

# Canopy Growth Corporation Maintains Revenue Momentum with 44% Increase in Q2 over Q1 of Fiscal 2016

November 26th, 2015

Smiths Falls, ON – Canopy Growth Corporation (“Canopy Growth” or “the Company”) (TSX.V: CGC) is pleased to release financial results for the second quarter of fiscal year 2016 (Q2) ended September 30th, 2015. This is the first reporting period for the Company following an all-stock acquisition of Bedrocan Cannabis Corp. (Bedrocan) on August 28th, 2015. Q2 reflects three full months of operations for wholly owned subsidiaries Tweed Inc. (Tweed) and Tweed Farms Inc. (Tweed Farms) and approximately one month of operations for wholly owned subsidiary Bedrocan.

## Financial and Operational Highlights

- The Company reported Q2 sales of \$2,466,121, a 44% increase over Q1 sales in Fiscal 2016. Year to date sales total \$4,176,278.
- The Adjusted Product Contribution<sup>Note 1</sup>, a non-GAAP metric which adjusts the reported gross margin by removing the fair value measures under IFRS, was 62% for the second quarter and 61% for the six months ended September 30, 2015.
- Net income for Q2 was \$3,929,514, or \$0.05 per share on a diluted basis, inclusive of the unrealized gain on changes in fair value of biological assets. Year to date, net income was \$4,941,297, or \$0.07 per share on a diluted basis, inclusive of the unrealized gain on changes in fair value of biological assets.
- The cash position was \$7,726,240 at the end of the second quarter. As of today, and after closing the bought deal on November 18, 2015 and warrants exercised since quarter end, the Company had cash and cash equivalents of approximately \$24 million.
- Patients as of today's announcement is over 7,300.

The Company's financial results are described in more detail under the Financial Summary further in this press release.

Q2 and the events since then mark several strategic milestones that management believes differentiate Canopy Growth as the leader in the marijuana industry in Canada.

Most notably, acquiring Bedrocan and renaming the listed combined corporation to reflect its position as a multi-brand holding company, which positions Canopy Growth to operate in multiple markets as the non-medical and medical frameworks as set out by the new federal leadership.

"During Q2, we made a series of moves to position for any regulatory environment. Now that the environment appears to be headed for a mix of medical and non-medical use, we're continuing to drive the organization to appeal to doctors, patients and potentially non-medical consumers," said Bruce Linton, Chairman and CEO of Canopy Growth.

Diversified client acquisition strategies, best-in-class customer service and an industry-leading variety of strains have all contributed to accelerated customer onboarding and minimal customer churn. Canopy Growth services the needs of over 7,300 registered customers as of November 25<sup>th</sup>, 2015. Facility enhancements completed as of today can support tens of thousands of additional customers.

### **Financial Summary**

Revenue for the second quarter was \$2,446,121. Q2 revenue increased by 44% from the first quarter and was almost 8 times the reported sales in the corresponding quarter in the previous year. Year to date revenue totalled \$4,176,278 as compared to \$504,353 for the same six month period last year.

Total product sold in Q2 was approximately 319,000 grams at an average price of \$7.54 per gram, as compared to Q1 2016 when approximately 216,000 grams were sold at an average price of \$7.74 per gram, and up from approximately 45,000 grams sold at an average price of \$7.38 per gram in the comparative quarter ended September 30, 2014. The Company has sold approximately 535,000 grams in the six month period this fiscal year.

The gross margin, including the unrealized gain on changes in fair value of biological assets, in accordance with IFRS, was \$9,447,608, or 383% of sales, for the three-month period ended September 30, 2015. In the three months ended September 30, 2014, the reported gross margin on the same basis was 55% of sales. Year to date, the gross margin, inclusive of the unrealized gain on changes in fair value of biological assets was

\$13,542,215, or 324% of sales, as compared to \$284,646, or 56% of sales, last year for the same period.

