

# **CANOPY GROWTH CORPORATION**

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2018 AND 2017  
(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)

|  | Notes | September 30,<br>2018 | March 31,<br>2018   |
|--|-------|-----------------------|---------------------|
| <b>Assets</b>                                    |       |                       |                     |
| <b>Current assets</b>                            |       |                       |                     |
| Cash and cash equivalents                        | 23    | \$ 429,401            | \$ 322,560          |
| Amounts receivable                               | 4     | 45,807                | 21,425              |
| Biological assets                                | 5     | 20,720                | 16,348              |
| Inventory  | 6     | 150,406               | 101,607             |
| Prepaid expenses and other assets                | 7     | 56,533                | 19,837              |
|  |       | <b>702,867</b>        | <b>481,777</b>      |
| Property, plant and equipment                    | 8     | 661,402               | 303,682             |
| Other long-term assets                           | 7(b)  | 26,776                | 8,340               |
| Investments in associates and joint ventures     | 13    | 136,003               | 63,106              |
| Other financial assets                           | 14    | 231,387               | 163,463             |
| Intangible assets                                | 10    | 103,867               | 101,526             |
| Goodwill   | 10    | 1,114,158             | 314,923             |
|  |       | <b>\$ 2,976,460</b>   | <b>\$ 1,436,817</b> |
| <b>Liabilities</b>                               |       |                       |                     |
| <b>Current liabilities</b>                       |       |                       |                     |
| Accounts payable and accrued liabilities         | 15    | \$ 159,633            | \$ 89,571           |
| Deferred revenue                                 |       | 206                   | 900                 |
| Current portion of long-term debt                | 16(a) | 903,453               | 1,557               |
| Other current liabilities                        | 9(b)  | 27,000                | -                   |
|  |       | <b>1,090,292</b>      | <b>92,028</b>       |
| Long-term debt                                   | 16(a) | 6,707                 | 6,865               |
| Deferred tax liability                           |       | 30,889                | 33,536              |
| Long-term financial liabilities                  | 16(b) | 7,750                 | 61,150              |
|  |       | <b>1,135,638</b>      | <b>193,579</b>      |
| Commitments and contingencies                    | 22    |                       |                     |
| <b>Shareholders' equity</b>                      |       |                       |                     |
| Share capital                                    | 18    | 2,097,728             | 1,076,838           |
| Other reserves                                   | 18    | 77,905                | 127,418             |
| Accumulated other comprehensive income           |       | (34,742)              | 46,166              |
| Deficit  |       | (509,062)             | (91,649)            |
| Equity attributable to Canopy Growth Corporation |       | <b>1,631,829</b>      | <b>1,158,773</b>    |
| Non-controlling interests                        | 12    | 208,993               | 84,465              |
| Total equity                                     |       | <b>1,840,822</b>      | <b>1,243,238</b>    |
|  |       | <b>\$ 2,976,460</b>   | <b>\$ 1,436,817</b> |

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**  
**UNAUDITED**

| (Expressed in CDN \$000's except share amounts)                                      | Notes | Three months ended    |                                   | Six months ended      |                                   |
|--|-------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|
|  |       | September 30,<br>2018 | September 30,<br>2017             | September 30,<br>2018 | September 30,<br>2017             |
|  |       |                       | <i>(As Restated - see note 3)</i> |                       | <i>(As Restated - see note 3)</i> |
| <b>Revenue</b>   | 3(b)  | \$ 23,327             | \$ 17,569                         | \$ 49,243             | \$ 33,442                         |
| Inventory production costs expensed to cost of sales                                 |       | 16,759                | 8,101                             | 31,591                | 15,262                            |
| Gross margin before the undernoted   |       | 6,568                 | 9,468                             | 17,652                | 18,180                            |
| Fair value changes in biological assets included in inventory sold and other charges | 6     | 51,496                | 12,848                            | 77,884                | 23,632                            |
| Unrealized gain on changes in fair value of biological assets                        | 5     | (10,944)              | (30,122)                          | (68,233)              | (50,376)                          |
| <b>Gross margin</b>  |       | <b>(33,984)</b>       | 26,742                            | <b>8,001</b>          | 44,924                            |
| Sales and marketing  |       | 39,047                | 7,638                             | 56,313                | 14,043                            |
| Research and development   |       | 1,944                 | 494                               | 2,700                 | 627                               |
| General and administration   |       | 37,101                | 8,393                             | 56,689                | 15,886                            |
| Acquisition-related costs  |       | 3,202                 | 865                               | 5,086                 | 1,701                             |
| Share-based compensation expense   | 18(b) | 45,025                | 5,862                             | 68,097                | 8,743                             |
| Share-based compensation expense related to acquisition milestones                   | 18(c) | 50,730                | 1,184                             | 57,825                | 2,314                             |
| Depreciation and amortization  |       | 3,595                 | 3,283                             | 6,625                 | 6,827                             |
| Operating expenses   |       | 180,644               | 27,719                            | 253,335               | 50,141                            |
| <b>Loss from operations</b>  |       | <b>(214,628)</b>      | (977)                             | <b>(245,334)</b>      | (5,217)                           |
| Share of loss on equity investments  | 13    | (4,363)               | (170)                             | (6,932)               | (170)                             |
| Other income (expense), net  | 19    | (111,339)             | 241                               | (171,765)             | (3,360)                           |
| <b>Other income (expense)</b>  |       | <b>(115,702)</b>      | 71                                | <b>(178,697)</b>      | (3,530)                           |
| <b>Loss before income taxes</b>  |       | <b>(330,330)</b>      | (906)                             | <b>(424,031)</b>      | (8,747)                           |
| Income tax (expense) recovery  |       | (284)                 | (707)                             | 2,439                 | (2,040)                           |
| <b>Net loss</b>  |       | <b>\$ (330,614)</b>   | <b>\$ (1,613)</b>                 | <b>\$ (421,592)</b>   | <b>\$ (10,787)</b>                |
| <b>Net loss attributable to:</b>   |       |                       |                                   |                       |                                   |
| Canopy Growth Corporation  |       | \$ (337,136)          | (1,338)                           | (417,413)             | (10,392)                          |
| Non-controlling interests  |       | 6,522                 | (275)                             | (4,179)               | (395)                             |
|  |       | <b>\$ (330,614)</b>   | <b>\$ (1,613)</b>                 | <b>\$ (421,592)</b>   | <b>\$ (10,787)</b>                |
| <b>Earnings per share</b>  |       |                       |                                   |                       |                                   |
| Net loss per share, basic:   | 21    | \$ (1.52)             | (0.01)                            | (1.98)                | (0.07)                            |
| Weighted average number of outstanding common shares, basic:                         |       | 221,725,511           | 167,226,218                       | 210,972,889           | 165,550,073                       |

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

UNAUDITED

|  | Notes | Three months ended    |                       | Six months ended      |                       |
|--|-------|-----------------------|-----------------------|-----------------------|-----------------------|
|  |       | September 30,<br>2018 | September 30,<br>2017 | September 30,<br>2018 | September 30,<br>2017 |
| (Expressed in CDN \$000's)   |       |                       |                       |                       |                       |
| <b>Net loss</b>  |       | \$ (330,614)          | \$ (1,613)            | \$ (421,592)          | \$ (10,787)           |
| Fair value changes on equity instruments at FVOCI                                  | 14    | (3,427)               | 807                   | 7,730                 | (8,479)               |
| Fair value changes of own credit risk of financial liabilities designated at FVTPL | 16(a) | (65,610)              | -                     | (75,030)              | -                     |
| Exchange differences on translating foreign operations                             |       | (3,386)               | (41)                  | (4,706)               | 365                   |
| Income tax   |       | (719)                 | (107)                 | (949)                 | 1,124                 |
|  |       | (73,142)              | 659                   | (72,955)              | (6,990)               |
| <b>Comprehensive loss</b>  |       | \$ (403,756)          | \$ (954)              | \$ (494,547)          | \$ (17,777)           |
| <b>Comprehensive loss attributable to:</b>   |       |                       |                       |                       |                       |
| Canopy Growth Corporation  |       | \$ (411,158)          | \$ (679)              | \$ (498,321)          | \$ (17,382)           |
| Non-controlling interests  |       | 7,402                 | (275)                 | 3,774                 | (395)                 |
|  |       | \$ (403,756)          | \$ (954)              | \$ (494,547)          | \$ (17,777)           |

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
**FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**  
 UNAUDITED

| (Expressed in CDN \$000's except share amounts)   | Note | Number of shares   | Share capital     | Other reserves      |                 | Accumulated other comprehensive income |                      |                                | Deficit            | Non-controlling interests | Shareholders' equity |
|---|------|--------------------|-------------------|---------------------|-----------------|--|----------------------|--------------------------------|--------------------|---------------------------|----------------------|
|   |      |                    |                   | Share-based reserve | Warrants        | Ownership changes                      | Exchange differences | Fair value changes, net of tax |                    |                           |                      |
| <b>Balance at March 31, 2017</b>  |      | <b>162,187,262</b> | <b>\$ 621,541</b> | <b>\$ 23,415</b>    | <b>\$ -</b>     | <b>\$ -</b>                            | <b>\$ 198</b>        | <b>\$ 15,900</b>               | <b>\$ (21,296)</b> | <b>\$ (32)</b>            | <b>\$ 639,726</b>    |
| Issuance of shares from acquisitions  |      | 1,671,196          | 28,263            | 845                 | 1,303           | -                                      | -                    | -                              | -                  | -                         | 30,411               |
| Exercise of ESOP stock options  |      | 728,776            | 2,413             | (836)               | -               | -                                      | -                    | -                              | -                  | -                         | 1,577                |
| Other share issuances   |      | 21,959             | 234               | (234)               | -               | -                                      | -                    | -                              | -                  | -                         | -                    |
| Share-based compensation  |      | -                  | -                 | 3,563               | -               | -                                      | -                    | -                              | -                  | -                         | 3,563                |
| Non-controlling interest arising from Canopy Rivers financing net of share issue costs of \$1,425 |      | -                  | -                 | -                   | -               | 120                                    | -                    | -                              | -                  | 35,135                    | 35,255               |
| Additional non-controlling interest relating to share-based payment                               |      | -                  | -                 | -                   | -               | -                                      | -                    | -                              | -                  | 395                       | 395                  |
| Net loss  |      | -                  | -                 | -                   | -               | -                                      | -                    | -                              | (9,054)            | (120)                     | (9,174)              |
| Other comprehensive income  |      | -                  | -                 | -                   | -               | -                                      | 406                  | (8,055)                        | -                  | -                         | (7,649)              |
| <b>Balance at June 30, 2017</b>   |      | <b>164,609,193</b> | <b>\$ 652,451</b> | <b>\$ 26,753</b>    | <b>\$ 1,303</b> | <b>\$ 120</b>                          | <b>\$ 604</b>        | <b>\$ 7,845</b>                | <b>\$ (30,350)</b> | <b>\$ 35,378</b>          | <b>\$ 694,104</b>    |
| Equity financings and private placements  |      | 3,105,590          | 24,902            | -                   | -               | -                                      | -                    | -                              | -                  | -                         | 24,902               |
| Issuance of shares from acquisitions  |      | 111,669            | 994               | -                   | -               | -                                      | -                    | -                              | -                  | -                         | 994                  |
| Exercise of warrants  |      | 143,219            | 527               | -                   | -               | -                                      | -                    | -                              | -                  | -                         | 527                  |
| Exercise of ESOP stock options  |      | 667,603            | 4,100             | (2,176)             | -               | -                                      | -                    | -                              | -                  | -                         | 1,924                |
| Other share issuances   |      | 133,325            | 1,178             | (175)               | -               | -                                      | -                    | -                              | -                  | -                         | 1,003                |
| Share-based compensation  |      | -                  | -                 | 6,399               | -               | -                                      | -                    | -                              | -                  | -                         | 6,399                |
| Non-controlling interest arising from Canopy Rivers   |      | -                  | -                 | -                   | -               | -                                      | -                    | -                              | -                  | (143)                     | (143)                |
| Additional non-controlling interest relating to share-based payment                               |      | -                  | -                 | -                   | -               | -                                      | -                    | -                              | -                  | 878                       | 878                  |
| Non-controlling interest arising from acquisitions and ownership changes                          |      | -                  | -                 | -                   | -               | -                                      | -                    | -                              | -                  | 1,939                     | 1,939                |
| Net loss  |      | -                  | -                 | -                   | -               | -                                      | -                    | -                              | (1,338)            | (275)                     | (1,613)              |
| Other comprehensive income  |      | -                  | -                 | -                   | -               | -                                      | (41)                 | 700                            | -                  | -                         | 659                  |
| <b>Balance at September 30, 2017</b>  |      | <b>168,770,599</b> | <b>\$ 684,152</b> | <b>\$ 30,801</b>    | <b>\$ 1,303</b> | <b>\$ 120</b>                          | <b>\$ 563</b>        | <b>\$ 8,545</b>                | <b>\$ (31,688)</b> | <b>\$ 37,777</b>          | <b>\$ 731,573</b>    |

