CANOPY GROWTH CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2016 AND 2015

(IN CANADIAN DOLLARS)

CANOPY GROWTH CORPORATION

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CANOPY GROWTH CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

UNAUDITED (Expressed in CDN $000's)		December 31, 2016		March 31, 2016
Assets				
Current assets				
Cash and cash equivalents (Note 16)	**$**	**92,504**	$	15,397
Restricted short-term investment (Note 4)		**250**		-
Accounts receivable (Note 5)		**2,462**		1,486
Biological assets (Note 6)		**5,307**		5,321
Inventory (Note 6)		**50,598**		22,153
Prepaid expenses and other assets		**1,562**		489
		152,683		44,846
Property, plant and equipment (Note 7)		**60,937**		44,984
Restricted investment (Note 4)		**-**		246
Goodwill (Note 9)		**34,912**		20,866
Intangible assets (Note 9)		**31,638**		31,861
Other assets		**495**		558
	$	**280,665**	$	143,361
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**12,731**	$	6,107
Deferred revenue		**221**		533
Current portion of long-term debt (Note 11)		**1,078**		553
		14,030		7,193
Long-term debt (Note 11)		**6,092**		3,469
Acquisition consideration related liabilities (Note 17)		**-**		1,258
Contingent consideration provision (Note 15)		**527**		-
Deferred tax liability		**8,276**		7,413
Other long-term liabilities		**216**		243
		29,141		19,576
Commitments and contingencies (Note 15)				
Shareholders' equity				
Share capital (Note 12)		**253,009**		131,080
Share-based reserve		**7,833**		5,804
Warrants		**-**		676
Deficit		**(9,318)**		(13,775)
		251,524		123,785
	$	**280,665**	$	143,361
Equity attributable to:				
Canopy Growth Corporation	**$**	**251,540**	$	123,785
Non-controlling interest		**(16)**		-
	$	**251,524**	$	123,785

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

CANOPY GROWTH CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2016 AND 2015

UNAUDITED (Expressed in CDN $000's except share amounts)	Three months ended **December 31, 2016**	Three months ended December 31, 2015	Nine months ended **December 31, 2016**	Nine months ended December 31, 2015
Revenue	**$ 9,752**	$ 3,481	**$ 25,234**	$ 7,657
Unrealized gain on changes in fair value of biological assets (Note 6)	**(18,141)**	(9,013)	**(40,901)**	(26,768)
Inventory expensed to cost of sales	**9,543**	3,784	**24,611**	7,954
Other production costs	**1,407**	5,954	**5,309**	10,173
(Recovery to cost of sales) cost of sales, net of the unrealized gain on changes in fair value of biological assets	**(7,191)**	725	**(10,981)**	(8,641)
Gross margin	**16,943**	2,756	**36,215**	16,298
Sales and marketing	**3,780**	1,372	**8,850**	3,253
Research and development	**439**	192	**1,345**	441
General and administration	**4,043**	1,962	**10,924**	5,619
Acquisition-related costs	**1,383**	16	**1,975**	1,155
Share of loss in equity investments	**-**	-	**50**	-
Share-based compensation expense (Note 12)	**1,497**	1,162	**3,345**	2,107
Depreciation and amortization	**1,048**	755	**2,943**	1,475
	12,190	5,459	**29,432**	14,050
Income (loss) from operations	**4,753**	(2,703)	**6,783**	2,248
Interest expense, net	**(181)**	(102)	**(270)**	(111)
Increase in fair value of acquisition consideration related liabilities	**(895)**	(741)	**(1,193)**	(741)
	(1,076)	(843)	**(1,463)**	(852)
Net income (loss) and comprehensive income (loss) before income taxes	**3,677**	(3,546)	**5,320**	1,396
Income tax (expense) recovery	**(701)**	230	**(863)**	230
Net income (loss) and comprehensive income (loss) after income taxes	**$ 2,976**	$ (3,316)	**$ 4,457**	$ 1,626
Net income (loss) attributable to:				
Canopy Growth Corporation	**$ 2,992**	$ (3,316)	**$ 4,473**	$ 1,626
Non-controlling interest	**(16)**	-	**(16)**	-
	$ 2,976	$ (3,316)	**$ 4,457**	$ 1,626
Net income (loss) per share, basic (Note 13):	**$ 0.03**	$ (0.04)	**$ 0.04**	$ 0.02
Weighted average number of outstanding common shares, basic:	**116,813,261**	93,355,021	**109,725,439**	69,356,439
Net income (loss) per share, diluted (Note 13):	**$ 0.02**	$ (0.04)	**$ 0.04**	$ 0.02
Weighted average number of outstanding common shares, diluted:	**123,034,872**	93,355,021	**114,094,787**	76,688,213

CANOPY GROWTH CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2016 AND 2015