The Company's "Adjusted Product Contribution"<sup>Note 1</sup> is a metric used by management which adjusts the reported gross margin by excluding the fair value measurements as required by IFRS and measures the cost of sales for the grams actually sold in the period. Management believes this measure provides useful information as it reflects the gross margin based on the Company's weighted average cost per gram from seed to sale against the grams sold. The resulting Adjusted Product Contribution is \$1,535,126, or 62% of sales, in the second quarter of Fiscal 2016 and \$2,562,947, or 61% of sales, on a year to date basis to September 30, 2015.

Sales, branding and medical outreach and education costs for the three-month period ended September 30, 2015 were \$872,352 (three months ended September 30, 2014 - \$486,330). These costs are strategic investments designed to educate the healthcare community, including over 10,000 doctor visits to date, build brand awareness and attract and retain customers through diverse acquisition and retention strategies. Management considers these costs to be key differentiators in an industry consisting of many companies producing similar products.

Research and Development (R&D) costs were \$210,332 for Q2 (three months ended September 30, 2014 - \$58,054). General and Administrative expenses were \$2,239,055 for Q2 compared to \$888,439 in the same quarter last year. Included in the Q2 G&A is an amount of \$600,000 related to an out of court settlement for a previously disclosed litigation for which neither party admitted any liability with a full mutual release of any further claims, thereby avoiding potentially costly court proceedings. The remaining increase in G&A reflects the Company's growth from the early start-up of last year, building commercial capacity and capability as a public company and meeting all compliance requirements with Health Canada.

As a result of the Bedrocan acquisition, the Company incurred acquisition costs of \$1,139,154 in Q2, principally due to advisory and professional fees associated with the transaction.

The Company reported net income of \$3,929,514, or \$0.05 per share on a diluted basis, for the three months ended September 30, 2015, up from a net loss of \$2,376,592 and a net loss of \$0.06 per share on a diluted basis in the corresponding quarter of Fiscal 2015. Year to date, the net income was \$4,941,297, or \$0.07 per share on a diluted basis, as compared to a net loss of \$3,536,909, or \$0.09 per share on a diluted basis. The net income was inclusive of the non-cash unrealized gain on changes in fair value of biological assets described above.

CGC had cash and cash equivalents of \$7,726,240 as at September 30, 2015, prior to the bought deal and exercise of warrants described in Subsequent Events further in this press release. Subsequent to quarter end, the Company raised net cash of \$13,297,418 from the bought deal closed on November 18, 2015 and \$6,790,654 from the exercise of warrants exercised such that as of today CGC had cash and cash equivalents of approximately \$24 million.

The Unaudited Condensed Interim Consolidated Financial Statements and Management's Discussion and Analysis documents have been filed with SEDAR and are available on [www.sedar.com](http://www.sedar.com).

## **Strategic Highlights**

### Cannabis Extractions

On August 19, 2015, the Company announced that Tweed has received authorization from Health Canada to begin the production of cannabis extracts in the Company's state-of-the-art facility in Smiths Falls, Ontario. Late in Q2 plans were put in place to procure and install CO2 supercritical extraction equipment. On November 11, 2015, Tweed invited Health Canada to inspect its facilities and processes to seek final approval for oil sales. Once approved, oil extraction infrastructure at the Smiths Falls location will support production of Tweed and Bedrocan product lines.

### Licensing and Facility Enhancements

Health Canada inspected the Tweed Farms build out in Niagara-on-the-Lake on August 19, 2015. Approved production space increased by 90% to a total of 350,000 sq. ft. A storage vault, tissue culture propagation lab and processing facilities are in final stages of

security testing and when Health Canada is invited yet this year the facility will allow Tweed Farms to manage crops through the product lifecycle.

During Q2, updates at Tweed's Smiths Falls facility were inspected and seven new precision climate-controlled drying rooms, a dedicated trimming room, oil extraction room and oil processing room were all approved for use by Health Canada. These additions made an immediate impact on customer satisfaction, with the dedicated climate-controlled areas for each stage of cannabis production resulting in increased product quality and product consistency.