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

UNAUDITED

| (Expressed in CDN \$000's except share amounts)                             | Note       | Number of shares   | Share capital       | Share-based reserve | Other reserves    |                     | Accumulated other comprehensive income |                                |                     | Non-controlling interests | Shareholders' equity |
|---|------------|--------------------|---------------------|---------------------|-------------------|---------------------|--|--------------------------------|---------------------|---------------------------|----------------------|
|   |            |                    |                     |                     | Warrants          | Ownership changes   | Exchange differences                   | Fair value changes, net of tax | Deficit             |                           |                      |
| <b>Balance at March 31, 2018</b>  |            | <b>199,320,981</b> | <b>\$ 1,076,838</b> | <b>\$ 57,982</b>    | <b>\$ 70,455</b>  | <b>\$ (1,019)</b>   | <b>\$ 608</b>                          | <b>\$ 45,558</b>               | <b>\$ (91,649)</b>  | <b>\$ 84,465</b>          | <b>\$ 1,243,238</b>  |
| Issuance of shares from acquisitions  | 18(a)(ii)  | 717,097            | 26,202              | 694                 | -                 | -                   | -                                      | -                              | -                   | -                         | 26,896               |
| Exercise of warrants  | 18(a)(iv)  | 35,110             | 322                 | -                   | (189)             | -                   | -                                      | -                              | -                   | -                         | 133                  |
| Exercise of ESOP stock options  | 18(b)      | 637,187            | 9,414               | (4,318)             | -                 | -                   | -                                      | -                              | -                   | -                         | 5,096                |
| Other share issuances   | 18(a)(iii) | 609,741            | 11,991              | (3,310)             | -                 | -                   | -                                      | -                              | -                   | -                         | 8,681                |
| Share-based compensation  | 18(b)      | -                  | -                   | 23,521              | -                 | -                   | -                                      | -                              | -                   | -                         | 23,521               |
| Issuance of restricted share units  | 18(b)      | -                  | -                   | 2,247               | -                 | -                   | -                                      | -                              | -                   | -                         | 2,247                |
| Other share issue costs   |            | -                  | (282)               | -                   | -                 | -                   | -                                      | -                              | -                   | -                         | (282)                |
| Ownership change arising from changes in non-controlling interest           | 12         | -                  | -                   | -                   | -                 | (499)               | -                                      | -                              | -                   | 1,040                     | 541                  |
| Additional non-controlling interest related to share based payments         | 12         | -                  | -                   | -                   | -                 | -                   | -                                      | -                              | -                   | 5,183                     | 5,183                |
| Net loss  |            | -                  | -                   | -                   | -                 | -                   | -                                      | -                              | (80,277)            | (10,701)                  | (90,978)             |
| Other comprehensive income  |            | -                  | -                   | -                   | -                 | -                   | (1,320)                                | (5,566)                        | -                   | 7,073                     | 187                  |
| <b>Balance at June 30, 2018</b>   |            | <b>201,320,116</b> | <b>\$ 1,124,485</b> | <b>\$ 76,816</b>    | <b>\$ 70,266</b>  | <b>\$ (1,518)</b>   | <b>\$ (712)</b>                        | <b>\$ 39,992</b>               | <b>\$ (171,926)</b> | <b>\$ 87,060</b>          | <b>\$ 1,224,463</b>  |
| Issuance of shares from acquisitions  | 18(a)(ii)  | 12,301,770         | 687,466             | -                   | -                 | -                   | -                                      | -                              | -                   | -                         | 687,466              |
| Exercise of ESOP stock options  | 18(b)      | 3,207,004          | 42,255              | (22,458)            | -                 | -                   | -                                      | -                              | -                   | -                         | 19,797               |
| Other share issuances   | 18(a)(iii) | 1,774,245          | 40,714              | (35,963)            | -                 | -                   | -                                      | -                              | -                   | -                         | 4,751                |
| Share-based compensation  | 18(b)      | -                  | -                   | 89,381              | -                 | -                   | -                                      | -                              | -                   | -                         | 89,381               |
| Issuance of shares on vesting of RSUs                                       | 18(b)      | 52,871             | 2,191               | (2,191)             | -                 | -                   | -                                      | -                              | -                   | -                         | -                    |
| Other share issue costs   |            | -                  | (1,266)             | -                   | -                 | -                   | -                                      | -                              | -                   | -                         | (1,266)              |
| Replacement options for Hiku and CHI  |            | -                  | -                   | 21,737              | -                 | -                   | -                                      | -                              | -                   | -                         | 21,737               |
| Replacement warrants for Hiku   |            | -                  | -                   | -                   | 30,611            | -                   | -                                      | -                              | -                   | -                         | 30,611               |
| Equity component of Hiku convertible debt                                   |            | -                  | -                   | 949                 | -                 | -                   | -                                      | -                              | -                   | -                         | 949                  |
| Acquisition of BC Tweed NCI   |            | -                  | -                   | -                   | -                 | -                   | -                                      | -                              | -                   | -                         | -                    |
| - net of share issue costs \$250  | 9(b)       | 5,091,523          | 201,883             | 265,253             | -                 | (422,786)           | -                                      | -                              | -                   | -                         | 44,350               |
| Ownership change arising from Spectrum Cannabis Chile purchase of NCI       |            | -                  | -                   | -                   | -                 | (1,327)             | -                                      | -                              | -                   | 331                       | (996)                |
| Ownership change arising from changes in non-controlling interest           | 12         | -                  | -                   | -                   | -                 | (3)                 | -                                      | -                              | -                   | 3                         | -                    |
| NCI arising from Canopy Rivers financing - net of share issue costs \$3,371 | 11,12      | -                  | -                   | -                   | -                 | 9,138               | -                                      | -                              | -                   | 77,916                    | 87,054               |
| Additional non-controlling interest related to share based payments         | 12         | -                  | -                   | -                   | -                 | -                   | -                                      | -                              | -                   | 7,769                     | 7,769                |
| Rivers warrants reclassified from Liability to Equity                       | 13(i)      | -                  | -                   | -                   | -                 | -                   | -                                      | -                              | -                   | 28,512                    | 28,512               |
| Net loss  |            | -                  | -                   | -                   | -                 | -                   | -                                      | -                              | (337,136)           | 6,522                     | (330,614)            |
| Other comprehensive income  |            | -                  | -                   | -                   | -                 | -                   | (3,386)                                | (70,636)                       | -                   | 880                       | (73,142)             |
| <b>Balance at September 30, 2018</b>  |            | <b>223,747,529</b> | <b>\$ 2,097,728</b> | <b>\$ 393,524</b>   | <b>\$ 100,877</b> | <b>\$ (416,496)</b> | <b>\$ (4,098)</b>                      | <b>\$ (30,644)</b>             | <b>\$ (509,062)</b> | <b>\$ 208,993</b>         | <b>\$ 1,840,822</b>  |

**CANOPY GROWTH CORPORATION****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

UNAUDITED

(Expressed in CDN \$000's)

|  | Notes | September 30,<br>2018 | September 30,<br>2017<br><i>(Restated -<br/>see note 3)</i> |
|--|-------|-----------------------|---|
| Net inflow (outflow) of cash related to the following activities:                    |       |                       |   |
| <b>Operating</b>   |       |                       |   |
| Net loss   |       | \$ (421,592)          | \$ (10,787)   |
| Adjustments for:   |       |                       |   |
| Depreciation of property, plant and equipment  |       | 10,446                | 4,036   |
| Amortization of intangible assets  |       | 5,236                 | 6,312   |
| Share of loss on equity investments  |       | 6,932                 | 170   |
| Fair value changes in biological assets included in inventory sold and other charges |       | 77,884                | 23,632  |
| Unrealized gain on changes in fair value of biological assets                        |       | (68,233)              | (50,376)  |
| Share-based compensation   | 18    | 130,596               | 11,234  |
| Loss on disposal of property, plant and equipment and intangible assets              |       | 1,840                 | 168   |
| Other assets   | 7     | (18,810)              | -   |
| Other income and expense   | 19    | 169,269               | 3,354   |
| Income tax (recovery) expense  |       | (2,439)               | 2,040   |
| Non-cash interest and FX impact on assets  |       | (410)                 | -   |
| Changes in non-cash operating working capital items                                  | 23    | (88,855)              | (12,655)  |
| Net cash used in operating activities  |       | (198,136)             | (22,872)  |
| <b>Investing</b>   |       |                       |   |
| Purchases and deposits of property, plant and equipment and assets in process        |       | (293,179)             | (25,526)  |
| Purchases of intangible assets and intangibles in process                            |       | (6,340)               | (282)   |
| Proceeds on disposals of property and equipment                                      |       | -                     | 75  |
| Purchases of restricted investments  |       | (2,829)               | (118)   |
| Proceeds on assets classified as held for sale                                       |       | -                     | 7,000   |
| Investments in associates  |       | (42,439)              | (5,937)   |
| Investments in other financial assets  |       | (29,695)              | (8,712)   |
| Net cash outflow on acquisition of BC Tweed NCI                                      | 9(b)  | (1,000)               | -   |
| Net cash outflow on acquisition of Spectrum Chile NCI                                |       | (999)                 | -   |
| Net cash inflow (outflow) on acquisition of subsidiaries                             | 9(a)  | 427                   | (359)   |
| <b>Net cash used in investing activities</b>   |       | <b>(376,054)</b>      | <b>(33,859)</b>   |
| <b>Financing</b>   |       |                       |   |
| Payment of share issue costs   |       | (6,819)               | (179)   |
| Proceeds from issuance of common shares  |       | -                     | 25,000  |
| Proceeds from issuance of shares by Canopy Rivers                                    |       | 91,218                | 35,113  |
| Proceeds from exercise of stock options  |       | 13,626                | 3,435   |
| Proceeds from exercise of warrants   |       | 133                   | 527   |
| Issuance of long-term debt   | 16(a) | 600,000               | -   |
| Payment of long-term debt issue costs  |       | (16,380)              | -   |
| Repayment of finance lease obligations   |       | (104)                 | -   |
| Repayment of long-term debt  |       | (643)                 | (754)   |
| <b>Net cash provided by financing activities</b>                                     |       | <b>681,031</b>        | <b>63,142</b>   |
| Net cash inflow  |       | 106,841               | 6,411   |
| Cash and cash equivalents, beginning of period                                       |       | 322,560               | 101,800   |
| <b>Cash and cash equivalents, end of period</b>                                      |       | <b>\$ 429,401</b>     | <b>\$ 108,211</b>   |

Refer to Note 23 for supplementary cash flow information



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

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

**1. DESCRIPTION OF BUSINESS**

Canopy Growth Corporation ("Canopy Growth") is a publicly traded corporation, incorporated in Canada, with its head office located at 1 Hershey Drive, Smiths Falls, Ontario with its common shares listed on the TSX, under the trading symbol "WEED" and as of May 24, 2018 on the NYSE, under the trading symbol "CGC".