UNAUDITED

(Expressed in CDN $000's except share amounts)	Number of shares	Share capital	Share-based reserve	Warrants	Deficit	Non-controlling interest	Shareholders' equity
Balance at March 31, 2015	50,752,666	$ 49,826	$ 1,724	$ 138	$ (10,279)	$ -	$ 41,409
Exercise of warrants	213,105	195	-	(69)	-	-	126
Share-based compensation	-	-	372	-	-	-	372
Net income	-	-	-	-	1,012	-	1,012
Balance at June 30, 2015	50,965,771	$ 50,021	$ 2,096	$ 69	$ (9,267)	$ -	$ 42,919
Exercise of warrants	472,379	434	-	-	-	-	434
Exercise of stock options	10,655	7	-	-	-	-	7
Share-based compensation	-	-	574	-	-	-	574
Issuance of shares for Bedrocan acquisition (Note 8)	35,202,818	64,404	-	-	-	-	64,404
Net income	-	-	-	-	3,930	-	3,930
Balance at September 30, 2015	86,651,623	$ 114,866	$ 2,670	$ 69	$ (5,337)	$ -	$ 112,268
Exercise of warrants	3,407,867	6,858	-	-	-	-	6,858
Exercise of stock options	183,821	348	(113)	-	-	-	235
Share-based compensation	-	-	775	-	-	-	775
Issuance of shares to former Prime 1 Construction Services owner	173,011	387	-	-	-	-	387
Issuance of shares for MedCannAccess acquisition (Note 8)	1,083,740	1,733	-	-	-	-	1,733
Equity financing	7,012,700	14,376	-	-	-	-	14,376
Share issue costs		(1,267)	-	-	-	-	(1,267)
Net loss	-	-	-	-	(3,316)	-	(3,316)
Balance at December 31, 2015	**98,512,762**	**$ 137,301**	**$ 3,332**	**$ 69**	**$ (8,653)**	**$ -**	**$ 132,049**
Balance at March 31, 2016	98,818,213	$ 131,080	$ 5,804	$ 676	$ (13,775)	$ -	$ 123,785
Exercise of warrants (Note 12)	213,104	195	607	(676)	-	-	126
Exercise of ESOP stock options (Note 12)	623,715	1,016	(357)	-	-	-	659
Equity financing - April 15, 2016 (Note 12)	5,002,500	11,506	- -	-	-	-	11,506
Share issue costs	-	(721)	-	-	-	-	(721)
Issuance of shares per XIB agreement (Note 12)	38,656	108	-	-	-	-	108
Shares released from escrow related to the MedCann Access acquisition (Note 12)	288,861	-	-	-	-	-	-
Share-based compensation	-	-	867	-	-	-	867
Net loss	-	-	-	-	(3,949)	-	(3,949)
Balance at June 30, 2016	104,985,049	$ 143,184	$ 6,921	$ -	$ (17,724)	$ -	$ 132,381
Exercise of ESOP stock options (Note 12)	231,239	704	(235)	-	-	-	469
Equity financing - August 24, 2016 (Note 12)	9,453,000	34,503	- -	-	-	-	34,503
Share issue costs	-	(2,421)	-	-	-	-	(2,421)
Share-based compensation	-	-	1,257	-	-	-	1,257
Net income	-	-	-	-	5,430	-	5,430
Balance at September 30, 2016	114,669,288	$ 175,970	$ 7,943	$ -	$ (12,294)	$ -	$ 171,619
Exercise of ESOP stock options (Note 12)	1,468,008	3,686	(1,359)	-	-	-	2,327
Equity financing - December 22, 2016 (Note 12)	5,662,000	60,017	-	-	-	-	60,017
Share issue costs	-	(3,762)	-	-	-	-	(3,762)
Issuance of shares per XIB agreement (Note 12)	18,899	75	-	-	-	-	75
Issuance of shares for Vert acquistion (Note 8)	58,978	1,664	-	-	-	-	1,664
Issuance of shares for Hemp acquistion (Note 8)	129,021	1,711	-	-	-	-	1,711
Issuance of shares for MedCann GmbH acquistion (Note 8)	674,631	10,406	-	-	-	-	10,406
Shares released from escrow related to the MedCann Access acquisition (Note 12)	722,378	2,451	-	-	-	-	2,451
Shares released from escrow to LBC Holdings, Inc. (Note 12)	103,524	791	(791)	-	-	-	-
Share-based compensation	-	-	2,040	-	-	-	2,040
Net income	-	-	-	-	2,992	(16)	2,976
Balance at December 31, 2016	**123,506,727**	**$ 253,009**	**$ 7,833**	**$ -**	**$ (9,302)**	**$ (16)**	**$ 251,524**

CANOPY GROWTH CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED DECEMBER 31, 2016 AND 2015

UNAUDITED (Expressed in CDN $000's)		**December 31, 2016**		December 31, 2015
Net inflow (outflow) of cash related to the following activities:				
Operating				
Net income	**$**	**4,457**	$	1,626
Items not affecting cash:				
Depreciation of property, plant and equipment		**2,721**		1,334
Amortization of intangible assets		**222**		141
Share of loss in equity investments		**50**		-
Unrealized gain on change in fair value of biological assets		**(40,901)**		(26,768)
Inventory allowance to net realizeable value		**4,370**		1,014
Net changes in inventory and biological assets		**8,237**		9,042
Contingent consideration provision		**527**		-
Share-based compensation (Note 12)		**4,347**		2,107
Loss on disposal of property, plant and equipment		**218**		-
Income tax expense (recovery)		**863**		(230)
Increase in fair value of acquisition consideration related liabilities		**1,193**		741
Changes in non-cash operating working capital items (Note 16)		**2,335**		(149)
Net cash used in operating activities		**(11,361)**		(11,142)
Financing				
Proceeds from issuance of common shares		**106,026**		14,376
Proceeds from exercise of stock options		**3,457**		242
Proceeds from exercise of warrants		**126**		7,418
Payment of share issue costs		**(6,820)**		(1,457)
Issuance of long-term debt		**3,500**		-
Increase in capital lease obligations		**260**		-
Repayment of long-term debt		**(608)**		(1,985)
Increase (decrease) in other long-term liabilities		**(27)**		27
Net cash provided by financing activities		**105,914**		18,621
Investing				
Purchases of property, plant and equipment and assets in process		**(16,700)**		(9,974)
Net cash (outflow) inflow on acquisition of subsidiaries (Note 8)		**(783)**		1,054
Proceeds on disposals of property and equipment		**37**		
Purchases of restricted investment		**-**		(286)
Net cash used in investing activities		**(17,446)**		(9,206)
Net cash inflow (outflow)		**77,107**		(1,727)
Cash and cash equivalents, beginning of period		**15,397**		21,446
Cash and cash equivalents, end of period	**$**	**92,504**	$	19,719

See Note 16 for supplementary cash flow information

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

1. DESCRIPTION OF BUSINESS

Canopy Growth Corporation is a publicly traded corporation, incorporated in Canada, with its head office located at 1 Hershey Drive, Smiths Falls, Ontario. The Company's common shares are listed on the TSX, under the trading symbol "WEED" after the Company changed from the three letter symbol "CGC" to the new four letter symbol on February 1, 2017.

The condensed interim consolidated financial statements as at and for the nine month period ended December 31, 2016 include Canopy Growth Corporation and its subsidiaries (together referred to as the "Company") and the Company's interest in affiliated companies. The Company's major subsidiaries include Tweed Inc. ("Tweed"), Tweed Farms Inc. ("Tweed Farms"), and Bedrocan Canada Inc. ("Bedrocan"), which are all licensed producers of medical cannabis in Canada. The principal activities of Tweed and Bedrocan are the production and sale of medical cannabis and the principal activity of Tweed Farms is the growing, possession and shipping of medical cannabis as regulated by the Access to Cannabis for Medical Purposes Regulations ("ACMPR"). A complete list of the Company's subsidiaries and interests in affiliates is detailed in Note 2.

2. BASIS OF PRESENTATION

Statement of compliance

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

These condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on February 13, 2017.

Basis of measurement

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

Basis of consolidation

These condensed interim consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries.

