

Condensed interim consolidated financial statements

(Unaudited)

Canopy Growth Corporation
(Formerly Tweed Marijuana Inc.)

For the Three and Six Months Ended September 30, 2015 and 2014

Canopy Growth Corporation

September 30, 2015 and 2014

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Canopy Growth Corporation

Condensed interim consolidated statements of financial position
as at September 30, 2015 and March 31, 2015

(Unaudited)

(in Canadian dollars)

	September 30, 2015	March 31, 2015
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	7,726,240	21,445,821
Restricted short-term investments (Note 4)	296,375	10,000
Accounts receivable	767,069	341,942
HST receivable	1,018,264	431,191
Biological assets (Note 5)	8,775,617	2,027,874
Inventory (Note 5)	14,107,105	4,355,498
Prepaid expenses	988,729	763,537
	33,679,399	29,375,863
Property, plant and equipment (Note 6)	36,328,447	17,745,043
Leasehold construction in process (Note 7)	5,580,646	615,339
Intangible assets (Note 8)	48,232,943	38,254
	123,821,435	47,774,499
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	5,458,048	4,278,052
Loan payable including interest accrued (Note 10)	2,076,120	-
Current portion of long-term debt (Note 10)	425,616	247,263
	7,959,784	4,525,315
Long-term debt (Note 10)	3,397,423	1,668,786
Other long-term liabilities	198,000	171,000
	11,555,207	6,365,101
Shareholders' equity		
Share capital (Note 11)	114,865,886	49,826,433
Share-based reserve	2,669,440	1,724,369
Warrants	68,991	137,982
Deficit	(5,338,089)	(10,279,386)
	112,266,228	41,409,398
	123,821,435	47,774,499

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

On behalf of the Board

Signed ("Bruce Linton") Director
Bruce Linton

Signed ("Chris Schnarr") Director
Chris Schnarr

Canopy Growth Corporation

Condensed interim consolidated statements of income (loss)
for the three and six month periods ended September 30, 2015 and 2014

(Unaudited)

(in Canadian dollars)

	Three months ended		Six months ended	
	Sept 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
	\$	\$	\$	\$
Revenue	2,466,121	316,117	4,176,278	504,353
Unrealized gain on changes in fair value of biological assets	(12,479,853)	(1,129,724)	(17,754,854)	(2,256,907)
Inventory expense to cost of sales	2,678,248	206,755	4,170,558	390,190
Production costs	2,820,118	1,063,719	4,218,359	2,086,424
Cost of sales, net of the unrealized gain on changes in fair value of biological assets	(6,981,487)	140,750	(9,365,937)	219,707
Gross margin, including the unrealized gain on changes in fair value of biological assets	9,447,608	175,367	13,542,215	284,646
Sales and marketing	872,352	486,330	1,880,942	1,151,132
Research and development	210,332	58,054	248,743	118,469
General and administration	2,239,055	888,439	3,654,427	1,251,145
Acquisition costs (Note 9)	1,139,154	-	1,139,154	-
Share-based compensation expense (Note 11)	573,563	1,024,690	945,071	1,172,487
Amortization	452,291	136,469	720,347	182,473
	5,486,747	2,593,981	8,588,684	3,875,705
Income (loss) from operations	3,960,861	(2,418,614)	4,953,531	(3,591,059)
Other income				
Interest (expense)/income	(28,082)	42,022	(8,969)	54,150
Foreign exchange	(3,265)	-	(3,265)	-
	(31,347)	42,022	(12,234)	54,150
Net income (loss) and comprehensive income (loss)	3,929,514	(2,376,592)	4,941,297	(3,536,909)
Net income (loss) per share, basic:	\$0.06	\$(0.06)	\$0.09	\$(0.09)
Weighted average number of outstanding common shares: Basic (Note 12)	63,838,863	40,014,430	57,357,148	38,764,764
Net income (loss) per share, diluted:	\$0.05	\$(0.06)	\$0.07	\$(0.09)
Weighted average number of outstanding common shares: Diluted (Note 12)	76,057,904	40,014,430	69,576,190	38,764,764

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

Canopy Growth Corporation

Condensed interim consolidated statements of changes in equity
for the three and six month periods ended September 30, 2015 and 2014
(Unaudited)

(in Canadian dollars)