The condensed interim consolidated financial statements ("interim financial statements") as at and for the three and six months ended September 30, 2018, and 2017, include Canopy Growth and its subsidiaries (together referred to as "the Company") and the Company's interest in other entities.

The principal activities of the Company are the production, distribution and sale of cannabis as regulated by the Access to Cannabis for Medical Purposes Regulations ("ACMPR") in Canada, up to and including October 16, 2018. On October 17, 2018, the ACMPR was superseded by The Cannabis Act which regulates the production, distribution, and possession of cannabis for both medical and adult recreational access in Canada. The Company is also expanding to jurisdictions outside of Canada where federally lawful and regulated including subsidiaries which operate in Europe, Latin America and the Caribbean. Through its partially owned subsidiary Canopy Rivers Corporation ("Canopy Rivers"), the Company also provides growth capital and a strategic support platform that pursues investment opportunities in the global cannabis sector, where federally lawful.

**2. BASIS OF PRESENTATION****Statement of compliance**

The interim financial statements have been prepared in compliance with International Accounting Standard 34 - Interim Financial Reporting, except as described in Note 3 to the interim financial statements, the Company followed the same accounting policies and methods of application as those disclosed in the annual audited consolidated financial statements for the year ended March 31, 2018. The interim financial statements should be read in conjunction with the annual financial statements of the Company for the year ended March 31, 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These interim financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on November 13, 2018.

**Basis of measurement**

These interim financial statements have been prepared in Canadian dollars on a historical cost basis except for biological assets and certain financial assets and liabilities which are measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether the price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value measurements 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).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist.

Further information on fair value measurements is available in Notes 5 and 24.

**Classification of expenses**

The expenses within the condensed interim consolidated statements of operations ("statements of operations") and comprehensive loss ("statements of comprehensive loss") are presented by function. Refer to Note 20 for details of expenses by nature.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

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**3. CHANGES IN ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS AND INTERPRETATIONS****(a) Change in accounting policies**

Effective April 1, 2018, the Company has changed its accounting policy with respect to production and fulfillment related depreciation. Prior to this change the Company expensed all depreciation and amortization costs as operating expenses. The Company now capitalizes production related depreciation and amortization to biological assets and inventory and expenses this depreciation to costs of goods sold as inventory is sold. In addition, depreciation and amortization associated with shipping and fulfillment will be recorded to cost of goods sold as incurred. Previously this depreciation and amortization was grouped with other depreciation and amortization on the statements of operations. The Company believes that the revised policy and presentation provides more relevant financial information to users of the financial statements.

The Company's amended policy is as follows:

**Biological assets**

The Company's biological assets consist of cannabis plants. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related costs, grow consumables, materials, utilities, facilities costs, quality and testing costs, and production related depreciation. The Company then measures the biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Cost to sell includes post-harvest production, shipping and fulfillment costs. The net unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the results of operations of the related period. Seeds are measured at fair value.

**Inventories**

Inventories of harvested work-in-process and finished goods are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell up to the point of harvest, which becomes the initial deemed cost. All subsequent direct and indirect post-harvest costs are capitalized to inventory as incurred, including labour related costs, consumables, materials, packaging supplies, utilities, facilities costs, quality and testing costs, and production related depreciation. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventories for resale and supplies and consumables are valued at the lower of costs and net realizable value, with cost determined using the weighted average cost basis.

The line item "Inventory production costs expensed to cost of sales" in the statements of operations is comprised of the cost of inventories expensed in the period and the direct and indirect costs of shipping and fulfillment including labour related costs, materials, shipping costs, customs and duties, royalties, utilities, facilities costs, and shipping and fulfillment related depreciation.

The change in accounting policy has been applied retrospectively. The Company has restated the comparative figures in the statements of operations and the condensed interim consolidated statements of cash flows ("statements of cash flows"). The following tables summarize the effects of the change described above.

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Line item on the statements of operations:

|   | <b>As previously<br/>reported</b> | <b>Adjustment</b> | <b>As<br/>restated</b> |
|---|-----------------------------------|-------------------|------------------------|
| <b>For the three months ended September 30, 2017</b>  |                                   |                   |                        |
| Revenue   | 17,569                            | -                 | 17,569                 |
| Inventory production costs expensed to cost of sales  | 7,487                             | 614               | 8,101                  |
| Gross margin before the undernoted  | 10,082                            | (614)             | 9,468                  |
| Fair value changes in biological assets included in<br>inventory sold and other inventory charges | 11,647                            | 1,201             | 12,848                 |
| Unrealized gain on changes in fair value of<br>biological assets                                  | (30,315)                          | 193               | (30,122)               |
| Gross margin  | 28,750                            | (2,008)           | 26,742                 |
| Depreciation and Amortization   | 5,291                             | (2,008)           | 3,283                  |
| <b>For the six months ended September 30, 2017</b>  |                                   |                   |                        |
| Revenue   | 33,442                            | -                 | 33,442                 |
| Inventory production costs expensed to cost of sales  | 14,335                            | 927               | 15,262                 |
| Gross margin before the undernoted  | 19,107                            | (927)             | 18,180                 |
| Fair value changes in biological assets included in<br>inventory sold and other inventory charges | 22,647                            | 985               | 23,632                 |
| Unrealized gain on changes in fair value of<br>biological assets                                  | (51,985)                          | 1,609             | (50,376)               |
| Gross margin  | 48,445                            | (3,521)           | 44,924                 |
| Depreciation and Amortization   | 10,348                            | (3,521)           | 6,827                  |

Line item on statements of cash flows:

|   | <b>As previously<br/>reported</b> | <b>Adjustment</b> | <b>As<br/>restated</b> |
|---|-----------------------------------|-------------------|------------------------|
| <b>For the six months ended September 30, 2017</b>  |                                   |                   |                        |
| <b>Operating</b>  |                                   |                   |                        |
| Fair value changes in biological assets included in<br>inventory sold and other inventory charges | 22,647                            | 985               | 23,632                 |
| Unrealized gain on changes in fair value of<br>biological assets                                  | (51,985)                          | 1,609             | (50,376)               |
| Changes in non-cash operating working capital<br>items  | (10,061)                          | (2,594)           | (12,655)               |

**(b) New or amended standards effective April 1, 2018**

The Company has adopted the following new or amended IFRS standards for the interim and annual period beginning on April 1, 2018.

***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.

The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard. The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

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To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue from the direct sale of cannabis to medical customers for a fixed price is recognized when the Company transfers control of the good to the customer upon delivery.

***IFRS 9 Financial Instruments ("IFRS 9")***

IFRS 9 was issued by the IASB on July 24, 2014 and replaced 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. Financial liabilities are classified in a similar manner as under IAS 39.

Under IFRS 9, financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit and loss ["FVTPL"], transaction costs. Financial assets are subsequently measured at:

- i) FVTPL;
- ii) amortized cost;
- iii) debt measured at fair value through other comprehensive income ["FVOCI"];
- iv) equity investments designated at FVOCI; or
- v) financial instruments designated at FVTPL.

The classification is based on whether the contractual cash flow characteristics represent "solely payment of principal and interest" [the "SPPI test"] as well as the business model under which the financial assets are managed. Financial assets are required to be reclassified only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

The Company has elected to measure investments in equity instruments of AusCann, JWC, HydRx, Vapium, Good Leaf, Solo Growth and LiveWell which are included in Other financial assets on the Condensed Interim Consolidated Statements of Financial Position ("statements of financial position"), at FVOCI on transition or initial recognition as these investments are long-term and strategic in nature, and net changes in fair value are more suited to be presented in other comprehensive income.

Debt investments are recorded at amortized cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI test.

The assessment of the Company's business models for managing the financial assets was made as of the date of initial application of April 1, 2018. The assessment of whether contractual cash flows on debt instruments meet the SPPI test was made based on the facts and circumstances as at the initial recognition of the financial assets.

Consistent with IAS 39, all financial liabilities held by the Company under IFRS 9, other than convertible debentures, are initially measured at fair value and subsequently measured at amortized cost. The convertible debenture issued by the Company in June 2018 has been designated at FVTPL upon initial recognition as permitted by IFRS 9 as the debenture contains multiple embedded derivatives.

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The following table summarizes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities:

| <b>Financial assets</b>                       | <b>IAS 39<br/>Classification</b>             | <b>IFRS 9<br/>Classification</b> |
|---|--|----------------------------------|
| Cash and cash equivalents                     | Loans and receivables                        | Amortized cost                   |
| Accounts receivables                          | Loans and receivables                        | Amortized cost                   |
| Interest receivable                           | Loans and receivables                        | Amortized cost                   |
| Restricted investments                        | Loans and receivables                        | Amortized cost                   |
|   | Available for sale,<br>loans and receivables | FVOCI and<br>FVTPL               |
| Other financial assets                        | and FVTPL                                    | FVTPL                            |
| Accounts payable and accrued liabilities      | Other liabilities                            | Other liabilities                |
| Long-term debt                                | Other liabilities                            | Other liabilities                |
| Convertible debentures                        | Not applicable                               | FVTPL                            |
| BC Tweed and Vert Mirabel put liability       | FVTPL  | FVTPL                            |
| Acquisition consideration related liabilities | FVTPL  | FVTPL                            |

The Company's investments in James E. Wagner Cultivation Ltd ("JWC") royalty interest, Agripharm Corporation ("Agripharm") royalty interest and Radicle Medical Marijuana Inc. ("Radicle") repayable debenture (Note 14) were classified as loans and receivables and measured at amortized cost under IAS 39. Under IFRS 9, these investments are classified and measured at FVTPL as these investments fail the SPPI test. The change in classification of these investments did not impact the carrying amounts of these investments on the transition date.

**Impairment**

Under IFRS 9, the Company is required to apply an expected credit loss ["ECL"] model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in futures years are provided for, irrespective of whether a loss event has occurred or not as at the balance sheet date. For trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected credit losses taking into considerations historical credit loss experience and financial factors specific to the debtors and general economic conditions. The Company has assessed the impairment of its amounts receivable using the expected credit loss model, and no difference was noted. As a result, no impairment loss has been recognized upon transition and at April 1, 2018.

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

***IFRS 16 Leases ("IFRS 16")***

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 the Company for its annual period ending March 31, 2020 with early adoption permitted. The Company is continuing to assess the impact of this new standard on its financial position and financial performance.

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**4. AMOUNTS RECEIVABLE**

Amounts receivable was comprised of:

|                                 | <b>September 30,<br/>2018</b> | March 31,<br>2018 |
|---------------------------------|-------------------------------|-------------------|
| Accounts receivable             | \$ 6,368                      | \$ 5,863          |
| Indirect tax receivable         | 24,250                        | 15,262            |
| Interest receivable             | 796                           | 300               |
| Other receivable                | 14,393                        | -                 |
| <b>Total amounts receivable</b> | <b>\$ 45,807</b>              | <b>\$ 21,425</b>  |

Other receivables includes \$11,267 owed to the Company by a service provider in connection with the exercise of options under the Employee Stock Option Plan.

**5. BIOLOGICAL ASSETS**

The Company's biological assets consists of seeds and cannabis plants. The continuity of biological assets for the six months ended September 30, 2018 and the year ended March 31, 2018 was as follows:

|  | <b>September 30,<br/>2018</b> | March 31,<br>2018 |
|--|-------------------------------|-------------------|
| Balance, beginning of period   | \$ 16,348                     | \$ 14,725         |
| Purchases (use) of seeds   | (7)                           | 271               |
| Acquisition / (disposal) of biological assets due to acquisition / disposal of consolidated entity | 184                           | (1,430)           |
| Unrealized gain on changes in fair value of biological assets                                      | 68,233                        | 100,302           |
| Increase in biological assets due to capitalized costs   | 44,163                        | 17,309            |
| Net write-off of biological assets   | (15,703)                      | -                 |
| Transferred to inventory upon harvest  | (92,498)                      | (114,829)         |
| <b>Balance, end of period</b>  | <b>\$ 20,720</b>              | <b>\$ 16,348</b>  |

Biological assets are valued in accordance with IAS 41 and are presented at their fair values less costs to sell up to the point of harvest. The Company's biological assets are primarily cannabis plants, and because there is no actively traded commodity market for plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data (Level 3).