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

Subsidiary	% ownership	Accounting method
Tweed Inc.	100%	Consolidation
Tweed Farms Inc.	100%	Consolidation
Bedrocan Canada Inc.	100%	Consolidation
9388036 Canada Inc.	100%	Consolidation
Vert Cannabis Inc.	100%	Consolidation
MedCann GmbH Pharma and Nutraceuticals	100%	Consolidation
Groupe H.E.M.P.CA	75%	Consolidation
Canopy Health Innovations Inc.	46.15%	Equity
Bedrocan Brasil S.A.	39.387%	Equity
Entourage Phytolab S.A.	38.462%	Equity
CannScience Innovations Inc.	33%	Equity
AusCann Operations Ltd.	15%	Cost

3. CHANGES TO ACCOUNTING STANDARDS AND INTERPRETATIONS

New and revised IFRS in issue but not yet effective

Amendments to IAS 12

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

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

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

Disclosure Initiative (Amendments to IAS 7)

Amends IAS 7 *Statement of Cash Flows* to improve information provided to users of financial statements about an entity's financial activities by making the following changes:

- The following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes;
- The International Accounting Standards Board ("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 IASB in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. The effective date of IFRS 9 is January 1, 2018.

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

3. CHANGES TO ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

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

IFRS 16 Leases

IFRS 16 was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted.

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

4. RESTRICTED SHORT-TERM INVESTMENT

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

5. ACCOUNTS RECEIVABLE

The Company's accounts receivable consists of trade accounts receivable as well as harmonized sales tax ("HST") receivable. The breakdown of the accounts receivable balance was as follows:

	December 31, 2016		March 31, 2016	
Accounts Receivable	**$**	**1,143**	$	1,110
HST Recoverable		**1,319**		376
Total Accounts Receivable	**$**	**2,462**	$	1,486

6. BIOLOGICAL ASSETS AND INVENTORY

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

	December 31, 2016		March 31, 2016	
Carrying amount, March 31, 2016 and March 31, 2015	**$**	**5,321**	$	2,028
Use of seeds		**(10)**		(92)
Acquired biological assets		**-**		1,799
Changes in fair value less costs to sell due to biological transformation		**40,911**		38,897
Transferred to inventory upon harvest		**(40,915)**		(37,311)
Carrying amount, December 31, 2016 and March 31, 2016	**$**	**5,307**	$	5,321

As at December 31, 2016, included in the carrying amount of biological assets was $265 in seeds and $5,042 in live plants ($275 in seeds and $5,046 in live plants as at March 31, 2016).

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

6. BIOLOGICAL ASSETS AND INVENTORY (CONTINUED)

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 strain of plant;
- percentage of costs incurred to date compared to the total costs to be incurred are used to estimate the fair value of an in-process plant; and
- percentage of costs incurred for each stage of plant growth was estimated.

On average, the grow cycle is 12 weeks. All of the plants are to be harvested as agricultural produce (i.e., medical cannabis) and as at December 31, 2016, on average, were 23% complete, compared to 45% average stage of completion as at March 31, 2016. Mother plants, or bearer plants, are plants grown for the purpose of taking cuttings in order to grow more quantity of the same plant. Once mature, bearer plants are plants that are held solely to grow produce over their useful life. Bearer plants are critical to the success of the business, however are not measured for accounting purposes.

The Company estimates the harvest yields for the plants at various stages of growth. As of December 31, 2016, it is expected that the Company's biological assets will yield approximately 3,129 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 December 31, 2016, included in the carrying amount of inventory was $42,109 in dry cannabis and $7,484 in cannabis oils ($20,016 in dry cannabis and $1,763 in cannabis oils as at March 31, 2016). As at December 31, 2016, the Company held 8,375 kg of dry cannabis (711 kg of which was finished goods, 3,809 kg awaiting release for sale, and 3,855 kg held for future extract production) and 2,683 L of cannabis oils, compared to 4,447 kg of dry cannabis (1,198 kg of which was finished goods, 787 kg awaiting release for sale, and 2,462 held for future extract production) and 570 L of cannabis oils held at March 31, 2016.

Inventory was comprised of the following items:

	December 31, 2016	March 31, 2016
Finished goods - dry cannabis	**$ 4,792**	$ 7,808
Acquired finished goods - dry cannabis	**137**	-
Work-in-process - dry cannabis	**42,786**	13,841
Less: allowance to net realizeable value, dry cannabis	**(5,606)**	(1,633)
Finished goods - cannabis oils	**3,040**	462
Work-in-process - cannabis oils	**4,952**	1,412
Less: allowance to net realizeable value, cannabis oils	**(508)**	(111)
	49,593	21,779
Product for resale (vaporizers and other)	**451**	172
Supplies and consumables	**554**	202
	$ 50,598	$ 22,153

Included in inventory expensed to cost of sales was the change in the provision to arrive at net realizable value of $4,475 and $4,370 for the three and nine months ended December 31, 2016, respectively. The adjustments to net realizable value takes the compassionate pricing promise into account, whereby eligible low-income patients obtain discounts off regular prices.

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

7. PROPERTY, PLANT AND EQUIPMENT

	Computer software and equipment	Office/lab equipment	Furniture and fixtures	Production, security equipment and other	Leasehold/building improvements	Greenhouse	Land	Assets in process	Total
Cost									
March 31, 2016	$ 958	$ 935	$ 2,428	$ 1,543	$ 37,756	$ 2,951	$ 723	$ 403	$ 47,697
Additions	549	425	1,224	473	3,040	-	-	12,450	18,161
Additions from acquisitions	26	219	26	-	496	-	-	-	767
Disposals/transfers	224	(44)	111	333	3,963	-	-	(4,855)	(268)
December 31, 2016	1,757	1,535	3,789	2,349	45,255	2,951	723	7,998	66,357
Accumulated amortization									
March 31, 2016	255	157	223	139	1,728	211	-	-	2,713
Amortization	346	169	268	67	1,782	89	-	-	2,721
Disposals/transfers	-	-	(14)	-	-	-	-	-	(14)
December 31, 2016	601	326	477	206	3,510	300	-	-	5,420
Net book value									
March 31, 2016	703	778	2,205	1,404	36,028	2,740	723	403	44,984
December 31, 2016	1,156	1,209	3,312	2,143	41,745	2,651	723	7,998	60,937

During the nine months ended December 31, 2016, the assets in process additions were $12,450 of which $11,169 related principally to the expansion or growing operations at Tweed. The remaining $1,281 was mainly for ongoing projects at Tweed Farms.

8. ACQUISTIONS

(a) Vert

On November 1, 2016, the Company purchased 100% of the issued and outstanding shares of Vert Médical Inc. – Green Medical Inc., a Quebec-based company that began its application for federal government approval to produce medical cannabis in 2013. On acquisition, the entity was amalgamated as Vert Cannabis Inc. ("Vert"). The transaction was accounted for as a business combination. In connection with the acquisition of Vert, the Company paid $498 and issued 294,900 common shares to former shareholders of Vert, of which 235,922 common shares are being held in escrow and will be either (i) released to the former shareholders of Vert upon the satisfaction of certain milestones, or (ii) released to the Company for cancellation.

