



Canopy Growth Corp. Just Destroyed Over \$1 Million of Weed: Time to Sell?

Description

Canopy Growth Corp. ([TSX:WEED](#)) has been one of the best-performing stocks of 2016, but it may be starting to exhibit serious signs of slowing down after an announcement Tuesday that the company was forced to destroy over \$1 million of medical marijuana that was recalled by Health Canada. The company has since written down approximately \$800,000 of inventory relating to product sold in 2016.

The write-down

Canopy has destroyed over \$1 million of medical marijuana produced by the company's subsidiary Mettrum Ltd. which has allegedly sprayed its cannabis plants with banned chemical pesticide myclobutanil since 2014, according to a former Mettrum employee. This pesticide is prohibited because when heated, the pesticide emits hydrogen cyanide.

The former employee also indicated that not only did the company knowingly spray this prohibited pesticide on its plants, but it hid the pesticide in the ceiling tiles during Health Canada inspections to avoid detection; Health Canada was not testing plants for banned chemicals at the time.

An expensive acquisition

Canopy agreed to purchase Mettrum Ltd. in December and has been granted court approval to complete the acquisition earlier this month. This acquisition may prove to be a very expensive deal with industry experts suggesting the problem may be much larger than the \$800,000 initial write-down as an unknown amount of product is affected.

At this time, Health Canada only requires periodic spot checks on cannabis produced by companies granted a license to produce cannabis by the Canadian government. Medical marijuana patients are now increasingly becoming worried about the cannabis products they consume given the risks associated with the banned pesticide and the unknown quantity of affected cannabis circulating in the marketplace today.

Because Canopy is licensed by the Canadian government and required to comply with Health Canada regulations, questions remain as to whether or not the company's license to produce cannabis will be

affected at any time in the future.

Potentially an industry-wide issue

Organigram Holdings Inc., another Canadian medical marijuana producer, has indicated that its write-downs relating to this recall have amounted to approximately \$500,000. It appears that these recent announcements may only be the tip of the iceberg should Health Canada begin regular testing of cannabis for pesticides — something that medical marijuana patients would clearly like to see happen.

The Globe and Mail has reported that “patients of both companies have contacted *The Globe* in recent weeks describing symptoms that include persistent nausea, vomiting, and difficulty breathing. All are similar to the known symptoms of hydrogen-cyanide poisoning.”

At this point in time, it is clear that Canopy investors should be extremely careful considering the potential impact of additional write-downs and the implications this recall may have for the company’s production license in the future. Right now may be the time to take some money off the table.

Stay Foolish, my friends.

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