#### Bedrocan Acquisition Closed

The Company announced it had entered into a definitive arrangement agreement for an all-stock transaction to acquire Bedrocan Cannabis Corp. on June 24, 2015, subject to approval by Bedrocan shareholders, regulatory approvals, and certain other conditions. On August 24, 2015, Bedrocan shareholders voted in favour of the transaction. Regulatory and legal requirements were satisfied on August 28, 2015 and the transaction became effective on that date. In connection with the acquisition the Company issued 35,202,818 common shares in exchange for all of the outstanding Bedrocan shares in connection with the acquisition.

#### EQUAL Study

Bedrocan and Tweed launched one of the largest clinical cannabis studies of its kind on September 17, 2015. The company-sponsored study will evaluate patients who use Bedrocan and Tweed strains of cannabis to help manage symptoms of a range of chronic health conditions, and the resulting data will be submitted for publication by a peer-reviewed medical journal. The primary objective of the three-year study is to evaluate the quality of life of patients before and after treatment with medical cannabis. Up to 50 intake sites will aim to enrol 6,000 patients in the study.

#### DNA Genetics

On September 30, 2015, Tweed officially entered into a partnership with DNA Genetics, one of the most decorated cannabis breeding companies in the world. DNA Genetics will provide ongoing consulting services to Tweed, while assisting in phenotyping and grow method developments. Through a new Tweed-DNA breeding program, the only place where Canadian patients will be able to acquire true, certified DNA strains grown to DNA

standards will be Tweed. This partnership is an excellent starting point for expanded Canadian and global markets, as the DNA name is synonymous with cannabis throughout the world.

### **Subsequent Events:**

#### MedCannAccess (MCA) Acquisition and Better by Tweed Launch

Subsequent to Q2, the Company announced it had closed an all-stock acquisition of LP applicant, MedCannAccess, including its client list, physical locations in Guelph, Etobicoke and Hamilton, and its 33% stake in CannScience, a biopharmaceutical company researching innovative applications of cannabis for medical use. The acquisition was completed by way of an amalgamation with a wholly-owned subsidiary of the Company in an all share deal with 3,316,902 common shares in the capital of the Company issued to former shareholders of MCA, of which 2,449,887 are being held in escrow until specific milestones are met.

In mid-October the physical locations were launched as "Better by Tweed." They operate as community engagement centres offering face-to-face service to compliment Tweed and Bedrocan's extensive product lines.

#### Bought Deal Financing

On November 18, 2015, the Company announced it had closed a previously announced short form prospectus offering, on a bought deal basis, including the exercise in full of the underwriters' over-allotment option. A total of 7,012,700 common shares in the capital of the Company were sold at a price of \$2.05 per share, for aggregate gross proceeds of \$14,376,035, before expenses of \$1,078,617, and net proceeds of \$13,297,418 after expenses associated with the transaction. A syndicate of underwriters led by Dundee Securities Ltd. and including GMP Securities L.P., INFOR Financial Inc., and M Partners Inc. underwrote the Offering.

#### Warrants Exercised

Since the end of Q2 and to date, all of the broker options at a price of \$1.83 per share and 1,724,523 warrants at \$2.58 per share were exercised. In addition, 1,191,559 warrants at \$1.29 per share were exercised. The total proceeds realized as a result of these

exercises amounted to \$6,790,654. On November 15, 2015, the remaining 1,633,855 warrants at \$2.58 expired and were cancelled. All of these warrants and broker options were formerly issued by Bedrocan and assumed by the Company on the same economic basis as the shares issued with the transaction.

*Note 1: The Adjusted Product Contribution is a non-GAAP financial measure that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The Adjusted Product Contribution is reconciled and explained in Management's Discussion & Analysis under "Adjusted Product Contribution (Non-GAAP Measure)", a copy of which has been filed today on [www.sedar.com](http://www.sedar.com).*

**Conference Call Details:**

Bruce Linton, Chairman and CEO and Tim Saunders, CFO will host a conference call to discuss these results.