The purchase price included elements of consideration contingent on future performance related to specific license achievements within five years of the acquisition date. The expected license achievements were assessed probabilities by management which were then discounted to present value in order to derive a fair value of the contingent consideration. In aggregate, the amount of contingent consideration is up to $1,651 and totaled $1,251 at November 1, 2016. The license achievements are recorded as equity based on the estimated probability of occurring over the five years following the date of acquisition. In total, the consideration for the transaction totaled $2,162 which included $498 in cash and $413 in common shares issued and $1,251 in common shares held in escrow contingent on future license achievements.

The purchase price was allocated as follows:

Net assets acquired	$	425
Goodwill		1,737
Total purchase price	$	2,162

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

8. ACQUISTIONS (CONTINUED)

(a) Vert (continued)

The net assets acquired included the following:

Prepaids and other assets	$	21
Property, plant and equipment		483
Total assets		504
Accounts payable and accrued liabilities		79
Total liabilities		79
Net assets acquired	$	425

Goodwill arose in the acquisition of Vert because the cost of acquisition included a control premium. In addition, the consideration paid for the combination reflected the benefit of expected revenue growth in the Quebec market and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow on acquisition of Vert is as follows:

Consideration paid in cash	$	(498)
Less: Cash and cash equivalents acquired		-
Net cash outflow	$	(498)

For the three and nine months ended December 31, 2016, Vert accounted for $46 in net loss from November 1, 2016 to December 31, 2016.

Had the business combination been effected at April 1, 2016, management estimates that the revenue of the Company would have been $5 higher and the loss of the Company would be increased by $54 for the nine months ended December 31, 2016.

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.

(b) Hemp.CA

On November 1, 2016, the Company purchased 75% of the issued and outstanding shares of Groupe H.E.M.P.CA Inc. ("Hemp.CA"). Through the acquisition, the Company has obtained a hemp production license and Hemp.CA brands and digital properties. The acquisition serves to diversify Canopy Growth's business into the cultivation of hemp, and the development, production and future sale of hemp-based medical, recreational and industrial products. The transaction was accounted for as a business combination. In connection with the acquisition of Hemp.CA, the Company paid $595 ($295 of which is to be paid on or before April 1, 2017) and issued 258,037 common shares to former shareholders of Hemp.CA, of which 129,016 common shares are being held in escrow and will be released to the former shareholders of Hemp.CA by April 1, 2017. The common shares held in escrow were discounted to present value and amounted to $808 at November 1, 2016. In total, the consideration for the transaction totaled $2,306 which included $300 in cash, $295 to be paid on or before April 1, 2017, $903 in common shares issued and $808 in common shares held in escrow to be issued by April 1, 2017.

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

8. ACQUISTIONS (CONTINUED)

(b) Hemp.CA (continued)

The purchase price was allocated as follows:

Net assets acquired	$	76
Goodwill		2,230
Total purchase price	$	2,306

The net assets acquired included the following:

Cash	$	15
Prepaids		4
Property, plant and equipment		93
Total assets		112
Accounts payable and accrued liabilities		36
Total liabilities		36
Net assets acquired		76

Goodwill arose in the acquisition of Hemp.CA because the cost of acquisition included a control premium. In addition, the consideration paid for the combination reflected the benefit of expected revenue growth in the Quebec market and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow on acquisition of Hemp.CA is as follows:

Consideration paid in cash	$	(300)
Less: Cash and cash equivalents acquired		15
Net cash outflow	$	(285)
Consideration to be paid	$	(295)

For the three and nine months ended December 31, 2016, Hemp.CA accounted for $64 in net loss from November 1, 2016 to December 31,2016.

Had the business combination been effected at April 1, 2016, management estimates that the revenue of the Company would have been $38 higher and the loss of the Company would be increased by $192 for the nine months ended December 31, 2016.

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.

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

8. ACQUISTIONS (CONTINUED)

(c) MedCann GmbH

On December 12, 2016, the Company purchased 100% of the issued and outstanding shares of MedCann GmbH Pharma and Nutraceuticals ("MedCann GmbH"),a German-based pharmaceutical importer and distributor who has successfully placed Tweed-branded cannabis strains in German pharmacies. The transaction was accounted for as a business combination. In connection with the acquisition of MedCann GmbH, the Company issued 1,165,272 common shares to former shareholders of MedCann GmbH, of which 490,641 common shares are being held in escrow and will be either (i) released to the former shareholders of Medcann GmbH upon the satisfaction of certain milestones, or (ii) released to the Company for cancellation.

The purchase price included elements of consideration contingent on future performance related to specific license achievements within two years of the acquisition date. The expected license achievements were assessed probabilities by management which were then discounted to present value in order to derive a fair value of the contingent consideration. In aggregate, the amount of contingent consideration is up to $4,906 and totaled $3,660 at December 12, 2016. The license achievements are recorded as equity based on the estimated probability of occurring over the two years following the date of acquisition. In total, the consideration for the transaction totaled $6,746 in common shares issued and $3,660 in common shares held in escrow.

The purchase price was allocated as follows:

Net assets acquired	$	327
Goodwill		10,079
Total purchase price	$	10,406

The net assets acquired included the following:

Accounts receivable	$	5
Inventory		137
Prepaids and other assets		101
Property, plant and equipment		191
Total assets		434
Accounts payable and accrued liabilities		107
Total liabilities		107
Net assets acquired	$	327

Goodwill arose in the acquisition of MedCann GmbH because the cost of acquisition included a control premium. In addition, the consideration paid for the combination reflected the benefit of expected revenue growth in Germany and future medical market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Acquisition related costs of $355 were excluded from the consideration transferred and were recognized as an expense in the current year.

For the three and nine months ended December 31, 2016, MedCann GmbH accounted for $28 in net loss from December 12, 2016 to December 31, 2016.

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

8. ACQUISTIONS (CONTINUED)

(c) MedCann GmbH (continued)

Had the business combination been effected at April 1, 2016, management estimates that the revenue of the Company would have been $106 higher and the loss of the Company would be increased by $462 for the nine months ended December 31, 2016.

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.

(d) Bedrocan

On August 28, 2015, the Company purchased 100% of the issued and outstanding shares of Bedrocan. The transaction was accounted for as a business combination. The consideration for the transaction was 35,202,818 shares issued at a value of $1.64 per share which totaled $57,733 less cash acquired of $900. Other consideration included $931 of replacement options and $607 of replacement warrants for total consideration of $1,538. Bedrocan shares were exchanged at a ratio of 0.4650 to 1.