The valuation of biological assets is based on a market approach where fair value at the point of harvest is estimated based on future selling prices less the costs to sell at harvest. For in process biological assets, the fair value at point of harvest is adjusted based on the stage of growth. Stage of growth is determined by reference to costs incurred to date as a percentage of total expected costs from inception to harvest. As at September 30, 2018, on average, the biological assets were 25% complete as to the next expected harvest date, compared to a 12% average stage of completion as at March 31, 2018.

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The significant unobservable inputs and their range of values are noted in the table below:

| <b>Unobservable Inputs</b>  | <b>Range</b>                      | <b>Sensitivity</b>  |
|---|-----------------------------------|---|
| <b>Estimated Yield per Plant</b> – varies by strain and is obtained through historical growing results (trailing 6-months moving average) or grower estimate if historical results are not available. | 15 grams/plant to 478 grams/plant | A slight increase in the estimated yield per plant would result in a significant increase in fair value, and vice versa.          |
| <b>Listed Selling Price of Dry Cannabis</b> – varies by strain and is obtained through listed selling prices or estimated future selling prices if historical results are not available.              | \$4.80 to \$12/gram               | A slight increase in the estimated selling price per strain would result in a significant increase in fair value, and vice versa. |

**6. INVENTORY**

Inventory was comprised of the following items:

|   | <b>September 30,<br/>2018</b> | <b>March 31,<br/>2018</b> |
|---|-------------------------------|---------------------------|
| Dry Cannabis                              |                               |                           |
| Finished goods                            | \$ 14,971                     | \$ 14,114                 |
| Work-in-process                           | 80,162                        | 51,309                    |
|   | <b>95,133</b>                 | 65,423                    |
| Cannabis Oils                             |                               |                           |
| Finished goods                            | 31,109                        | 9,624                     |
| Work-in-process                           | 5,197                         | 20,574                    |
|   | <b>36,306</b>                 | 30,198                    |
| Capsules - Finished goods                 | 9,912                         | 2,705                     |
| Seeds - Finished goods                    | 66                            | 63                        |
|   | <b>9,978</b>                  | 2,768                     |
|   | <b>141,417</b>                | 98,389                    |
| Product for resale (vaporizers and other) | 460                           | 571                       |
| Supplies and consumables                  | 8,529                         | 2,647                     |
|   | <b>\$ 150,406</b>             | \$ 101,607                |

Inventories expensed during the three and six months ended September 30, 2018, was \$57,846 and \$90,090, respectively (three and six months ended September 30, 2017 - \$17,154 and \$33,242, respectively). Included in other charges is a net realizable value adjustment for anticipated price changes and a net write-off of biological assets.

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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## 7. PREPAID EXPENSES AND OTHER ASSETS AND OTHER LONG-TERM ASSETS

## (a) Prepaid expenses and other assets

The Company's prepaid expenses and other assets consists of the following:

|                                   | September 30,<br>2018 | March 31,<br>2018 |
|-----------------------------------|-----------------------|-------------------|
| Prepaid expenses                  | \$ 25,348             | \$ 7,358          |
| Deposits                          | 18,762                | 842               |
| Prepaid packaging and merchandise | 8,497                 | 8,774             |
| Restricted short-term investments | 3,493                 | 664               |
| Other                             | 433                   | 2,199             |
|                                   | <b>\$ 56,533</b>      | <b>\$ 19,837</b>  |

On July 1, 2018, the Company entered into an exclusive processing agreement with a corporation that specializes in the extraction, refinement and formulation of oils. Processing will commence once the equipment has been converted and the appropriate license is received. During the quarter ended September 30, 2018, the Company advanced approximately \$8,101 under the terms of the processing agreement which has been recorded as a prepaid expense. The Company also advanced cash of \$6,000 in exchange for an option to purchase all of the corporation's assets. The option is exercisable for a fourteen-month period beginning July 1, 2018 and on exercise will be deducted from the purchase price of the assets. At September 30, 2018 the price of the option has been recorded as a deposit.

## (b) Other long-term assets

The Company's other long-term assets consists of the following:

|   | September 30,<br>2018 | March 31,<br>2018 |
|---|-----------------------|-------------------|
| Property, plant, and equipment deposits | \$ 5,677              | \$ 6,487          |
| Purchase option on production facility  | 8,739                 | -                 |
| Prepaid royalty                         | 7,408                 | -                 |
| Prepaid rent                            | 3,190                 | -                 |
| Other                                   | 1,762                 | 1,853             |
|   | <b>\$ 26,776</b>      | <b>\$ 8,340</b>   |

On May 4, 2018, the Company entered into an agreement to lease a production facility in Newfoundland, that is expected to commence in February 2019. The annual lease payments are \$4,988 plus operating costs. The Company also has the option to purchase the production facility from the lessor beginning five years after the commencement date of the lease. The Company paid \$8,739 for this purchase option by way of the issuance of 332,009 shares on May 11, 2018. As part of the arrangement, the Company provided an interest free construction loan of \$10,000 to the lessor which is to be repaid the earlier of the lessor obtaining construction financing and the Company's purchase of the production facility under the purchase option noted above. The Company expects that the loan will be outstanding until the Company exercises the purchase option. The fair value of the loan on initial recognition was \$6,810 based on a market interest rate of 6.7% and an expected term of 69 months. The difference of \$3,190 has been recognized as prepaid rent and has been included in other long-term assets in the statements of financial position along with the \$8,739 related to the purchase option.

On September 4, 2018, the Company entered into an exclusive supply arrangement with Centric Health Corporation ("CHC"). Under the arrangement, Canopy advanced \$7,000 to CHC in exchange for reduced royalties and 850,000 warrants for common shares of CHC. The warrants have an exercise price of \$0.25, vest on September 4, 2020 and expire on September 4, 2022. Management has estimated the fair value of the warrants at inception to be \$92 and the difference of \$6,908 has been recorded as a prepaid royalty.



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**8. PROPERTY, PLANT AND EQUIPMENT**

A continuity of property, plant and equipment for the six months ended September 30, 2018 is as follows:

**COST**

|                             | Balance at<br>April 1,<br>2018 | Additions         | Additions<br>from<br>acquisitions | Transfers/<br>disposals/<br>exchange differences | Balance at<br>September 30,<br>2018 |
|-----------------------------|--------------------------------|-------------------|-----------------------------------|--|-------------------------------------|
| Computer equipment          | \$ 6,241                       | \$ 6,987          | \$ 97                             | \$ 2,092   | \$ 15,417                           |
| Office/lab equipment        | 1,720                          | 717               | 329                               | 340  | 3,106                               |
| Furniture and fixtures      | 1,381                          | 2,289             | 206                               | 303  | 4,179                               |
| Production equipment        | 28,764                         | 67,949            | 608                               | 12,366   | 109,687                             |
| Leasehold improvements      | 22,482                         | 19,416            | 923                               | 1,078  | 43,899                              |
| Building and improvements   | 67,513                         | 37,362            | 2,090                             | 32,443   | 139,408                             |
| Greenhouse and improvements | 4,095                          | 3,301             | -                                 | 21,388   | 28,784                              |
| Land and improvements       | 8,470                          | 2,060             | 6,774                             | 1,825  | 19,129                              |
| Warehouse equipment         | 167                            | 8,931             | -                                 | 121  | 9,219                               |
| Assets in process           | 176,998                        | 200,160           | 10,087                            | (74,048)   | 313,197                             |
| <b>Total</b>                | <b>\$ 317,831</b>              | <b>\$ 349,172</b> | <b>\$ 21,114</b>                  | <b>\$ (2,092)</b>                                | <b>\$ 686,025</b>                   |

**ACCUMULATED DEPRECIATION**

|                             | Balance at<br>April 1,<br>2018 | Depreciation  | Transfers/<br>disposals/<br>exchange differences | Balance at<br>September 30,<br>2018 |
|-----------------------------|--------------------------------|---------------|--|-------------------------------------|
| Computer equipment          | \$ 1,900                       | \$ 1,238      | \$ (1)   | \$ 3,137                            |
| Office/lab equipment        | 479                            | 269           | 65   | 813                                 |
| Furniture and fixtures      | 218                            | 226           | -  | 444                                 |
| Production equipment        | 2,730                          | 4,397         | (94)   | 7,033                               |
| Leasehold improvements      | 3,452                          | 1,411         | 58   | 4,921                               |
| Building and improvements   | 4,821                          | 2,578         | -  | 7,399                               |
| Greenhouse and improvements | 513                            | 138           | -  | 651                                 |
| Land and improvements       | 30                             | 10            | -  | 40                                  |
| Warehouse equipment         | 6                              | 179           | -  | 185                                 |
| <b>Total</b>                | <b>14,149</b>                  | <b>10,446</b> | <b>28</b>  | <b>24,623</b>                       |
| <b>Net book value</b>       | <b>\$ 303,682</b>              |               |  | <b>\$ 661,402</b>                   |

During the six months ended September 30, 2018, the assets in process additions were \$200,160 of which \$92,789, \$34,362, and \$26,410 related to the expansion or growing operations at Smiths Falls Ontario, both BC locations, and Fredericton New Brunswick, respectively. The remaining \$46,599 was for ongoing projects at the Company's other subsidiaries.

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**9. ACQUISITIONS**
**a) Acquisitions of Consolidated Entities**

The following table summarizes the balance sheet impact on the acquisition date of the Company's business combinations that occurred in the period ended September 30, 2018:

|   | DCL<br>(i)       | Spectrum<br>Colombia<br>(ii) | CHI<br>(iii)      | Hiku<br>(iv)      | Other<br>(v)    |
|---|------------------|------------------------------|-------------------|-------------------|-----------------|
| Cash and cash equivalents                             | \$ 496           | \$ 3                         | \$ 8,369          | \$ 4,089          | \$ (37)         |
| Amounts receivable                                    | -                | -                            | 144               | 2,996             | -               |
| Subscription receivable                               | -                | -                            | -                 | -                 | -               |
| Inventory and Biological Assets                       | -                | -                            | -                 | 1,772             | -               |
| Prepays and other assets                              | -                | 13                           | 33                | 1,559             | 83              |
| Property, plant and equipment                         | -                | 5,145                        | 121               | 16,820            | -               |
| Investments   | -                | -                            | 8,563             | 1,204             | -               |
| Goodwill  | 25,973           | 46,269                       | 152,639           | 578,162           | 1,538           |
| Accounts payable and accrued liabilities              | (573)            | (53)                         | (954)             | (3,691)           | (16)            |
| Debt and Other Liabilities                            | -                | (5,258)                      | -                 | (1,954)           | -               |
| Net assets  | 25,896           | 46,119                       | 168,915           | 600,957           | 1,568           |
| Non-controlling interests                             | -                | -                            | -                 | -                 | -               |
| <b>Net assets acquired</b>                            | <b>\$ 25,896</b> | <b>\$ 46,119</b>             | <b>\$ 168,915</b> | <b>\$ 600,957</b> | <b>\$ 1,568</b> |
| Consideration paid in cash                            | \$ 500           | \$ -                         | \$ -              | \$ 11,994         | \$ -            |
| Consideration paid in shares                          | 24,702           | 46,119                       | 98,034            | 543,866           | 1,568           |
| Gain on fair value of previously held equity interest | -                | -                            | 62,682            | -                 | -               |
| Replacement Options                                   | -                | -                            | 8,199             | 13,537            | -               |
| Replacement Warrants                                  | -                | -                            | -                 | 30,611            | -               |
| Future cash consideration                             | -                | -                            | -                 | -                 | -               |
| Other consideration                                   | -                | -                            | -                 | 949               | -               |
| Contingent consideration                              | 694              | -                            | -                 | -                 | -               |
| <b>Total consideration</b>                            | <b>\$ 25,896</b> | <b>\$ 46,119</b>             | <b>\$ 168,915</b> | <b>\$ 600,957</b> | <b>\$ 1,568</b> |
| Consideration paid in cash                            | \$ 500           | \$ -                         | \$ -              | \$ 11,994         | \$ -            |
| Less: Cash and cash equivalents acquired              | (496)            | (3)                          | (8,369)           | (4,089)           | 37              |
| <b>Net cash outflow</b>                               | <b>\$ 4</b>      | <b>\$ (3)</b>                | <b>\$ (8,369)</b> | <b>\$ 7,905</b>   | <b>\$ 37</b>    |
| <b>Acquisition-related costs expensed</b>             | <b>\$ 28</b>     | <b>\$ 330</b>                | <b>\$ 412</b>     | <b>\$ 1,988</b>   | <b>\$ 63</b>    |

Goodwill arose in these acquisitions because the cost of acquisition included a control premium. In addition, the consideration paid for the combination reflected the benefit of expected revenue growth 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 these acquisitions is expected to be deductible for tax purposes.