	Number of shares #	Share capital \$	Share-based reserve \$	Warrants \$	Deficit \$	Shareholders' equity \$
Balance at March 31, 2014						
Equity financing	35,070,108	14,688,860	485,647	207,485	(3,689,205)	11,692,787
Share issue costs	4,687,500	15,000,000	-	-	-	15,000,000
Exercise of stock options	-	(1,261,052)	-	-	-	(1,261,052)
Share-based compensation	186,383	104,081	-	-	-	104,081
Net Loss	-	-	147,797	-	-	147,797
Balance at June 30, 2014	39,943,991	28,531,889	633,444	207,485	(1,160,317)	(1,160,317)
Exercise of stock options	12,000	6,000	-	-	-	6,000
Share-based compensation	-	-	524,691	-	-	524,691
Issuance of shares to former Prime 1 Construction Services owner	173,010	499,999	-	-	-	499,999
Share issue costs	-	(1,055)	-	-	-	(1,055)
Net Loss	-	-	-	-	(2,376,592)	(2,376,592)
Balance at September 30, 2014	40,129,001	29,036,833	1,158,135	207,485	(7,226,114)	23,176,339
Balance at March 31, 2015						
Exercise of warrants (Note 11)	50,752,666	49,826,433	1,724,369	137,982	(10,279,386)	41,409,398
Share-based compensation	213,105	194,723	-	(68,991)	-	125,732
Net Income	-	-	371,508	-	-	371,508
Balance at June 30, 2015	50,965,771	50,021,156	2,095,877	68,991	1,011,783	1,011,783
Exercise of stock options	10,655	6,819	-	-	(9,267,603)	42,918,421
Exercise of warrants (Note 11)	472,379	434,367	-	-	-	6,819
Share-based compensation	-	-	573,563	-	-	434,367
Issuance of shares for Bedrocan acquisition (Note 9)	35,202,818	64,403,544	-	-	-	573,563
Net Income	-	-	-	-	3,929,514	64,403,544
Balance at September 30, 2015	86,651,623	114,865,886	2,669,440	68,991	(5,338,089)	112,266,228

Canopy Growth Corporation

Condensed interim consolidated statements of cash flows
for the three and six month periods ended September 30, 2015 and 2014
(Unaudited)

(in Canadian dollars)

	Three months ended		Six months ended	
	Sept 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
	\$	\$	\$	\$
Net inflow (outflow) of cash related to the following activities:				
Operating				
Net income (loss)	3,929,514	(2,376,592)	4,941,297	(3,536,909)
Items not affecting cash:				
Amortization of property, plant and equipment	449,574	132,360	714,914	175,897
Amortization of intangible assets	2,717	2,446	5,433	4,913
Gain on change in fair value of biological assets	(12,479,853)	(1,129,724)	(17,754,854)	(2,256,907)
Share-based compensation	573,563	1,024,690	945,071	1,172,487
Listing expense	-	-	-	30,300
Changes in non-cash operating working capital items (Note 15)	3,853,294	308,240	4,178,981	291,371
	(3,671,191)	(2,038,580)	(6,969,158)	(4,118,848)
Financing				
Increase in other long-term liabilities	-	-	27,000	-
Issuance of common shares from financing rounds	-	-	-	15,000,000
Exercise of stock options	6,819	6,000	6,819	110,081
Exercise of warrants	434,367	-	560,099	-
Share issue costs	(12)	(1,055)	(189,447)	(1,524,685)
Repayment/issuance of long-term debt	2,232	-	(59,889)	(39,738)
	443,406	4,945	344,582	13,545,658
Investing				
Increase in restricted short-term investment	-	-	(286,375)	-
Purchase of leasehold construction in process (Note 7)	(3,375,095)	(1,359,326)	(4,561,458)	(3,888,038)
Purchase of intangible assets	-	(2,850)	-	(13,943)
Tweed Farms liability	-	(1,500,000)	-	(1,500,000)
Purchase of property, plant and equipment (Note 6)	(1,737,758)	1,003,920	(3,147,538)	(3,367,740)
Acquisition of Bedrocan (Note 9)	900,366	-	900,366	-
	(4,212,487)	(1,858,256)	(7,095,005)	(8,769,721)
Net cash (outflow) inflow	(7,440,272)	(3,891,891)	(13,719,581)	657,089
Cash and cash equivalents, beginning of period	15,166,512	12,249,087	21,445,821	7,700,107
Cash and cash equivalents, end of period	7,726,240	8,357,196	7,726,240	8,357,196

See Note 15 for supplementary cash flow information

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

Canopy Growth Corporation

Notes to the condensed interim consolidated financial statements

for the three and six month periods ended September 30, 2015 and 2014

(Unaudited)

1. Description of business

On September 17, 2015, at the annual and special general meeting, shareholders approved changing the name of Tweed Marijuana Inc. to Canopy Growth Corporation. The Company's trading symbol on the TSXV was changed from TWD to CGC.