The purchase price was allocated as follows:

Net assets acquired	$	8,665
Product rights		28,000
License		4,000
Goodwill		18,606
Total purchase price	$	59,271

The net assets acquired included the following:

Cash	$	900
Accounts receivable		373
Taxes receivable		113
Biological assets		1,799
Prepaids		96
Inventory		538
Property, plant and equipment		17,224
Total assets		21,043
Accounts payable		1,060
Accrued expenses		25
Loan payable		2,059
Long-term loan		1,947
Deferred income tax liability		7,287
Total liabilities		12,378
Net assets acquired	$	8,665

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

Consideration paid in cash	$	-
Less: Cash and cash equivalents acquired		900
Net cash inflow	$	900

8. ACQUISTIONS (CONTINUED)

(d) Bedrocan (continued)

Goodwill arose in the acquisition of Bedrocan because the cost of acquisition included a control premium. In addition, the consideration paid for the combination reflected the benefit of expected revenue growth, future market development and the assembled work force of Bedrocan. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Acquisition related costs of $1,051 were excluded from the consideration transferred and were recognized as an expense in the nine months ended December 31, 2015.

For the nine months ended December 31, 2015, Bedrocan accounted for $937 in net income since August 28, 2015. This amount included $6,408 of unrealized gain on changes in fair value of biological assets and revenues of $685.

Had the business combination been effected at April 1, 2015, management estimates that the revenue of the Company would have been $773 higher and the loss of the Company would be increased by $2,343 for the nine months ended December 31, 2015.

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

(e) MedCann Access

On October 1, 2015, the Company acquired all of the issued and outstanding shares of several companies, which collectively operated as "MedCann Access", 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 MedCann Access.

In connection with the acquisition of MedCann Access, the Company issued 3,316,902 common shares to former shareholders of MedCann Access, of which 2,449,887 common shares are being held in escrow and will be either (i) released to the former shareholders of MedCann Access upon the satisfaction of certain milestones, or (ii) released to the Company for cancellation. See Note 12 for details on release of escrowed shares.

The purchase price included elements of consideration 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. In aggregate, the amount of contingent consideration is up to $4,240. The elements related to employment will be treated ratably as stock based compensation over two years from October 1, 2015. Elements related to customer and marketing milestones are measured as liabilities at their estimated discounted fair value. Adjustments to the fair values are recorded in earnings. Certain other elements of contingent consideration are recorded as equity based on the estimated probability of occurring over the one to two years following the date of acquisition.

Through the acquisition of MedCann Access, 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. Also in connection with the acquisition, the Company acquired a 20% interest in CannSoft Inc., an early stage software development company focused on solutions for companies licensed under the MMPR system. The Company later sold its 20% interest back to CannSoft Inc. for $7 for no gain or loss.

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

8. ACQUISTIONS (CONTINUED)

(e) MedCann Access (continued)

The purchase price was allocated as follows:

Net assets acquired	$	212
Goodwill		2,260
Total purchase price	$	2,472

The net assets acquired included the following:

Cash	$	154
HST receivable		95
Prepaids		20
Inventory		12
Property, plant and equipment		13
Investment in CannScience Innovations Inc.		154
Total assets		448
Accounts payable and accrued liabilities		236
Total liabilities		236
Net assets acquired	$	212

Net cash inflow on acquisition of MedCann Access is as follows:

Consideration paid in cash	$	-
Less: Cash and cash equivalents acquired		154
Net cash inflow	$	154

Acquisition costs of $85 were excluded from the consideration transferred and were recognized as an expense in the nine months ended December 31, 2015.

Had the business combination been effected April 1, 2015, the revenue of the Company would be unchanged, and the loss of the Company would be $180 higher for the nine months ended December 31, 2015.

9. INTANGIBLE ASSETS AND GOODWILL

Intangible assets are comprised of the following:

		December 31, 2016		March 31, 2016
Product rights	**$**	**28,000**	$	28,000
Health Canada license		**3,620**		3,834
Domain name		**18**		27
Total	**$**	**31,638**	$	31,861

The intangible assets, with the exception of the domain name, originated from the Bedrocan acquisition and total $31,620 (see Note 8). 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.

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

9. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

Goodwill arose from the following acquisitions (see Note 8):

	December 31, 2016	March 31, 2016
Bedrocan	$ 18,606	$ 18,606
MedCann GmbH	10,079	-
Hemp	2,230	-
MedCann Access	2,260	2,260
Vert	1,737	-
Total	$ 34,912	$ 20,866

10. INVESTMENTS

Canopy Health Innovations

On December 2, 2016, the Company announced the formation of a cannabis research incubator, Canopy Health Innovations Inc. ("CHI"). On December 21, 2016, CHI closed an offering to sell common shares of CHI for gross proceeds of approximately $7,000.

CHI will operate as an independent and private collaborator of the Company. CHI's business model is to engage in a number of areas of research, with a strict focus on the creation and enhancement of its own intellectual property. In doing so, it plans to work from genetics and other products sourced from the Company. The Company will retain an exclusive, first priority right to license and commercialize intellectual property developed and owned by CHI. Following the investment by qualified private investors, the Company retained a 46.15% ownership interest. At December 31, 2016, the Company's investment in CHI was $nil.

AusCann

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

The expertise and advisory services offered or performed by Canopy Growth subsidiaries will be exclusively carried out by Tweed Inc. and Tweed Farms Inc. At December 31, 2016, the investment in AusCann was $nil.

Bedrocan Brasil and Entourage

On June 28, 2016, the Company signed an agreement with Sao Paulo-based Entourage Phytolab S.A. ("Entourage"), which will see its wholly-owned subsidiary Bedrocan Canada Inc. ("Bedrocan Canada"), Bedrocan International BV (formerly Bedrocan Beheer BV) and local Brazilian partners create a new company called Bedrocan Brasil S.A. ("Bedrocan Brasil"). Bedrocan Brasil will facilitate the importation of

Bedrocan's proprietary standardized cannabis varieties and know-how into the Brazilian market. Additionally, the Company will partner with Entourage to develop cannabis-based pharmaceutical medical products for the Brazilian and international markets. The transactions to establish Bedrocan Brasil and the investment in Entourage was finalized and closed on September 20, 2016. On closing, the Company held a 41.75% interest in Bedrocan Brasil S.A. through its subsidiary Bedrocan Canada and a 50% direct ownership interest in Entourage.

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

10. INVESTMENTS (CONTINUED)

Bedrocan Brasil and Entourage (continued)

On November 23, 2016, the Company, Entourage and Bedrocan Brasil announced an initial funding round of up to USD$3,000 from independent investors in exchange for common shares in Entourage and Bedrocan Brasil which was closed by December 31, 2016. The funding round reduced the Company's holding in Entourage from 50% to 38.462% and reduced its holding in Bedrocan Brasil from 41.75% to 39.387%. These funds will be used both for the continuing development of Bedrocan Brasil and the launch of the Entourage clinical research plan.