The accounting for these acquisitions has been provisionally determined at September 30, 2018. The fair value of net assets acquired and total consideration have been determined provisionally and subject to adjustment. Upon completion of a comprehensive valuation and finalization of the purchase price allocation, goodwill may be adjusted retrospectively to the acquisition date in future reporting periods.

**(i) DaddyCann Lesotho PTY Ltd.**

On May 30, 2018, the Company purchased 100% of the issued and outstanding shares of DaddyCann Lesotho PTY Ltd. ("DCL"). Based in the Kingdom of Lesotho, DCL holds a license to cultivate, manufacture, supply, hold, import, export and transport cannabis and its resin.

On closing, 666,362 common shares were issued to former shareholders of DCL at a price of \$37.07 for consideration of \$24,702. An additional 33,318 common shares will be issued on the achievement of a licensing milestone. These shares have been accounted for as equity classified contingent consideration. Management assessed the probability and timing of achievement and then discounted to present value using a put option

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pricing model in order to derive a fair value of the contingent consideration of \$694. There was also the effective settlement of a note receivable of \$500, which was advanced in cash by the Company prior to closing, for total consideration of \$25,896.

An additional 299,863 common shares will be issued to the former shareholders of DCL contingent on the performance of future services and the achievement of certain operational milestones. These are being accounted for as share-based compensation expense. The fair value on the grant date of May 30, 2018 of \$11,116 will be amortized over the expected vesting period.

For the three and six month period ended September 30, 2018, DCL contributed a loss of \$302 and \$367, respectively.

**(ii) Colombian Cannabis S.A.S.**

On July 5, 2018 through Canopy LATAM Corporation ("Canopy LATAM"), the Company acquired Spectrum Cannabis Colombia S.A.S. ("Spectrum Colombia"), which previously operated as Colombian Cannabis S.A.S. The consideration for the transaction was 1,193,237 common shares with a fair value of \$46,119 based on the Company's share price on the closing date.

On July 5, 2018, in conjunction with the acquisition of Spectrum Colombia the Company acquired all the outstanding shares of Canindica Capital Ltd ("Canindica") in exchange for 595,184 common shares. Canindica was controlled by the Canopy LATAM Regional Managing Director. Canindica does not meet the definition of a business and the fair value of the consideration paid of \$23,004 has been recorded as compensation expense.

Upon the achievement of future cultivation and sales milestones, the Company will issue up to 2,098,304 additional common shares of the Company to the former shareholders of Spectrum Colombia and shares to a value of \$42,623 to the former shareholders of Canindica. If Canindica fails to meet certain of these milestones, Canindica will pay USD \$10,000 to the Company. This obligation is secured by a note receivable from Canindica. Additionally, if all of these milestones are met prior to July 4, 2023, the Company will issue, to the previous shareholders of Spectrum Colombia and Canindica, the number of Company shares equal to four percent and six percent, respectively, of the fair market value of Canopy LATAM. The milestone shares are being provided in exchange for services and are being accounted for as share-based compensation expense. Management has estimated the grant date fair value of all these milestone shares to be \$106,377 which will be expensed ratably over the estimated vesting periods.

Had the business combination with Spectrum Colombia been effected at April 1, 2018, management estimates that the revenue and the net loss after incomes tax contributed by Colombia would have been immaterial for the six month period ended September 30, 2018.

**(iii) Canopy Health Innovations**

Canopy Health Innovations Inc. ("CHI") is a cannabis research innovator. On August 3, 2018, the Company acquired all of its unowned interest in CHI to increase its total ownership to 100% of CHI's issued and outstanding shares. Immediately preceding the acquisition, CHI amalgamated with its wholly-owned subsidiary, Canopy Animal Health ("CAH"), creating one amalgamated corporation which continued as CHI. In addition, the vesting of certain CHI and CAH options was accelerated and certain options were exercised. Following this transaction, the Company will control CHI and CHI will be accounted for as a wholly-owned subsidiary. CHI shares and options were exchanged at a ratio of 0.379014 CHI shares to 1 Canopy Growth share or replacement option, resulting in 2,591,369 common shares, 568,008 replacement options and 485,572 common shares of which 217,859 are subject to certain trading restrictions ("compensation shares") being issued. These shares and replacement options included 278,230 shares and 154,208 replacement options that were issued to key management personnel of the Company that were shareholders and option holders in CHI.

The fair value of the common shares issued totaled \$98,034 which is comprised of \$87,717 calculated as the 2,591,369 common shares issued at the Company's share price on the date of the transaction and \$10,317 which reflects the fair value of the compensation shares issued, calculated using a Black-Scholes model. The fair value of the replacement options was determined using a Black-Scholes model and the total fair value has been allocated to the consideration paid for CHI only to the extent that it related to pre-combination services. As a result, \$8,199 of the total fair value has been allocated to the consideration paid to acquire CHI as it related to pre-combination vesting service and \$11,714 of the fair value will be recognized as share-based compensation expense ratably over the post-combination vesting period (see Note 18(b) for details on the share-based compensation expense).

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Prior to this acquisition, the Company's 43% participating share was accounted for using the equity method, as an investment in an associate. The acquisition of the 57% interest is accounted for as a business combination achieved in stages under IFRS 3 Business Combinations. The Company remeasured its 43% interest to fair value and recognized a gain of \$62,682 which reflects the difference between the carrying value of NIL and the implied fair value \$62,682. The fair value was estimated to be the transaction price less an estimated control premium of 5%.

Had the business combination been effected at April 1, 2018, management estimates that the revenue of the Company be unchanged and the net loss after income taxes of the Company would have increased by \$3,124 for the six month period ended September 30, 2018.

**(iv) Hiku Brands Company Ltd**

On September 5, 2018, the Company purchased 100% of the issued and outstanding shares of Hiku Brands Company Ltd ("Hiku"). Hiku is federally licensed to cultivate and sell cannabis through its wholly-owned subsidiary DOJA Cannabis Ltd. Hiku also operates a network of retail stores selling coffee, clothing and curated accessories, across British Columbia, Alberta and Ontario. Hiku shares, options and warrants were exchanged at a ratio of 0.046 Hiku shares to 1 Canopy Growth share, replacement option, or warrant.

On the acquisition date Hiku had convertible debentures outstanding with a principal amount of \$618 which were convertible into 498,387 Hiku common shares. As a result of the acquisition the conversion feature was adjusted in accordance with the above exchange ratio. The fair value of these debentures on September 5, 2018 was estimated to be \$1,570 which was allocated \$949 to the conversion feature and \$621 to the debt component.

Prior to closing the Company advanced cash of \$10,000 to Hiku pursuant to a promissory note. The funds were used to pay the termination fee owed by Hiku in connection with a previously announced transaction.

On closing the Company issued 7,943,123 common shares with a fair value of \$543,866, based on the Company's share price on the date of the transaction, cash consideration of \$1,994, 920,452 replacement warrants and 291,629 replacement options. The fair value of the replacement warrants was estimated to be \$30,611 using a Black-Scholes model. The replacement options' fair value totaled \$17,693, calculated using a Black-Scholes model, whereby \$13,537 has been included as consideration paid as it related to pre-combination services and the residual \$4,156 fair value will be recognized as stock compensation expense rateably over the post-combination vesting period. Other consideration also includes \$949 related to the convertible debenture and the effective settlement of the promissory note of \$10,000.

Had the business combination been effected at April 1, 2018, management estimates that the revenue of the Company would have been \$670 higher and the net loss after income taxes of the Company have increased by \$15,531 for the six month period ended September 30, 2018.

**(v) Other fiscal 2019 acquisitions**

On April 16, 2018 the Company acquired 100% of Annabis Medical s.r.o. a company that imports and distributes cannabis products pursuant to federal Czech licenses. Under the terms of the agreement the Company issued 50,735 common shares on closing for total consideration of \$1,568. An additional 34,758 common shares will be issued contingent on future services and the achievement of certain milestones. These shares are being accounted for as share based compensation and being amortized over the expected vesting period.

**b) Acquisition of non-controlling shareholder's interest in BC Tweed**

During the second quarter of 2018, the Company revised its previous conclusion that BC Tweed Joint Venture Inc. ("BC Tweed") was subject to joint control. The Company has concluded that based on the shareholders' agreement and the contractual terms of the offtake agreement that the significant relevant activities are unilaterally controlled by the Company. Since the Company had previously recognized the assets, liabilities, revenues and expenses of BC Tweed based on its proportionate share of BC Tweed's output, being 100%, the conclusion that BC Tweed should have been a consolidated subsidiary had no significant impact on the Company's previously issued interim or annual financial statements.

On July 5, 2018, the Company acquired the non-controlling shareholder's (the "Partner's") 33% interest in BC Tweed (the "Transaction") for total consideration of \$495,386. Consideration included \$1,000 in cash and 13,293,969 shares of the Company of which 5,091,523 shares were released on closing and the remaining 8,202,446 shares were placed in escrow. The shares placed in escrow will be released over a period of up to three years, with the exact timing of release dependent on the occurrence of specified events. The 5,091,523

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shares issued on close were recorded at an issue price of \$39.70 per share for consideration of \$202,133. The fair value of the shares held in escrow was estimated to be \$265,253 using a put option pricing model discounted to reflect management's best estimate of the expected dates of release. On closing of the Transaction, the call option held by BC Tweed on the limited partnership units of the limited partnerships which hold the greenhouses and related property was amended to effectively increase the call option price by \$27,000. Management has determined that this increase in the call option price represents additional consideration for the Partner's interest.

On closing of the Transaction, the Company also amended the terms of a share-based compensation arrangement with the Partner to accelerate the vesting of 155,158 shares previously issued to the Partner, and to cancel the remaining tranches of the compensation arrangement. As a result, the unamortized balance of the grant date fair value of the share-based compensation of \$954 was expensed in the quarter ended September 30, 2018.

Under the terms of the original BC Tweed Shareholders' Agreement, the Partner had the option to sell its interest in BC Tweed, in whole or in part, to the Company. This put option was accounted for as a liability of the Company, measured at fair value. The excess of the consideration paid for the Partner's 33% interest over the fair value of the put liability on the transaction date of \$72,600 was recognized as a \$422,786 charge to Equity.

In conjunction with the acquisition of the Partner's interest the Company received an option to acquire the limited partnership units of another limited partnership currently owned by the Partner that holds greenhouse infrastructure in California. The option is exercisable for a purchase price that is the greater of USD \$92,000 and the maximum of \$190,000 plus the undepreciated book value of the net assets of the partnership on the closing date. The option is exercisable 90 days after the date of US Federal legalization of the growth, cultivation, production and sale of cannabis for medical purposes. The option expires on the earlier of 90 days after the date of US Federal legalization of the growth, cultivation, production and sale of cannabis for medical purposes and July 5, 2023. The option is a derivative instrument that will be measured initially and subsequently at fair value. Given that the growth, cultivation, production and sale of cannabis is not currently federally legal in the US and there can be no assurance that it will be legal, Management has estimated that this instrument has a nominal value both at inception and at September 30, 2018.