Canopy Growth Corporation or the "Company", formerly LW Capital Pool Inc. ("LW Capital"), is the parent company of Tweed Inc. ("Tweed"), Tweed Farms Inc. (formerly Prime 1 Construction Services Corp.) ("Tweed Farms") and Bedrocan Cannabis Corp. ("Bedrocan") which are all licensed producers of medical marijuana in Canada. 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 of medical marijuana as regulated by the Marihuana for Medical Purposes Regulations. 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 Venture Exchange ("TSXV"), under the trading symbol "CGC".

The Company was incorporated under the name "LW Capital Pool Inc." by articles of incorporation pursuant to the Canada Business Corporations Act on August 5, 2009 and after completing its initial public offering of shares on the TSXV on June 4, 2010 it was classified as a Capital Pool Corporation as defined in policy 2.4 of the TSXV. The principal business of the Company at that time was to identify and evaluate assets or businesses with a view to completing a qualifying transaction (a "Qualifying Transaction") under relevant policies of the TSXV. On March 26, 2014 the Company completed its Qualifying Transaction which was effected pursuant to an agreement between the Company and Tweed.

On August 28, 2015, the Company acquired Bedrocan which included all of the issued and outstanding securities of Bedrocan Canada Inc. Bedrocan Canada Inc. became a subsidiary of the Company upon the closing of the transaction. There were 35,202,818 common shares issued for the acquisition (see Note 9).

2. Basis of preparation

Statement of compliance

The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and apply the same accounting policies and methods of computation as were followed in the most recent annual consolidated financial statements for the fifteen months ended March 31, 2015.

These financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on November 25, 2015.

Basis of measurement

These condensed interim consolidated financial statements have been prepared in Canadian dollars on a historical cost basis except for biological assets, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

3. Changes to accounting standards and interpretations

New and revised IFRS in issue but not yet effective

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

Canopy Growth Corporation

Notes to the condensed interim consolidated financial statements for the three and six month periods ended September 30, 2015 and 2014 (Unaudited)

3. Changes to accounting standards and interpretations (continued)

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.

Amendments to IAS 16 and IAS 41

IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* are amended to:

- include 'bearer plants' within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for as property, plant and equipment and measured at initial recognition on a cost or revaluation basis in accordance with IAS 16;
- introduce a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales; and
- clarify that produce growing on bearer plants remains within the scope of IAS 41.

This amendment is applicable to annual periods beginning on or after January 1, 2016.

Amendments to IAS 16 and IAS 38

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

- clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment;
- introduce a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated; and
- add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which in turn, might reflect a reduction of the future economic benefits embodied in the asset.

This amendment is applicable to annual periods beginning on or after January 1, 2016.

Canopy Growth Corporation

Notes to the condensed interim consolidated financial statements for the three and six month periods ended September 30, 2015 and 2014 (Unaudited)

3. Changes to accounting standards and interpretations (continued)

Disclosure Initiative (Amendments to IAS 1)

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

- clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;
- clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and
- additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

This amendment is applicable to annual periods beginning on or after January 1, 2016.

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 investments

The restricted short-term investments balance of \$296,375 consists of a \$50,000 guaranteed investment certificate maturing April 15, 2016 bearing an annual interest rate of 0.65%. The investment is held by the bank as collateral for available credit offered to the Company through corporate credit cards. The remaining amount of \$246,375 is a 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 consist of seeds and medical cannabis plants. The continuity of biological assets for the six months ending September 30, 2015 and March 31, 2015 is as follows:

	Sept 30, 2015	March 31, 2015
	\$	\$
Carrying amount, March 31, 2015 and December 31, 2013	2,027,874	-
Net change in value of seeds	(97,730)	367,190
Changes in fair value less costs to sell due to biological transformation	19,903,134	8,208,286
Transferred to inventory upon harvest	(13,057,661)	(6,547,602)
Carrying amount, September 30, 2015 and March 31, 2015	8,775,617	2,027,874

As at September 30, 2015, included in the carrying amount of biological assets is \$269,460 in seeds and \$8,506,157 in live plants (\$367,190 in seeds and \$1,660,684 in live plants as at March 31, 2015).