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

The Company has invested a total of $69 and $966 for the three and nine months ended December 31, 2016, respectively, and $1,135 to date, to incorporate Bedrocan Brasil and invest in Entourage.

In addition, the Company will partner with Entourage to use the medical cannabis provided by Bedrocan Brasil to develop innovative medical cannabis products for the Brazilian and international markets.

Entourage will be responsible for developing the standardized cannabis extracts for pre-clinical and clinical trials.

As a result of the funding received on November 23, 2016, the Company accounts for these investments using the equity method of accounting. At December 31, 2016, the investments in both Entourage and Bedrocan Brazil were $nil.

11. LONG-TERM DEBT

	Maturity Date	**December 31, 2016**	March 31, 2016
Mortgage payable with a five year term and amortization period of seven years bearing an annual interest rate of 4.9%	August 1, 2021	**$ 3,366**	$ -
Mortgage payable with a five year term and amortization period of seven years bearing an annual interest rate of 5.3%	December 1, 2019	**1,407**	1,588
Term loan at 10% interest with monthly repayment	July 1, 2024	**1,762**	1,869
Capital lease obligations with interest rates between 7.0%-17.1%, and terms between 2-5 years, lien against the related leased equipment		**635**	565
		7,170	4,022
Less: current portion		**(1,078)**	(553)
Long-term portion		**$ 6,092**	$ 3,469

The mortgage with a maturity date of August 1, 2021, is secured by a first charge mortgage on the Tweed Farms property, a first position on a Tweed Farms general security agreement and a specific security interest, backed by a corporate guarantee from the Company. So long as the Company has positive cash on its balance sheet at year-end, it will be deemed to have met its financial covenant. The mortgage payable can be prepaid at any time but is subject to a prepayment fee equal to the greater of (a) three months' interest on the amount being prepaid or (b) the amount of interest lost by the lender over the remaining term of the loan on the amount being prepaid.

11. LONG-TERM DEBT (CONTINUED)

In respect of the mortgage with a maturity date of December 1, 2019, the mortgage is secured by a first charge on the Tweed Farms property. The Company must maintain an annual fixed coverage charge ratio (meaning earnings before interest, taxes, depreciation and amortization plus any contributions during the year divided by principal and interest payments) of 1.30:1 as measured at year-end. The Company was in compliance with this covenant as at March 31, 2016. The mortgage payable can be prepaid at any time but is subject to a prepayment fee equal to the greater of (a) three months' interest on the amount being prepaid or (b) the amount of interest lost by the lender over the remaining term of the loan on the amount being prepaid.

The Company also has a revolving line of credit for up to $2,000, with a variable interest rate based on the CIBC prime rate plus 1.2% with a 5 year term and interest only payments on drawn amounts, but is payable on demand or may be prepaid at any time at the option of the Company. The line of credit is subject to disbursement conditions related to capital expenditures at Tweed Farms. The line of credit was undrawn as at December 31, 2016.

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

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

12. SHARE CAPITAL

Authorized

An unlimited number of common shares.

On April 1, 2016, the Company released 288,861 of the 2,449,887 shares held in escrow in relation to the MedCann Access purchase, which was acquired on October 1, 2015, as certain milestones of the acquisition had been met. On the one year anniversary, October 1, 2016, the Company assessed the milestones associated with the Medcann Access acquisition and out of the remaining 2,161,026 shares held in escrow, 722,378 were released to former MedCann Access shareholders as certain milestones of the acquisition had been met and 1,149,892 were released to the Company and cancelled and 288,756 shares remain under escrow as they are tied to future performance related to employment.

On April 7, 2016, the Company announced that it had entered into an agreement with XIB Consulting Inc. ("XIB"), to assist the Company with corporate development initiatives including, but not limited to, acquisitions, strategic networking and market awareness. The agreement was for an initial term of six months. Under the agreement, the Company issued a total of 38,656 shares at a price of $2.59 per common share. On September 29, 2016, the Company amended the agreement to renew to December 31, 2016 and issued an additional 18,899 shares, after TSX approval on October 18, 2016, at a price of $3.97 per share.

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

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

On November 1, 2016, 294,900 common shares were issued for the purchase of all the outstanding shares of Vert (see Note 8). Of the 294,900 shares, 235,922 are being held in escrow and will be either (i) released to the former shareholders of Vert upon the satisfaction of certain milestones, or (ii) released to the Company for cancellation.

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

12. SHARE CAPITAL (CONTINUED)

On November 1, 2016, 258,037 common shares were issued for the purchase of all the outstanding shares of Hemp.CA (see Note 8). Of the 258,037 shares, 129,016 are being held in escrow and will be released in the first quarter of the next fiscal year.

On December 12, 2016, 1,165,272 common shares were issued for the purchase of all the outstanding shares of MedCann GmbH (see Note 8). Of the 1,165,272 shares, 490,641 are being held in escrow of which 367,981 will be released in the third quarter of the next fiscal year. The remaining 122,660 will be either (i) released to the former shareholders of MedCann GmbH upon the satisfaction of certain milestones, or (ii) released to the Company for cancellation.

On December 22, 2016, the Company completed a "bought deal" financing of 5,662,000 common shares for aggregate gross proceeds of $60,017. The offering price was $10.60 per share and included a cash commission. Transactions costs of $3,762 were paid as part of the common share issuance.

During the three and nine months ended December 31, 2016, 103,524 common shares were released from escrow under the agreement with LBC Holdings, Inc., a company controlled by the artist known as Snoop Dogg (see Note 16). The remaining 147,441 common shares are escrowed for release, subject to meeting certain service criteria, over the initial three years of the term.

During the nine months ended December 31, 2016, 213,104 warrants were exercised at a price of $0.59 and 2,322,962 employee stock option plan ("ESOP") options were exercised ranging in price from $0.43 to $3.71 for gross proceeds of $3,583. As at December 31, 2016, there were no warrants issued or outstanding.

Option plan

The Company has an ESOP that is administered by the Board of Directors of the Company who establish exercise prices, at not less than market price at the date of grant, and expiry dates, which have been set at six years from issuance. Options under the Plan remain exercisable in increments with 1/3 being exercisable on each of the first, second and third anniversaries from the date of grant, except as otherwise approved by the Board of Directors. The maximum number of common shares reserved for issuance for options that may be granted under the Plan is 10% of the common shares outstanding, which amounts to 12,479,850 at December 31, 2016.