**10. INTANGIBLE ASSETS AND GOODWILL**

A continuity of the intangible assets for the six months ended September 30, 2018 is as follows:

**COST**

|  | Balance at<br>April 1,<br>2018 |                 | Additions<br>from<br>acquisitions |             |             | Disposals/<br>adjustments | Exchange<br>differences | Balance at<br>September 30,<br>2018 |
|--|--------------------------------|-----------------|-----------------------------------|-------------|-------------|---------------------------|-------------------------|-------------------------------------|
| Health Canada licenses                         | \$ 64,600                      | \$ -            | \$ -                              | \$ -        | \$ -        | \$ -                      | \$ 64,600               |                                     |
| Distribution channel                           | 38,900                         | -               | -                                 | -           | -           | -                         | 38,900                  |                                     |
| Brand  | 6,042                          | 1               | 484                               | -           | -           | -                         | 6,527                   |                                     |
| Import license                                 | 841                            | 1,467           | 26                                | -           | -           | 16                        | 2,350                   |                                     |
| Software                                       | 1,455                          | 1,543           | -                                 | -           | -           | 3                         | 3,001                   |                                     |
| Domain name                                    | 54                             | 205             | 194                               | -           | -           | -                         | 453                     |                                     |
| Product rights                                 | -                              | -               | 229                               | -           | -           | -                         | 229                     |                                     |
| Intangibles in process                         | 2,144                          | 2,774           | 39                                | -           | -           | -                         | 4,957                   |                                     |
| Internally generated intangibles<br>in process | 326                            | 601             | -                                 | -           | -           | -                         | 927                     |                                     |
| <b>Total</b>                                   | <b>\$ 114,362</b>              | <b>\$ 6,591</b> | <b>\$ 972</b>                     | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 19</b>              | <b>\$ 121,944</b>       |                                     |

**ACCUMULATED AMORTIZATION**

|                        | Balance at<br>April 1,<br>2018 |              | Amortization | Disposals/<br>adjustments | Exchange<br>differences | Balance at<br>September 30,<br>2018 |
|------------------------|--------------------------------|--------------|--------------|---------------------------|-------------------------|-------------------------------------|
| Health Canada licenses | \$ 2,624                       | \$ 954       | \$ -         | \$ -                      | \$ -                    | \$ 3,578                            |
| Distribution channel   | 9,077                          | 3,890        | -            | -                         | -                       | 12,967                              |
| Brand                  | -                              | 12           | -            | -                         | -                       | 12                                  |
| Import license         | 219                            | 152          | -            | -                         | 4                       | 375                                 |
| Software               | 863                            | 223          | -            | -                         | 1                       | 1,087                               |
| Domain name            | 53                             | 2            | -            | -                         | -                       | 55                                  |
| Product rights         | -                              | 3            | -            | -                         | -                       | 3                                   |
| <b>Total</b>           | <b>12,836</b>                  | <b>5,236</b> | <b>-</b>     | <b>-</b>                  | <b>5</b>                | <b>18,077</b>                       |
| <b>Net book value</b>  | <b>\$ 101,526</b>              |              |              |                           |                         | <b>\$ 103,867</b>                   |

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A continuity of goodwill for the six months ended September 30, 2018 is as follows:

|   |    |           |
|---|----|-----------|
| As at April 1, 2018                         | \$ | 314,923   |
| Additions from acquisitions of subsidiaries |    | 804,581   |
| Exchange differences                        |    | (5,346)   |
| As at September 30, 2018                    | \$ | 1,114,158 |

The product rights are contained in the licensing and distribution agreement (“Licensing Agreement”) between Bedrocan Canada Inc. (“Bedrocan Canada”), a wholly owned subsidiary of the Company and Bedrocan International BV (“Bedrocan International”). On July 14, 2017, Bedrocan Canada commenced arbitration proceedings against Bedrocan International seeking performance of Bedrocan International’s contractual obligations under the Licensing Agreement. During the fourth quarter of fiscal 2018 the Company initiated settlement negotiations with Bedrocan International which would include the orderly termination of the Licensing Agreement. As a result of these developments, management estimated that the recoverable amount for these product rights would be minimal, and an impairment loss of \$28,000 was recognized in the year ended March 31, 2018. Following this impairment, the carrying amount of these product rights was nil.

On June 11, 2018 the Company announced that it had reached an agreement with Bedrocan International to bring the Licensing Agreement to a close. As part of this agreement, Bedrocan Canada and Bedrocan International will discontinue the previously announced arbitration proceedings and Bedrocan Canada will decrease and then end the production and sale of Bedrocan products within the calendar year. Canopy Growth will retain the licensed production facility, licensed sales facility, and all associated licenses owned and operated by Bedrocan Canada. Management will redeploy these facilities, free of the current royalty structure and fixed production practices. As a result of this agreement, in the first quarter of fiscal 2019 the Company has derecognized these product rights.

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**11. CANOPY RIVERS**

On July 4, 2018, Canopy Rivers entered into a definitive amalgamation agreement with AIM2 Ventures Inc. ("AIM2") and 10859150 Canada Inc., a wholly-owned subsidiary of AIM2, which outlined the terms and conditions pursuant to which the parties would complete a business combination transaction involving Canopy Rivers and AIM2 (the "RTO"). The RTO would result in a reverse takeover of AIM2 by Canopy Rivers and will constitute AIM2's "Qualifying Transaction" (as such term is defined in Policy 2.4 of the TSX Venture Exchange).

On July 6, 2018, Canopy Rivers completed a private placement offering, pursuant to which Canopy Rivers issued an aggregate of 29,774,857 subscription receipts at a price of \$3.50 per subscription receipt for gross proceeds of \$104,212, including \$15,050 invested by Canopy Growth. Canopy Rivers issued 28,792,000 subscription receipts pursuant to a brokered offering and 982,857 subscription receipts on a non-brokered basis. Funds from the private placement were placed in escrow pending the completion of the RTO. Share issue costs of \$3,371 were incurred as part of this private placement offering, which have been deducted from the carrying value of the non-controlling interest.

On September 17, 2018 Canopy Rivers completed the RTO, the funds were released from escrow and Canopy Rivers began trading under the symbol RIV.V on the TSX Venture Exchange.

Since AIM2 does not have the inputs and processes capable of producing outputs that are necessary to meet the definition of a business as defined by IFRS 3—Business Combinations the RTO has been accounted for under IFRS2, Share-based Payments. Accordingly, the RTO has been accounted for at the fair value of the equity instruments granted by the shareholders of Canopy Rivers to the shareholders and option holders of AIM2. Consideration paid by the acquirer is measured at the fair value of the equity issued to the shareholders of AIM2, \$1,353 (361,377 shares at 3.50 per share, 36,137 options with a fair value of \$89 calculated using a Black-Scholes option pricing model and 18,821 broker warrants measured using the Black-Scholes option pricing model), with the excess amount above the fair value of the net assets acquired, treated as a listing expense in profit and loss.

The assets acquired and liabilities assumed at their fair value on the acquisition date are as follows.

|                 | <b>Amount</b> |
|-----------------|---------------|
| Consideration   | \$ 1,353      |
| Cash Acquired   | 583           |
| Listing Expense | 770           |

After the completion of the private placement and RTO, Canopy Growth holds 36,468,318 Class A shares and 8,973,938 Class B shares of Canopy Rivers. Through these shares, the Company's ownership interest in Canopy Rivers is 27.2% and it holds 85.8% of the voting rights. The voting rights allow the Company to direct the relevant activities of Canopy Rivers such that the Company has control over Canopy Rivers and Canopy Rivers is consolidated in these financial statements. Prior to the transaction the Company's ownership interest in Canopy Rivers was 30.07% and it held 88.5% of the voting rights. An amount of \$9,138 has been recorded as an increase in equity attributable to the parent which represents the change in the carrying amount of the non-controlling interest as a result of the difference between the consideration paid and the net assets acquired and the dilution of Canopy Growth's ownership interest.

**Seed capital options**

On the formation of Canopy Rivers in May 2017, 10,066,668 Class B common shares were paid for through share purchase loans, whereby funds were advanced to Canopy Rivers by Canopy Growth on behalf of certain employees of Canopy Growth and another individual. Under the share purchase loan, Canopy Growth's recourse is limited to the shares purchased by the employees and the individual. Accordingly, it is accounted for as a grant of options to acquire shares of Canopy Rivers at \$0.05 per Class B common share. The shares treated as options will be considered exercised on the repayment of the loan. The shares purchased by employees and the consultant have been placed in trust and vest in 3 equal tranches over 3 years if the employees remain as employees of Canopy Growth and the individual remains as a consultant and the loan is repaid. In certain cases, there are also additional performance targets.

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The shares treated as options were measured at fair value on May 12, 2017 using a Black-Scholes model and will be expensed over their vesting period. Shares issued to non-employees will be remeasured until their performance is complete. Where there are performance conditions in addition to service requirements, Canopy Growth has estimated the number of shares it expects to vest and is amortizing the expense over the expected vesting period.

On May 8, 2018 share purchase loans in the amount of \$288 were repaid, resulting in the release from escrow of 5,750,000 shares. The remaining unamortized expense relating to these shares of \$1,459 was recorded in the period. For the three and six months ended September 30, 2018, the Company recorded \$1,381 and \$2,641 in share-based compensation expense related to the 3,483,333 remaining shares which were acquired by way of the share purchase loan (three and six months ended September 30, 2017 - \$878 and \$1,273) with a corresponding increase to non-controlling interests.

**Stock options**

To September 30, 2018 Canopy Rivers has granted 6,055,000 options to purchase Class B common shares to employees of Canopy Growth and 5,440,000 options to purchase Class B common shares to consultants of Canopy Growth. The options have a weighted average exercise price of \$1.74 per Class B common shares and are exercisable in increments, with one third being exercisable on each of the first, second and third anniversaries from the date of grant. The expiry date of the options ranges from December 4, 2022 to September 12, 2023. The options were measured at fair value at the date of issuance using a Black-Scholes model and will be expensed over their vesting period. Shares issued to non-employees will be remeasured until their performance is complete. For the three and six months ended September 30, 2018, the Company recorded \$6,295 and \$8,758 (three and six months ended September 30, 2017 - \$nil) in share-based compensation expense related to these options with a corresponding increase to non-controlling interests.