Canopy Growth Corporation

Notes to the condensed interim consolidated financial statements for the three and six month periods ended September 30, 2015 and 2014 (Unaudited)

5. Biological assets and inventory (continued)

All of the plants are to be harvested as agricultural produce (i.e., medical cannabis).

The significant assumptions used in determining the fair value of medical cannabis plants are as follows:

- estimated yield by plant and grow room;
- percentage of costs incurred to date compared to the total costs to be incurred (used to estimate the fair value of an in-process plant);
- percentage of costs incurred for each stage of plant growth;
- pricing of final product;
- estimated harvest date.

The Company estimates the harvest yields for the plants at various stages of growth. 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.

Inventory is comprised of the following items:

	Sept 30, 2015	March 31, 2015
	\$	\$
Finished goods	15,524,378	4,992,134
Less: adjustment to net realizable value	(1,545,953)	(687,144)
Product for resale (vaporizers, etc.)	47,387	30,461
Supplies and consumables	81,293	20,047
	14,107,105	4,355,498

6. Property, plant and equipment

During the three months ended September 30, 2015 there were additions of \$1,901,245 (2014 - \$2,526,525) in property, plant and equipment. Included in the \$1,901,425 of fixed asset additions is a capital lease totalling \$63,811 for furniture and fixtures. There were no leases recorded for the same period in the prior year.

Property, plant and equipment additions for the six months ended were \$2,073,829 (2014 - \$13,928,801). Included in the \$2,073,829 of additions were capital leases totalling \$100,892. There were no leases recorded for the same period in the prior year.

7. Leasehold construction in process

During the three months ended September 30, 2015, there was \$2,520,507 of construction in process additions of which \$2,052,770 related to the expansion at Tweed Farms (2014 - \$NIL). The remaining \$467,737 is for ongoing construction at Tweed Inc. During the three months ended September 30, 2015, \$1,161,608 was transferred from Construction in Process to Leasehold Improvements.

During the six months ended September 30, 2015, there was \$6,126,915 of construction in process additions of which \$4,944,946 related to the expansion at Tweed Farms (2014 - \$NIL). The remaining \$1,181,975 is for ongoing construction at Tweed Inc. During the six months ended September 30, 2015, \$1,161,608 was transferred from Construction in Process to Leasehold Improvements. The construction in process additions relate to production lighting, growing benches, irrigation and nutrient systems and construction of growing rooms.

Canopy Growth Corporation

Notes to the condensed interim consolidated financial statements
for the three and six month periods ended September 30, 2015 and 2014
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8. Intangible assets

Intangible assets are comprised of the following:

	Sept 30, 2015	March 31, 2015
	\$	\$
Product rights	28,000,000	-
Health Canada license	4,000,000	-
Goodwill	16,200,122	-
Domain name	32,821	38,254
Total	48,232,943	38,254

All of the intangibles with the exception of the domain name originated from the Bedrocan acquisition (see Note 9). Provisionally, the estimated useful life of the Health Canada license is fourteen years based upon the lease term of the building plus the renewal option. The product rights and the goodwill have an indefinite life but will be subject to an annual impairment test.

9. Acquisition of subsidiaries

(a) Tweed Farms acquisition

On June 18, 2014, the Company purchased 100% of the issued and outstanding shares of Tweed Farms. The purchase price was \$2,000,000 for the 30,000,000 Class A outstanding shares of Tweed Farms. Tweed Farms' only asset at the time of acquisition was an option to acquire real property, a building and a greenhouse (the "option"). The transaction was treated as an asset acquisition. Terms of the purchase were \$500,000 cash payable with \$400,000 on closing and \$100,000 upon the earlier of (i) the completion of the first harvest of marijuana at Tweed Farms or (ii) six months after closing. The balance of \$1,500,000 was to be satisfied by the issuance of common shares (519,031 shares at \$2.89) of Canopy Growth Corporation based on certain conditions and milestones.

The conditions to the issuance of the 519,031 shares have been met or waived by Canopy Growth Corporation and the first 346,020 of such shares were issued in the prior fiscal year. The remaining 173,011 were issued on October 23, 2015.