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

	Options issued	Weighted average exercise price
Balance outstanding at March 31, 2016	8,446,182	$2.05
Options granted	1,042,500	2.68
Options exercised	(623,715)	1.06
Options forfeited/cancelled	(364,505)	2.16
Balance outstanding at June 30, 2016	8,500,462	$2.19
Options granted	1,641,201	3.77
Options exercised	(231,239)	2.03
Options forfeited/cancelled	(270,272)	2.62
Balance outstanding at September 30, 2016	9,640,152	$2.45
Options granted	357,500	9.40
Options exercised	(1,468,008)	1.58
Options forfeited/cancelled	(259,724)	3.15
Balance outstanding at December 31, 2016	**8,269,920**	**$2.88**

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

12. SHARE CAPITAL (CONTINUED)

Option plan (continued)

The Company recorded $2,115 and $4,347 for the three and nine months ended December 31, 2016, respectively (for the three and nine months ended December 31, 2015 - $1,162 and $2,107, respectively) in share-based compensation expense related to options and shares which are measured at fair value at the date of grant and expensed over the option's vesting period. Included in share-based compensation was $618 and $1,002 for the three and nine months ended December 31, 2016, respectively, that was recorded in sales and marketing expenses relating to previously issued escrowed shares.

In determining the amount of share-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of options granted during the nine-months ended December 31, 2016 and 2015 by applying the following assumptions:

	December 31, 2016	December 31, 2015
Risk-free interest rate	0.55% - 0.88%	1.60% - 1.64%
Expected life of options (years)	3 - 5	3 - 6
Expected annualized volatility	62%	70%
Expected dividend yield	Nil	Nil
Weighted average Black-Scholes value of each option	$1.07 - $6.09	$0.29 - $2.04

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

13. EARNINGS PER SHARE

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

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

14. RELATED PARTIES

The Company leased its Smiths Falls premises from Tweed Hershey Drive Inc. ("Tweed Hershey"), which was related through common ownership (the Company's CEO and chairman is a significant shareholder of the lessor). The lease was set to expire on December 31, 2018 and the Company had the option to renew for a total of 15 years, in three 5 year terms. For the three and nine months ended December 31, 2016, the expense incurred under this lease including base rent and operating costs was $682 and $1,972, respectively (for the three and nine month period ended December 31, 2015 - $585 and 1,816, respectively). The Company had $338 owing related to rent associated with these leased premises at December 31, 2016 (March 31, 2016 - $488) and has a rent deposit of $450, which was included in other long-term assets. On January 13, 2017, the Company acquired the entire building and land, known as 1 Hershey Drive, Smiths Falls, Ontario, from Tweed Hershey (see Note 20 (a) Subsequent Events).

The Company leases premises for the two Bedrocan facilities in Toronto from a company controlled by a director of Canopy Growth Corporation. The leases expire on October 15, 2018 and August 31, 2024. Included in the expenses for the three and nine months ended December 31, 2016 for rent and operating costs was $197 and $587, respectively (for the three and nine month period ended December 31, 2015 - $227 and $282, respectively).

14. RELATED PARTIES (CONTINUED)

The CEO is providing consulting services to the Company at $50 per quarter and is eligible for up to an annual $200 bonus. For the three and nine month period ended December 31, 2016 consulting expenses totaled $100 and $300, respectively (for the three and nine month period ended December 31, 2015 - $200 and $300, respectively). The Company had $218 owing in accounts payable and accrued liabilities at December 31, 2016 (March 31, 2016 - $250). All amounts exclude HST.

The Company currently has a loan payable to a director of Canopy Growth Corporation. Included in interest expense for the three and nine month period ended December 31, 2016 was an amount of $42 and $134, respectively (for the three and nine month period ended December 31, 2015 - $83 and $116, respectively). At December 31, 2016, the loan balance was $1,759 (March 31, 2016 - $1,869) (see Note 11).

During the three and nine month period ended December 31, 2016, $54 and $166 was expensed in director's fees (for the three and nine month period ended December 31, 2015 - $73 and $182, respectively). No amounts remained outstanding at December 31, 2016 and March 31, 2016.

Pursuant to the share purchase agreement with Hemp.CA, the Company owes $295 to a shareholder of Hemp.CA and who is now, Senior Vice President and Managing Director of Hemp.CA which will be paid on or before April 1, 2017. In addition, the Company entered into a lease for the Vert and Hemp.CA properties, of which the said shareholder is the landlord. The lease expires on November 1, 2036 and the Company has two automatic renewal terms of 10 years each. For the three and nine months ended December 31, 2016, the expense incurred under this lease including base rent and operating costs was $9.

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

15. COMMITMENTS AND CONTINGENCIES

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

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

On February 11, 2016, the Company announced that it had entered into a business agreement with the recording artist known as Snoop Dogg. Under the agreement between the Company and LBC Holdings, Inc., a company controlled by Snoop Dogg, the two parties will partner on select content and brand strategy exclusively in Canada. The Company has determined the services received are best measured by reference to the fair value of the equity granted. The license agreement is for a term of up to five years. As partial consideration for the arrangement, LBC Holdings, Inc. will receive a combination of common shares, royalties, and monetary compensation, released over the course of the agreement. The share consideration was comprised of common shares totaling 386,100 at a price of $2.59 per share, of which 135,135 common shares were issued on February 11, 2016 and 103,524 common shares were issued during the three months ended December 31, 2016, with the remainder of the 147,441 common shares are escrowed for release, subject to meeting certain service criteria, over the initial three years of the term.

Included in other long-term liabilities was $216 related to the rent escalation for the Hershey Drive facility that is being amortized over the remaining lease term (see Note 20 (a) Subsequent Events).

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

15. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

A portion of the purchase price of MedCann Access, which was acquired on October 1, 2015, was in the form of contingent consideration. The contingent consideration was contingent on future performance related to employment and customer milestones, certain marketing milestones, and specific achievements within one to two years of the acquisition date. The Company's liability for this contingent consideration was measured at fair value based on the Company's expectations of MedCann Access achieving the milestones. The expected milestones were assessed probabilities by management which was then discounted to present value in order to derive a fair value of the contingent consideration. On October 1, 2016 the Company assessed the milestones associated with the MedCann Access acquisition. Out of the remaining 2,161,026 shares held in escrow, 722,378 were released to former MedCann Access shareholders related to employment and as certain milestones of the acquisition had been met, 1,149,892 were released to the Company and cancelled, and 288,756 shares remain under escrow and are related to employment. At December 31, 2016, there was no remaining contingent consideration.

In accordance with the agreement to purchase MedCann GmbH, the Company is obligated to pay a €500 EUR bonus to the managing director of MedCann GmbH if specific license achievements are met within two years of the acquisition date. The expected license achievements were assessed probabilities by management which was then discounted to present value in order to derive a fair value of the contingent bonus payment. As a result, the Company has recorded $527 as the fair value of the contingent bonus payment.