Time and Date: 8:30 a.m. ET, Thursday November 26, 2015.

Toll Free Dial-In Number: 888-231-8191

Toll Free International Dial-In Number (647) 427-7450

Conference ID: 82631795

Replay Toll Free Dial-in Number: 1-855-859-2056

Replay Password: 82631795

Encore Dates: 26/11/2015 11:15 ET - 10/12/2015 23:59 ET

**About Canopy Growth Corporation**

Canopy Growth is Canada's first publicly traded medical marijuana company and the first geographically diversified producer with dual licenses under the Marihuana for Medical Purposes Regulations. Through its wholly owned subsidiaries, Tweed, Tweed Farms, and Bedrocan, the Company operates three state-of-the-art production facilities in Ontario and distributes marijuana across the country to Canadian patients managing a host of medical conditions.

The Company is dedicated to educating healthcare practitioners, providing consistent access to high quality medication, conducting robust clinical research, and furthering the public's understanding of how marijuana is used for medical purposes. [www.canopygrowth.com](http://www.canopygrowth.com)

## **Notice Regarding Forward Looking Statements**

*This news release contains forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Canopy Growth Corporation, Tweed Inc., Tweed Farms Inc. or Bedrocan Canada Inc. to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Examples of such statements include future operational and production capacity, the impact of enhanced infrastructure and production capabilities, and forecasted available product selection. The forward-looking statements included in this news release are made as of the date of this news release and Canopy Growth Corp. does not undertake an obligation to publicly update such forward-looking statements to reflect new information, subsequent events or otherwise unless required by applicable securities legislation. Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.*

SOURCE Canopy Growth Corporation

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## SCHEDULE

Non-GAAP Measure Adjusted Product Contribution <sup>1</sup>	Three Months Ended June 30, 2015	Three Months Ended September 30, 2015	Six Months Ended September 30, 2015
Sales	\$ 1,710,157	\$ 2,466,121	\$ 4,176,278
Gross margin, including the unrealized gain on changes in fair value of biological assets as reported on the Statements of Comprehensive Loss	4,094,607	9,447,608	13,542,215
Gross margin percentage of sales, including the unrealized gain on changes in fair value of biological assets as reported on the Statement of Comprehensive Loss	239.4%	383.1%	324.27%
<i>Remove the effects of fair value related amounts as reported on the Statements of Comprehensive Loss<sup>2</sup>:</i>			
Unrealized gain on changes in fair value of biological assets	(5,275,001)	(12,479,853)	(17,754,854)
Inventory expensed to cost of sales	1,492,310	2,678,248	4,170,558
<i>Remove the effects of total production costs related to biological assets and inventory on the balance sheet and inventory sold in the period as reported on the Statements of Comprehensive Loss<sup>3</sup>:</i>			
Production costs	1,398,241	2,820,118	4,218,359
Add:			
Cost of inventory sold <sup>4</sup>	(682,336)	(930,995)	(1,613,331)
<b>Adjusted Product Contribution</b>	<b>\$ 1,027,821</b>	<b>\$ 1,535,126</b>	<b>\$ 2,562,947</b>
Adjusted Product Contribution percentage of sales	60.1%	62.2%	61.4%

**Notes:**

- 1 The Adjusted Product Contribution removes the fair value measurements required under IFRS and recognizes the cost of sales based on the weighted average cost per gram to produce and sell product in the period.
- 2 Includes all fair value adjustments relative to selling price for measuring biological assets on the balance sheet and transferred to inventory and inventory measured at fair value relative to selling price less shipping and other costs.
- 3 Represents all production costs, inclusive of those costs related to biological assets and inventory on the balance sheet as well as sold in the period.
- 4 Based on the weighted average of cost per gram from seed to sale of \$2.92 per gram in the second quarter and \$3.02 per gram for the year to date and applied to the number of grams sold in the period.