(b) Bedrocan acquisition

On August 28, 2015, the Company purchased 100% of the issued and outstanding shares of Bedrocan Canada Inc. ("Bedrocan"). The transaction was accounted for as a business combination and the Bedrocan results are included in consolidated results from the date of acquisition. The consideration for the transaction was 35,202,818 shares issued at a value of \$1.8295 per share which totalled \$64,403,556 less cash acquired of \$900,366. Bedrocan shares were exchanged at a ratio of 0.4650 to 1.

Canopy Growth Corporation

Notes to the condensed interim consolidated financial statements
for the three and six month periods ended September 30, 2015 and 2014
(Unaudited)

9. Acquisition of subsidiaries (continued)

(b) Bedrocan acquisition (continued)

The purchase price has been allocated as follows:

	\$
Provisional purchase consideration	64,403,544
Net assets acquired (See below)	16,203,434
Product rights	28,000,000
Health Canada license	4,000,000
Goodwill	16,200,110
<u>Total provisional purchase price</u>	<u>64,403,544</u>

The net assets acquired included the following:

	\$
Cash	900,366
Accounts receivable	373,292
Taxes receivable	113,370
Biological assets	2,050,548
Prepays	94,877
Inventory	537,530
Fixed assets	17,224,486
<u>Total assets</u>	<u>21,294,469</u>
Accounts payable	1,060,116
Accrued expenses	25,001
Loan payable	2,058,961
Long-term loan	1,946,957
<u>Total liabilities</u>	<u>5,091,035</u>
<u>Net assets acquired</u>	<u>16,203,434</u>

Net cash outflow on acquisition of Bedrocan Canada Inc. is as follows:

	\$
Consideration paid in cash	-
Less: Cash and cash equivalents acquired	900,366
<u>Net cash inflow</u>	<u>900,366</u>

Goodwill arose in the acquisition of Bedrocan Canada Inc. because the cost of acquisition included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected revenue growth, future market development and the assembled work force of Bedrocan. These benefits are 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 \$1,139,154 have been excluded from the consideration transferred and have been recognized as an expense in the current year.

Canopy Growth Corporation

Notes to the condensed interim consolidated financial statements
for the three and six month periods ended September 30, 2015 and 2014
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9. Acquisition of subsidiaries (continued)

(b) Bedrocan acquisition (continued)

Included in the Net Income for the year is a profit of \$724,255 attributable to the Bedrocan Canada Inc. acquisition since August 28, 2015. This amount included \$1,692,661 of unrealized gain on changes in fair value of biological assets and revenues of \$347,006.

Had the business combination been effected at April 1st, 2015, the revenue of the Company would have increased by \$1,120,321 and the Net Income for the year to date would have been reduced by \$1,552,017 including an unrealized gain on changes in fair value of biological assets.

Additional purchase consideration includes replacement options offered to employees and directors of Bedrocan Canada Inc. The calculation of the amount to be recognized as purchase consideration is not complete as of the date of the finalization of these condensed consolidated financial statements. It is anticipated that this additional consideration will increase goodwill.

The purchase price allocation relating to the acquisition is not yet finalized and the allocation of the price to the various assets acquired is subject to change.

10. Related party loan payable and long-term debt

Loan payable

The loan arose from the Bedrocan acquisition and is a term loan of \$2,000,000 from a shareholder and director of the Company. The loan is secured by Bedrocan's assets, with an original maturity date of June 1, 2016 and carries an annual interest of 10% compounded monthly with no penalty for early repayment. As a result of the Bedrocan acquisition, the maturity date was accelerated under the terms of the loan to December 26, 2015.

Long-term debt

The details of the Company's long-term debt are as follows:

	Sept 30, 2015	March 31, 2015
	\$	\$
Mortgage payable with a five year term and amortization period of seven years bearing an interest rate of 5.3%	1,705,816	1,819,126
Related party term loan at 10% annual interest with monthly repayment	1,936,081	-
Capital lease obligations with interest rates between 9.6%-14.4%, and terms between 3-5 years, lien against the related leased equipment	181,142	96,923
	3,823,039	1,916,049
Less: current portion	425,616	247,263
Long-term portion	3,397,423	1,668,786

Canopy Growth Corporation

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for the three and six month periods ended September 30, 2015 and 2014

(Unaudited)

10. Related party and loan payable and long-term debt (continued)

The mortgage payable is secured by a first charge on the Tweed Farms property. In addition, the Company must maintain a fixed coverage charge ratio (meaning earnings before interest, taxes, depreciation and amortization plus any contributions during the year divided by principal and interest payments) of 1.30:1. The Company was in compliance with this annual covenant at year-end. The mortgage payable can be prepaid at any time but is subject to a prepayment fee equal to the greater of (a) three months interest on the amount being prepaid or (b) the amount of interest lost by the lender over the remaining term of the loan on the amount being prepaid.