16. SUPPLEMENTARY CASH FLOW INFORMATION

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

		December 31, 2016 (9 months)		December 31, 2015 (9 months)
Accounts receivable	**$**	**(971)**	$	(215)
Prepaid expenses and other assets		**(943)**		(116)
Accounts payable and accrued liabilities		**4,561**		182
Deferred revenue		**(312)**		-
Total	**$**	**2,335**	**$**	**(149)**

Non-cash transactions

Excluded from the December 31, 2016 condensed interim consolidated statements of cash flows was a total of $2,491 in accounts payable and accrued liabilities as follows: $2,338 of property, plant and equipment and assets in process purchases and $153 of share issue costs. Included for the December 31, 2016 condensed interim consolidated statements of cash flows is a total of $946 in accounts payable and accrued liabilities as follows: $877 of property, plant and equipment and assets in process purchases and $69 of share issue costs.

Excluded from the December 31, 2015 condensed interim consolidated statements of cash flows was a total of $648 in accounts payable and accrued liabilities of property, plant and equipment and assets in process purchases. Included for the December 31, 2015 condensed interim consolidated statements of cash flows was a total of $1,798 in accounts payable and accrued liabilities as follows: $1,609 of property, plant and equipment and assets in process purchases and $189 of share issue costs.

Cash and cash equivalents consist of the following:

		December 31, 2016		March 31, 2016
Cash	**$**	**63,604**	$	5,397
Short-term guaranteed investment certificates		**28,900**		10,000
Total cash and cash equivalents	**$**	**92,504**	$	15,397

17. FINANCIAL INSTRUMENTS

Fair value hierarchy

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

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

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

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

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

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

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

The short-term investments, restricted investments, and debt are classified as Level 2 financial instruments. The warrants were valued using a Black-Scholes option pricing model and are also classified as a Level 2 financial instrument.

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

MedCann Access related contingent consideration

The Company's liability for the MedCann Access related contingent consideration was measured at fair value based on unobservable inputs, and was 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. At December 31, 2016 there was no contingent consideration as the milestones were assessed on October 1, 2016. The Company recognized $895 and $1,193 for the three and nine months ended December 31, 2016 in the increase in fair value of acquisition consideration related liabilities line of the statement of net income and comprehensive income.

18. SEGMENTED INFORMATION

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

All property, plant and equipment and intangible assets are located in Canada, except for $146 which is located outside of Canada.

All revenues were principally generated in Canada during the three and nine months ended December 31, 2016, except for $11 and $139, respectively, related to exported medical cannabis generated outside of Canada. All revenues were generated in Canada during the three and nine months ended December 31, 2015.

19. CAPITAL MANAGEMENT

The Company's objective is to maintain sufficient capital base so as to maintain investor, creditor and customer confidence and to sustain future development of the business and provide the ability to continue as a going concern. Management defines capital as the Company's shareholders' equity and debt. 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 December 31, 2016 total managed capital was comprised of shareholders' equity and debt of $258,694 (March 31, 2016 - $127,807).

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

The Company is subject to externally imposed restrictions related to covenants on its mortgage payable (see Note 11).

20. SUBSEQUENT EVENTS

a) Purchase of 1 Hershey Drive

On January 13, 2017, the Company closed the acquisition of the property at 1 Hershey Drive that currently houses Canopy Growth's headquarters and the Tweed production facilities. Tweed had previously leased 168,000 sq. ft. of licensed space. The acquisition of the entire 472,000 sq. ft. building and 42 acres of land provides the company with the ability to expand its production and processing capacity.

The building, property and chattels were acquired for $6,600, of which $924 was settled with the issuance of 94,397 the Company's common shares, based on a 5-day volume weighted average price ("VWAP") of $9.7882 ending the day before closing. The remainder was paid in cash on closing. As a part owner of the facility prior to the transaction, the Chairman and CEO of the Company, received 70,800 of the 94,397 shares issued. These shares are subject to a 4-month lockup.

The acquisition is considered a "related party transaction" within the meaning of Multilateral Instrument 61-101 — Protection of Minority Security Holders in Special Transactions ("MI 61-101") because Mr. Linton, a director and officer of the Company is also a shareholder of the vendor Tweed Hershey Drive Inc. MI 61-101 provides that, unless exempted, an issuer proposing to undertake a related party transaction is required to prepare a formal valuation of the subject matter of the proposed transaction and to provide holders of the class of affected securities a summary of such valuation. MI 61-101 also requires that, unless exempted, the issuer seek approval of the transaction by a majority of the votes cast by the "minority" holders of the affected securities.

To ensure a fair valuation, an independent Director of Canopy Growth led the purchase negotiation. The Company also obtained an independent appraisal to support the final price negotiated. Canopy Growth has each relied on an exemption available pursuant to MI 61-101 from the formal valuation and minority approval requirements. MI 61-101 provides that if, at the time the transaction is agreed to, neither the fair market value of the subject matter of, nor the fair market value of the consideration for the transaction, insofar as it involves interested parties, exceeds 25% of the issuer's market capitalization (calculated in accordance with MI 61-101), the formal valuation and minority approval requirements do not apply to such transaction. The acquisition of 1 Hershey Drive is exempt from the formal valuation and minority approval requirements of MI 61-101 because neither the fair market value of 1 Hershey Drive nor the fair market value of the purchase price for the acquisition of 1 Hershey Drive exceeds 25% of the Company's market capitalization.

b) AusCann Group Holdings Ltd. name change

On January 23, 2017, the AusCann Group Holdings Ltd. changed its name to AusCann Operations Ltd.

20. SUBSEQUENT EVENTS (CONTINUED)

c) Acquisition of Mettrum

On January 31, 2017, the Company announced the closing of the acquisition of Mettrum Health Corp. and its subsidiaries (together "Mettrum") pursuant to the terms of an arrangement agreement dated November 30, 2016 and previously announced by the Company on December 1, 2016 (the "Transaction"). The total transaction is valued at approximately $363,121 million and was satisfied by the issuance of common shares in the Company. Under the terms of the Transaction, Mettrum shareholders received 0.7132 common shares of the Company for each common share of Mettrum, representing consideration of 7.05 per Mettrum common share based on the closing price of Mettrum common shares on the Toronto Stock Exchange ("TSXV") on January 31, 2017. After completion of the Transaction, existing Canopy Growth and Mettrum shareholders are expected to own approximately 77.7% and 22.3%, respectively, of the pro forma company. As at January 31, 2017, there were 48,044,085 Mettrum shares and 3,462,427 Mettrum options outstanding which were converted into 34,265,042 Canopy Growth shares and 2,469,403 options, respectively. The vesting of Mettrum Options held by certain officers and directors of Mettrum will be accelerated in connection with the completion of the Transaction.