**12. NON-CONTROLLING INTERESTS**

The following table presents the summarized financial information about the Company's subsidiaries that have non-controlling interests. This information represents amounts before intercompany eliminations.

| <b>As at September 30, 2018</b>          | <b>Canopy<br/>Rivers</b> | <b>Tweed<br/>JA</b> | <b>Vert<br/>Mirabel</b> |
|--|--------------------------|---------------------|-------------------------|
| Cash and cash equivalents                | \$ 105,845               | \$ 2                | \$ 1,880                |
| Amounts receivable                       | 769                      | -                   | 2,005                   |
| Subscription receivable                  | -                        | 89                  | -                       |
| Prepaid expenses and other assets        | 469                      | -                   | 122                     |
| Inventory                                | -                        | -                   | 94                      |
| Biological assets                        | -                        | -                   | 306                     |
| Investments in associates                | 53,985                   | -                   | -                       |
| Other financial assets                   | 103,622                  | -                   | -                       |
| Property, plant and equipment            | 2,610                    | 2,775               | 24,771                  |
| Preferred shares                         | 15,000                   | -                   | -                       |
| Goodwill                                 | -                        | 1,938               | 5,625                   |
| Intangible assets                        | -                        | 21                  | -                       |
| Accounts payable and accrued liabilities | (1,496)                  | (213)               | (2,820)                 |
| Other current liabilities                | (48)                     | -                   | (263)                   |
| Other long-term liabilities              | -                        | -                   | (32,629)                |
| Deferred tax liability                   | (7,095)                  | -                   | -                       |
| Non-controlling interests                | (208,206)                | (1,423)             | 636                     |
| Equity attributable to Canopy Growth     | \$ 65,455                | \$ 3,189            | \$ (273)                |



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The net change in the non-controlling interests is as follows:

|                                 | Note  | Canopy<br>Rivers  | Tweed<br>JA     | Vert<br>Mirabel | Other non-<br>material<br>interests <sup>1</sup> | Total             |
|---------------------------------|-------|-------------------|-----------------|-----------------|--|-------------------|
| <b>As at April 1, 2018</b>      |       | \$ 80,844         | \$ 1,686        | \$ 2,155        | \$ (220)   | \$ 84,465         |
| Net (loss)/income               |       | (1,045)           | (226)           | (2,797)         | (111)  | (4,179)           |
| Other comprehensive income      |       | 7,990             | (37)            | -               | -  | 7,953             |
| Share-based compensation        |       | 12,952            | -               | -               | -  | 12,952            |
| Ownership changes               |       | 78,953            | -               | 6               | 331  | 79,290            |
| Warrant                         | 13(i) | 28,512            | -               | -               | -  | 28,512            |
| <b>As at September 30, 2018</b> |       | <b>\$ 208,206</b> | <b>\$ 1,423</b> | <b>\$ (636)</b> | <b>\$ -</b>                                      | <b>\$ 208,993</b> |

<sup>1</sup> Includes the non-controlling interests in Groupe H.E.M.P. CA and Spectrum Chile S.A.

The difference between the consideration paid by the non-controlling interests and the net assets acquired results in an increase in equity attributable to the parent of \$8,642 relating to Canopy Rivers, a decrease of \$6 relating to Vert Mirabel and a decrease of \$1,327 relating to Spectrum Chile.

**13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**

The following table outlines changes in the investments in associates that are accounted for using the equity method. As permitted by IAS 28 Investments in Associates and Joint Ventures, in cases where the Company does not have the same reporting date as its associates the Company will account for its investment one quarter in arrears. Accordingly the share of net income (loss) in the following table is based on values at June 30, 2018 with adjustments for any significant transactions.

| Entity          | Instrument               | Note    | Participating<br>share | Balance at<br>March 31,<br>2018 | Additions | Share of net<br>(loss)/<br>income | Interest<br>income | Balance at<br>September 30,<br>2018 |
|-----------------|--------------------------|---------|------------------------|---------------------------------|-----------|-----------------------------------|--------------------|-------------------------------------|
| PharmHouse      | shares                   | 13(i)   | 49.0%                  | \$ -                            | \$ 39,032 | \$ -                              | \$ -               | \$ 39,032                           |
| Agripharm       | shares                   |         | 40.0%                  | 38,479                          | -         | (774)                             | -                  | 37,705                              |
| N49AROW         | shares                   | 13(iv)  | 25.0%                  | -                               | 24,263    | -                                 | -                  | 24,263                              |
| TerrAscend      | shares                   |         | 23.6%                  | 16,912                          | -         | (1,784)                           | -                  | 15,128                              |
| BCT             | shares                   | 13(iii) | 42.2%                  | -                               | 12,549    | (65)                              | -                  | 12,484                              |
| Radicle         | convertible<br>debenture |         | 23.8%                  | 4,754                           | -         | (265)                             | (125)              | 4,364                               |
| Civilized       | convertible<br>debenture | 13(ii)  | 18.2%                  | -                               | 3,665     | (1,083)                           | (280)              | 2,302                               |
| CanapaR         | shares                   | 13(v)   | 35.0%                  | -                               | 725       | -                                 | -                  | 725                                 |
| CHI             | shares                   | 13(iii) | 42.9%                  | 2,961                           | -         | (2,961)                           | -                  | -                                   |
| Bedrocan Brasil | shares                   |         | 39.8%                  | -                               | -         | -                                 | -                  | -                                   |
| Entourage       | shares                   |         | 40.0%                  | -                               | -         | -                                 | -                  | -                                   |
|                 |                          |         |                        | \$ 63,106                       | \$ 80,234 | \$ (6,932)                        | \$ (405)           | \$ 136,003                          |

- (i) On May 7, 2018 Canopy Rivers and 2615975 Ontario Limited (the "Joint Venture Partner") entered into an agreement to form a new company, 10730076 Canada Inc. ("PharmHouse") with the intent of PharmHouse becoming a licensed producer of cannabis in Ontario. In exchange for \$1, a commitment to provide \$9,800 in financing, and the issuance of 14,400,000 warrants of Canopy Rivers to the Joint Venture Partner, Canopy Rivers received a 49% interest in PharmHouse and a global non-competition agreement from the Joint Venture Partner. On July 19, 2018 Canopy Rivers advanced \$9,800 to PharmHouse pursuant to the terms of this agreement.

The warrants are exercisable for a period of two years following the date that PharmHouse receives a license to sell cannabis at an exercise price which is the lesser of \$2.00 per share and the price of a defined liquidity event. The warrants were initially accounted for as a derivative liability as the exercise price was not fixed. The fair value of the warrants at inception and at June 30, 2018 was estimated to be \$29,232. On September 17, 2018, Canopy Rivers closed a brokered and non-brokered private placement of subscription receipts in connection with its planned public listing at \$3.50 per subscription receipt. As a result, the exercise price of the warrants was fixed at \$2.00 per share, and the warrant liability was

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reclassified to equity. The Company recognized a gain of \$720 from the warrant liability re-measurement and reclassified \$28,512 to non-controlling interest.

Canopy Rivers has joint control over PharmHouse, which has been determined to be a joint venture, and therefore will be accounted for using the equity method.

As part of the arrangement, Canopy Rivers also entered into a services agreement with PharmHouse whereby, upon PharmHouse receiving its license to sell cannabis, Canopy Rivers is required to arrange for buyers to purchase 25% of the cannabis produced by PharmHouse at a fixed price until December 31, 2020. Additionally, Canopy Growth has agreed to purchase from PharmHouse 10% of the cannabis it produces for a fixed price until December 31, 2020. If either Canopy Rivers or Canopy Growth is unable to arrange for buyers to purchase the required cannabis or purchase the required cannabis from PharmHouse, respectively, then a penalty is due equal to the amount otherwise payable under the agreements.

PharmHouse has also agreed to provide Canopy Rivers with a right of first offer of up to 50% to the cannabis produced by PharmHouse. The right of first offer percentage is reduced by the services and purchase agreements noted above.

- (ii) During the quarter ended June 30, 2018 Canopy Rivers advanced \$5,000 to Civilized Worldwide Inc. ("Civilized") under a convertible debenture. The debenture bears interest at 14% and matures on the maturity date being the earliest of i) 2 years, ii) the date that Civilized lists on a recognized stock exchange. In addition, Canopy Rivers received a warrant to acquire additional Class A common shares for \$3,500.

On the maturity date, the convertible debenture is convertible into 18.2% of the common shares and this interest, together with other rights provided under the agreements, such as the right to nominate 20% of Civilized's directors, give Canopy Rivers significant influence over the investee and Canopy Rivers is accounting for the investment using the equity method.

The warrant is exercisable the later of May 7, 2021 and two years from when Civilized becomes a public company. The exercise price is the lower of the price of the subsequent round and the price per common share obtained by dividing \$40,000 by the issued and outstanding shares at the date of exercise. The warrant was initially measured at its fair value of \$1,335 using a Black-Scholes option pricing model and the residual amount of \$3,665 represents the initial cost of its equity investment.

- (iii) As described in Note 9(a)(iii), the Company acquired a controlling interest in CHI on August 3, 2018, resulting in the consolidation of CHI and its equity accounted investment, Beckley Canopy Therapeutics ("BCT"). BCT operates as a cannabis research and development organization in the United Kingdom. On January 20, 2018, CHI and Beckley Research and Innovations Limited (the "Joint Venture Partner") each invested \$500 in exchange for a collaboration agreement whereby each party received a 50% ownership interest in Beckley. This arrangement provided CHI with joint control over Beckley, and the investment had been determined to be a joint venture, and therefore accounted for using the equity method. As at the date of the CHI acquisition, in accordance with IFRS 3 Business Combinations, the Company calculated the fair value of the equity investment in Beckley to be \$8,563 (see Note 9(a)(iii)).

On September 28, 2018, BCT completed a private placement financing where the Company, indirectly through CHI, acquired an additional 2,508,333 common shares for \$3,986. The Company's participating share was diluted from 50% to 42.2%. The previously mentioned collaboration agreement remains in effect and management has concluded that CHI has maintained joint control over BCT and therefore, the BCT investment continues to be accounted for as a joint venture using the equity method.

- (iv) On September 26, 2018, the Company entered into a series of agreements to create a business venture which will allow the Company to gain access to rights to sell certain branded products. In exchange for cash consideration of \$24,263 the Company acquired a 25% interest in a new company, N49AROW Global Ventures, ULC, ("N49AROW"), entered into a licensing agreement and received an option to acquire an interest in a potential future US based entity. Management has estimated that the fair value of any rights under the licensing agreement and option is nominal and allocated the consideration to the ownership interest.

This ownership interest together with other rights provided under the agreements gave the Company significant influence over N49AROW. The Company is accounting for its investment using the equity method and recorded the investment at its cost amount.

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- (v) On July 24, 2018, Canopy Rivers acquired a 35% ownership interest in CanapaR Corp. ("CanapaR") for cash consideration of \$750. This ownership interest and other rights give Canopy Rivers significant influence over the investee and Canopy Rivers is accounting for the investment using the equity method. CanapaR is the Canadian parent corporation of CanapaR SrL ("CanapaR Italy"), a Sicily-based company formed for the purposes of organic hemp cultivation and extraction in Italy.

In connection with the investment, Canopy Rivers received an option to purchase all of CanapaR's interest in its investees for consideration of the greater of: (i) eight times EBITDA; and (ii) \$200,000, less the liabilities of the acquired investees, multiplied by the interest not owned by Canopy Rivers at the time of exercise. The option is exercisable for a period of five years following the transaction date. The option was initially measured at its fair value of \$25 using a Black-Scholes option pricing model and the residual amount of \$725 represents the initial cost of its equity investment in CanapaR.