The term loan is a \$2,000,000 loan that was added to the existing lease agreement for the Toronto Bedrocan facilities. The loan accrues interest at 10% annually and is payable over the initial ten year term of the amended lease to July 1, 2024 by way of additional monthly rent of \$27,100 which includes principal and interest payments.

11. Share capital

Authorized

An unlimited number of common shares.

On May 8, 2015, 213,105 warrants were exercised for gross cash proceeds of \$125,732. In addition an amount of \$68,991 was reclassified from warrants to share capital.

On August 10, 2015, 437,504 Non-ESOP options were exercised for gross cash proceeds of \$389,379.

On August 28, 2015, 35,202,818 common shares were issued for the Bedrocan acquisition at \$1.8295 for a total of \$64,403,556 being added to share capital. The transaction also resulted in a fractional share adjustment of \$12.

On September 23, 2015, 10,655 options were exercised for total cash proceeds of \$6,819 and 34,875 warrants were exercised for cash proceeds of \$44,989.

Warrants continuity schedule

As of September 30, 2015 the Company has the following warrants with average exercise prices and expiry dates outstanding:

	Number of whole warrants #	Average exercise price \$	Expiry date
Balance at March 31, 2015	426,209	0.59	September 13, 2015
Exercise of warrants during the quarter	(213,105)	0.59	
Balance at June 30, 2015	213,104	0.59	
Replacement warrants issued as a result of the Bedrocan acquisition	3,358,458	2.58	November 15, 2015
Replacement warrants issued as a result of the Bedrocan acquisition	1,464,745	1.29	February 20, 2016
Balance at September 30, 2015	5,036,307	2.12	

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11. Share capital (continued)

Option plan

The Company has a stock option plan ("ESOP") that is administered by the Board of Directors of the Company who establish exercise prices, at not less than market price at the date of grant, and expiry dates, which have been set at six years from issuance. Options under the Plan remain exercisable in increments with 1/3rd being exercisable on each of the first, second and third anniversaries from the date of grant. The maximum number of common shares reserved for issuance for options that may be granted under the Plan is 10% of the common shares outstanding, which was 8,665,162 at September 30, 2015.

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, 2015	3,924,040	1.81
Options granted	1,105,000	1.92
Options forfeited	(294,551)	1.58
Balance outstanding at June 30, 2015	4,734,489	1.85
Options granted	436,685	1.79
Replacement options issued as a result of the Bedrocan acquisition	1,786,530	1.28
Options forfeited/cancelled	(203,737)	1.99
Options exercised	(10,655)	0.64
Balance outstanding at September 30, 2015	6,743,312	1.69

As of September 30, 2015, the Company has agent options outstanding, which were related to the Bedrocan acquisition. These are broker options that are outside of the ESOP.

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

	Non-ESOP options	Average exercise price	Expiry date
	#	\$	
Balance outstanding at June 30, 2015 and March 31, 2015	437,504	0.89	September 13, 2016
Non-ESOP options exercised in the quarter	(437,504)	0.89	
Replacement Non-ESOP options issued as a result of the Bedrocan acquisition	439,423	1.83	November 15, 2015
Balance outstanding at September 30, 2015	439,423	1.83	

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11. Share capital (continued)

Share-based compensation

During the three and six months ended September 30, 2015, the Company recorded \$573,563 (2014 - \$524,691) and \$945,072 respectively (2014 - \$672,488) in share-based compensation expense related to options which are measured at fair value at the date of grant and are expensed over the option's vesting period. 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:

	September 30, 2015	March 31, 2015
Risk-free interest rate	1.60% - 1.64%	1.60% - 1.64%
Expected life of options (years)	3 - 6	3 - 6
Expected annualized volatility	70%	70%
Expected dividend yield	NIL	NIL
Weighted average Black-Scholes value of each option	\$0.29 - \$2.04	\$0.29 - \$2.04

Volatility was estimated by using the historical volatility of 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.

