related liabilities line of the statement of net loss and comprehensive loss.

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.

### 16. 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.

For the quarter ended June 30, 2016, all revenues were generated in Canada.

### 17. Capital management

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

As at June 30, 2016 and March 31, 2016, total managed capital was comprised of shareholders' equity of \$132,381 and \$123,785, respectively.

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

# Canopy Growth Corporation

## Notes to the condensed interim consolidated financial statements for the three months ended June 30, 2016 and 2015

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

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### 17. Capital management (continued)

The Company is subject to externally imposed restrictions related to covenants on its mortgage payable (Note 9).

### 18. Subsequent events

#### a) TSX Graduation

On July 25, 2016, the Company announced that it had received final approval for the listing of the Corporation's common shares on the Toronto Stock Exchange ("TSX"). The common shares commenced trading on the TSX effective as of the open of the market on July 26, 2016. Upon listing on the TSX, the Common Shares continued to trade under the symbol "CGC". In conjunction with listing on the TSX, the Common Shares were delisted from the TSX Venture Exchange prior to the commencement of trading on July 26, 2016.

#### b) New Credit Facilities

On August 5, 2016, the Company announced it had closed a \$5,500 financing with a Canadian commercial lending institution, comprised of a term loan and a revolving line of credit. The 5-year term loan is for approximately \$3,500 at a fixed interest rate of 4.9% and a 7-year amortization. The revolving line of credit is 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. The line of credit was undrawn at closing. The financing 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.

#### c) Bought Deal

On August 24, 2016, the Company announced that it had closed its previously announced short form prospectus offering, on a bought deal basis, of 9,453,000 common shares of the Company for aggregate gross proceeds of \$34,503 (the "Offering"), inclusive of the over-allotment option granted to the syndicate of underwriters. The Offering was completed at a price of \$3.65 per common share by a syndicate of underwriters led by GMP Securities L.P. and Dundee Securities Ltd. (the "Co-Lead Underwriters"), INFOR Financial Inc. and PI Financial Corp. (collectively, the "Underwriters"). Both the announced bought deal and the over-allotment option closed on August 24<sup>th</sup>, 2016.