12. Earnings per share

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

Diluted 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.

13. Related parties

The Company leases its premises for the Smiths Falls facility from a company controlled by Tweed Hershey Drive Inc. ("Tweed Hershey"), which is related through common ownership. The lease expires on December 31, 2018. For the three and six months ended September 30, 2015 the expense incurred under this lease including base rent and operating costs was \$601,774 and \$1,231,639 respectively (three months ended September 30, 2014 - \$261,692 and \$396,692 for the six months ended September 30, 2014). The Company had \$790,004 (March 31, 2015 - \$665,044) owing related to rent associated with these leased premises at September 30, 2015 and has prepaid rent of \$508,500 (March 31, 2015 - \$508,500), which is included in prepaid expenses.

The Company leases premises for the two Bedrocan facilities in Toronto from a director of Canopy Growth Corporation. The leases expire on October 15, 2018 and August 31, 2024. Included in the expenses for the period from August 28, 2015 to September 30, 2015 is an amount of \$55,309 for rent and operating costs.

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13. Related parties (continued)

The CEO is providing consulting services to the Company at \$16,667 per month from July 1, 2013 to July 1, 2015. For the three months ended September 30, 2015, consulting expenses totalled \$50,000 and the six months ended September 30, 2015 totalled \$100,000 (three months ended September 30, 2014 - \$50,000 and six months ended September 30, 2014 - \$100,000). An amount owing of \$56,500 (2015- \$226,000), was included in accounts payable at September 30, 2015. A new contract is currently being negotiated.

The Company currently has two loans payable to a director of Canopy Growth Corporation. Included in interest expense is an amount of \$33,383, for the period from August 28, 2015 to September 30, 2015.

During the three and six months ended September 30, 2015, \$68,250 and \$108,500 respectively (three months ended September, 2014 - \$50,250, six months ended September 30, 2014 - \$96,750) were expensed in director's fees. At September 30, 2015, \$68,250 (March 31, 2015 - \$65,421) remained outstanding.

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

14. Commitments and contingencies

In March 2015, a claim was commenced against Canopy Growth Corporation by the former CEO for \$330,000 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 financial statements due to the fact that the amount cannot be reliably measured at this point.

In April 2014, Tweed sought to acquire medical marijuana plants from certain growers licensed under the old Marijuana Medical Access Regulations ("MMAR"). The RCMP took possession of that shipment before it could reach Tweed's facility and, as such, Tweed was not able to proceed with the planned transfer of plants. No amount was paid by Tweed for the medical marijuana in question. Based on the terms of the contracts between Tweed and the vendors, Tweed was of the view that no payment was required. During the second quarter ended September 30, 2015, and in order to avoid further legal costs associated with potentially lengthy court proceedings, the Company reached an out of court full and mutual release settlement, without either party admitting any liability, and included a release of any claim by the vendors on the seized inventory. The out of court settlement consisted of the Company paying \$600,000 in cash and provided consultants associated with the vendors 100,000 fully vested options to purchase common stock at a price of \$1.76 per share, being the opening price of the Company's common shares on the date of settlement, and expire on September 16, 2017. The Black Scholes value of the options was \$108,887 which has been included in share-based compensation expense for the three months ended September 30, 2015.

15. Supplementary cash flow information

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

	Three months ended		Six months ended	
	Sept 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
	\$	\$	\$	\$
Accounts receivable	48,062	(36,538)	(51,835)	(90,838)
HST receivable	(515,363)	261,472	(606,797)	(205,243)
Prepaid expenses	(74,824)	(252,093)	(130,314)	(512,467)
Inventory	2,785,674	457,241	3,843,582	449,624
Accounts payable and accrued liabilities	1,609,745	(121,838)	1,124,345	650,299
Total	3,853,294	308,244	4,178,981	291,375

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15. Supplementary cash flow information (continued)

Non-cash transactions

Excluded from the condensed interim consolidated statements of cash flows for the three months ended September 30, 2015 is a total of \$689,879 purchases related to leasehold construction in process included in accounts payable and accrued liabilities and \$211,476 in property, plant and equipment purchases.

Excluded from the three month consolidated statement of cash flows at June 30, 2015 is a total of \$2,754,064 in accounts payable and accrued liabilities as follows: \$2,706,075 of leasehold construction in process purchases and \$47,989 of property, plant and equipment purchases. These amounts are included in the condensed interim consolidated statement of cash flows for the three and six months ended September 30, 2015.

Excluded from the condensed interim consolidated statements of cash flows for the three months ended September 30, 2014 is a total of \$973,118 in accounts payable and accrued liabilities of which \$820,362 related to leasehold improvement purchases and \$152,756 of property plant and equipment purchases.

Excluded from the condensed interim consolidated statements of cash flows for the three months ended June 30, 2014 is a total of \$301,399 in accounts payable and accrued liabilities relating to property, plant and equipment purchases. These amounts are included in the condensed interim consolidated statement of cash flows for the three and six months ended September 30, 2014.

Cash and cash equivalents consist of the following:

	Sept 30, 2015	March 31, 2015
	\$	\$
Cash	1,917,089	1,712,657
Investment savings account mutual fund	5,809,151	19,733,164
Total	7,726,240	21,445,821

16. 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);

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16. Financial instruments (continued)

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

During the period, 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 and the restricted short-term investment are classified as Level 1 financial instruments. During the period, there were no transfers of amounts between Level 1 and Level 2.

The warrants were valued using a Black-Scholes option pricing model and are a Level 2 financial instrument.

17. Segmented information

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

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

All revenues are generated in Canada.

18. Subsequent events

(a) Acquisition of MedCannAccess

On October 1, 2015 the Company acquired all of the issued and outstanding shares of several companies, which collectively operated as "MedCannAccess", by way of an amalgamation with 9421653 Canada Inc., a shell company which was a wholly-owned subsidiary of the Company, pursuant to an Amalgamation Agreement (the "Amalgamation"). 9388036 Canada Inc. is the post-amalgamation company resulting from the acquisition of MedCannAccess. In connection with the acquisition of MedCannAccess, Canopy issued 3,316,902 Common Shares to former shareholders of MedCannAccess, of which 2,449,887 are being held in escrow and will be either (i) released to the former shareholders of MedCannAccess upon the satisfaction of certain milestones, or (ii) released to the Company for cancellation. Through the acquisition of MedCannAccess, the Company also acquired a 33% stake in CannScience Innovations Inc. ("CannScience"), a drug development company. CannScience conducts in-depth extracts research, with the ultimate goal of delivering standardized metered dosing in a range of alternate delivery methods.

After completing the Amalgamation, the in-person client services operations previously carried out by MedCannAccess were rebranded as "Better by Tweed" and began operating as a division of Tweed. Better by Tweed offers in-person client services through their network of community engagement centres in the key market of Ontario, and focuses on providing initial in person and telephone consultation and support to help our customers understand the MMPR and options available to them thereunder.

The initial accounting for the MedCannAccess acquisition is incomplete at the time of finalizing these financial statements. Management anticipates that the preliminary purchase price allocation will be completed in the third quarter of fiscal 2016.

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18. Subsequent events (continued)

(b) Exercise of warrants to November 25, 2015

Subsequent to quarter end, warrant holders exercised 2,916,132 warrants at prices between \$1.29 and \$2.58 per share for proceeds of \$5,986,509. In addition, 439,423 broker options at \$1.83 were exercised for proceeds of \$804,144. In addition, 1,633,885 warrants at \$2.58 expired on November 15, 2015.

(c) Bought deal

On November 18, 2015, the Company announced that it had closed its previously announced short form prospectus offering, on a bought deal basis, of 7,012,700 common shares of the Company for aggregate gross proceeds of \$14,376,035 (the "Offering"), inclusive of the over-allotment option granted to the syndicate of underwriters. The Offering was completed at a price of \$2.05 per common share (the "Offering Price") by a syndicate of underwriters led by Dundee Securities Ltd. (the "Lead Underwriter"), GMP Securities L.P., INFOR Financial Inc. and M Partners Inc. (collectively, the "Underwriters"). In addition to the bought deal of 6,098,000 common shares for gross proceeds of \$12,500,900, the Company also granted the Underwriters an over-allotment option to purchase up to an additional 914,700 common shares of the Company at the Offering Price, exercisable in whole or in part, at any time on or prior to the date that is 30 days following the closing of the Offering. Both the announced bought deal and the over-allotment option closed on November 18th, 2015.

19. Comparative figures

The prior fiscal year comparative figures have been expanded to conform to the current year presentation.