**14. OTHER FINANCIAL ASSETS**

The following table outlines changes in other financial assets. Additional details on how fair value is calculated is included in Note 24.

| <b>Entity</b>                                  | <b>Instrument</b>                      | <b>Note</b> | <b>Accounting method</b> |
|--|--|-------------|--------------------------|
| TerrAscend                                     | warrants                               |             | FVTPL                    |
| AusCann  | shares                                 | 14(i)       | FVOCI                    |
| AusCann  | options                                | 14(i)       | FVTPL                    |
| HydRx  | shares                                 | 14(ii)      | FVOCI                    |
| HydRx  | warrants                               | 14(ii)      | FVTPL                    |
| Solo Growth                                    | shares                                 | 14(v)       | FVOCI                    |
| LiveWell                                       | shares                                 | 14(iii)     | FVOCI                    |
| JWC  | shares                                 | 14(iv)      | FVOCI                    |
| Due from 80521 Newfoundland & Labrador Limited | loan receivable                        | 7(b)        | amortized cost           |
| Agripharm                                      | royalty interest / repayable debenture | 14(vii)     | FVTPL                    |
| Radicle  | repayable debenture                    | 14(viii)    | FVTPL                    |
| Good Leaf                                      | shares                                 | 14(vi)      | FVOCI                    |
| Good Leaf                                      | warrants                               | 14(vi)      | FVTPL                    |

**CANOPY GROWTH CORPORATION**
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| Entity  | Instrument                                      | Balance at | Additions | FVOCI    | FVTPL     | Interest | Disposal / | Balance at |
|---|---|------------|-----------|----------|-----------|----------|------------|------------|
|   |   | March 31,  |           |          |           |          |            |            |
|   |   | 2018       |           |          |           |          | warrants   | 2018       |
| TerrAscend  | warrants  | \$ 75,154  | \$ -      | \$ -     | \$ 29,083 | \$ -     | \$ -       | \$ 104,237 |
| AusCann   | shares  | 39,086     | 3,975     | (13,858) | -         | -        | -          | 29,203     |
| AusCann   | options   | 10,487     | 915       | -        | (4,715)   | -        | -          | 6,687      |
| HydRx   | shares  | 12,401     | -         | -        | -         | -        | 5,210      | 17,611     |
| HydRx   | warrants  | 5,210      | -         | -        | -         | -        | (5,210)    | -          |
| Solo Growth   | shares  | -          | 2,765     | 12,229   | -         | -        | -          | 14,994     |
| LiveWell  | shares  | -          | 250       | 9,023    | 4,799     | -        | -          | 14,072     |
| JWC   | shares  | 10,591     | 2,124     | 300      | -         | -        | -          | 13,015     |
| Due from 80521<br>Newfoundland<br>& Labrador<br>Limited | loan<br>receivable                              | -          | 6,810     | -        | -         | 192      | -          | 7,002      |
| Agripharm   | royalty<br>interest /<br>repayable<br>debenture | 2,326      | 4,000     | -        | (439)     | -        | -          | 5,887      |
| Radicle   | repayable<br>debenture                          | 3,075      | 2,000     | -        | (52)      | -        | -          | 5,023      |
| Good Leaf   | shares  | -          | 4,566     | 45       | -         | -        | -          | 4,611      |
| Good Leaf   | warrants  | -          | 912       | -        | 9         | -        | -          | 921        |
| Other measured<br>at FVTPL                              | various   | 3,923      | 2,501     | -        | 168       | -        | -          | 6,592      |
| Other measured<br>at FVOCI                              | various   | 1,210      | 331       | (9)      | -         | -        | -          | 1,532      |
|   |   | \$ 163,463 | \$ 31,149 | \$ 7,730 | \$ 28,853 | \$ 192   | \$ -       | \$ 231,387 |

- (i) On July 12, 2018, the Company invested a further \$4,890 in AusCann Group Holdings Ltd. ("AusCann") through a private placement in exchange for 4,545,00 common shares and 2,272,500 options. The options are exercisable at AUD\$ 1.465 for a term of 30 months. If the closing price of AusCann is AUD\$ 2.25 or greater for 10 consecutive trading days, the issuer has the right to force early exercise of the option. The consideration was allocated \$3,975 to the shares and \$915 to the warrants based on their fair value on the transaction date. Following this financing the Company's ownership interest in AusCann is 11.13%.
- (ii) HydRx Farms Ltd. ("HydRx") operates as Scientus Pharma Inc. In the quarter ended June 30, 2018, the Company completed a cashless exercise of the 1,860,680 warrants in exchange for 1,302,476 shares. At September 30, 2018 the Company holds 4,402,783 shares in HydRx which represents a 9.6% ownership interest.
- (iii) On April 2, 2018, the Company entered into a strategic agreement with LiveWell Foods Canada Inc. ("LiveWell") and its subsidiary, Artiva Inc. ("Artiva"). LiveWell and Artiva are both Cannabis Act applicants. This strategic agreement represents an amendment to the original investment agreement that the parties entered into on November 22, 2017. Under the terms of the amended agreement, in exchange for strategic support services, the offering of financial support and a commitment to fund \$250 of licensing expenses, Canopy Growth was issued 5,487,642 common shares and Canopy Rivers was issued 5,487,642 common shares of LiveWell, together representing 10% equity interest in LiveWell. The total fair value of this investment on initial recognition was \$5,049 resulting in a gain of \$4,799 which was unrecognized until June 20, 2018 when LiveWell became a publicly-traded company. At that time the gain was recognized in the statement of operations. An additional 5,487,642 common shares, representing an additional 5% equity interest, were placed in escrow and will be released to the Company on the achievement of certain licensing milestones. These shares are a contingent asset since their receipt is based on future events not wholly within the control of the Company.

LiveWell was provided with the option to draw on up to \$20,000 of debt financing from Canopy Rivers subject to the completion of certain milestones. As of September 30, 2018, the financing offer was not accepted and has expired.

Artiva has agreed to sell the Company 20% of its production for a 20-year term upon receiving its license to sell cannabis. Canopy Rivers is entitled to a royalty of \$0.075 for every gram of cannabis purchased from LiveWell and Artiva by the Company.

- (iv) On April 6, 2018, Canopy Rivers subscribed for 2,000,000 subscription receipts in James E. Wagner Cultivation Ltd. ("JWC") for \$2,300 in connection with a brokered private placement financing undertaken by JWC. Each receipt entitled the Company to one common share in the capital of JWC and one-half of one

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common share purchase warrant. Each warrant entitled the Company to acquire one common share in the capital of JWC for \$1.50 for a period of 24 months following a specified date. The offering closed April 27, 2018 and the subscription price was allocated \$2,124 to the shares and \$176 to the warrants. The Company's ownership interest in JWC is 14.2%.

- (v) On June 28, 2018 Canopy Rivers acquired 55,300,000 common shares of Solo Growth Corporation ("Solo Growth") through a private placement for \$2,765. The shares are subject to a four month hold period. The Company's ownership interest in the company is 9.7% of the issued and outstanding shares.
- (vi) On April 23, 2018, the Company invested \$5,478 in Good Leaf, Inc. ("Good Leaf") in exchange for 674,709 Series A-1 preferred shares and warrants to acquire 139,432 common shares. The warrants are exercisable at a price of \$0.01 per share for a period of 7 years. Following the transaction, the Company's ownership interest in Good Leaf is 8.8% on a fully diluted basis.
- (vii) In the six month period ended September 30, 2018, Canopy Rivers further advanced an additional \$4,000 under the Agripharm repayable debenture.
- (viii) In the six month period ended September 30, 2018, Canopy Rivers further advanced an additional \$2,000 under the Radicle repayable debenture.
- (ix) The Company holds certain derivative instruments for which the ability to exercise is conditional on US Federal legalization of growth, cultivation, production and sale of cannabis for medical and/or non-therapeutic purposes. Given that the growth, cultivation, production and sale of cannabis is not currently federally legal in the US and there can be no assurances that it will be legalized Management has estimated that these instruments have a nominal value.
- (x) BC Tweed has entered into call/put option agreements with the Partner to acquire all of the limited partnership units of the limited partnerships which hold the greenhouses and related property. Since these options represent options to acquire the limited partnership units, the options will be accounted for as derivative financial instruments which will be recognized initially and subsequently at fair value through profit or loss. The fair value of these options is \$nil as the exercise price of the option approximates the fair value of the limited partnership units.

**15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

|   | <b>September 30,<br/>2018</b> | March 31,<br>2018 |
|---|-------------------------------|-------------------|
| Trade payables  | <b>\$ 32,624</b>              | \$ 46,175         |
| Accrued liabilities                                   | <b>127,009</b>                | 43,396            |
| <b>Total accounts payable and accrued liabilities</b> | <b>\$ 159,633</b>             | <b>\$ 89,571</b>  |

The accounts payable and accrued liabilities balance of \$159,633 (March 31, 2018 – \$89,571) is comprised of amounts for property, plant and equipment of \$110,608 (March 31, 2018 – \$62,034), professional fees of \$9,917 (March 31, 2018 – \$7,391), compensation related liabilities of \$9,749 (March 31, 2018 – \$5,747), and other miscellaneous liabilities of \$29,359 (March 31, 2018 – \$14,399).

**CANOPY GROWTH CORPORATION****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

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**16. LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES****(a) Long-term debt**

|   | Maturity Date      | September 30,<br>2018 | March 31,<br>2018 |
|---|--------------------|-----------------------|-------------------|
| Convertible senior notes at 4.25% interest with semi-annual interest payments   | July 15, 2023      |                       |                   |
| Principal amount  |                    | \$ 600,000            | \$ -              |
| Accrued interest  |                    | 7,224                 | -                 |
| Non-credit risk fair value adjustment (FVTPL)   |                    | 218,970               | -                 |
| Credit risk fair value adjustment (FVOCI)   |                    | 75,030                | -                 |
|   |                    | <b>901,224</b>        | -                 |
| Unsecured convertible debentures at 8.00% interest with semi-annual interest payments   | December 28, 2020  | \$ 626                | \$ -              |
| Mortgage payable with a five-year term and amortization period of seven years bearing an annual interest rate of 4.9%                     | August 1, 2021     | 2,554                 | 2,777             |
| Mortgage payable with a five-year term and amortization period of seven years bearing an annual interest rate of 5.3%                     | December 1, 2019   | 956                   | 1,089             |
| Mortgage payable with a five-year term and amortization period of seven years bearing an annual interest rate of 4.8%                     | December 1, 2020   | 2,445                 | 2,648             |
| Mortgage payable with a five-year term and amortization period of twenty years bearing an annual interest rate of 4.5%                    | November 1, 2021   | 575                   | -                 |
| Loan payable with a twelve-month term and amortization period of sixty months, bearing annual interest at prime plus 3.0%                 | September 17, 2020 | 50                    | -                 |
| Loan payable with a forty-two-month term, bearing annual interest at prime plus 3.0%  | April 20, 2020     | 12                    | -                 |
| Term loan at 10% interest with monthly repayment  | October 1, 2024    | 1,478                 | 1,564             |
| Finance lease obligations with interest rates between 5.9%-17.1%, and terms between 2-5 years, liens against the related leased equipment |                    | 240                   | 344               |
|   |                    | <b>910,160</b>        | 8,422             |
| Less: current portion   |                    | <b>(903,453)</b>      | (1,557)           |
| Long-term portion   |                    | \$ <b>6,707</b>       | \$ 6,865          |

**Convertible senior notes**

On June 20, 2018, the Company issued convertible senior notes ("the notes") with an aggregate principal amount of \$600,000. The notes bear interest at a rate of 4.25% per annum, payable semi-annually on January 15th and July 15th of each year commencing from January 15, 2019. The notes will mature on July 15, 2023. The notes are subordinated in right of payment to any existing and future senior indebtedness, including indebtedness under the revolving credit facility. The notes will rank senior in right of payment to any future

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subordinated borrowings. The notes are effectively junior to any secured indebtedness and the notes are structurally subordinated to all indebtedness and other liabilities of the Company's subsidiaries.

Holders of the notes may convert the notes at their option at any time from January 15, 2023 to the maturity date. The notes will be convertible, at the holder's option, at a conversion rate of 20.7577 common shares for every \$1 principal amount of notes (equal to an initial conversion price of approximately \$48.18 per common share), subject to adjustments in certain events. In addition, the holder has the right to exercise the conversion option from September 30, 2018 to January 15, 2023, if (i) the market price of the Company common shares for at least 20 trading days during a period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day, (ii) during the 5 business day period after any consecutive 5 trading day period (the "measurement period") in which the trading price per \$1 principal amount of the notes for each trading day in the measurement period was less than 98% of the product of the last reported sales price of the Company's common shares and the conversion rate on each such trading day, (iii) the notes are called for redemption or (iv) upon occurrence of certain corporate events ("Fundamental Change"). The Company may upon conversion by the holder, elect to settle in either cash, common shares, or a combination of cash and common shares, subject to certain circumstances. Under the terms of the indenture if a Fundamental Change occurs and a holder elects to convert its notes from and including on the date of the fundamental change up to, and including, the business day immediately prior to the fundamental change repurchase date, the Company may be required to increase the Conversion Rate for the Notes so surrendered for conversion by a number of additional common shares ("Make Whole Fundamental Change").

The Company could not redeem the notes prior to July 20, 2021, except in the event of certain changes in Canadian tax law. On or after July 20, 2021, the Company could redeem for cash, subject to certain conditions, any or all of the notes, at its option, if the last reported sales price of the Company's common shares for at least 20 trading days during any 30 consecutive trading day period ending within 5 trading days immediately preceding the date on which the Company provides notice of redemption exceeds 130% of the conversion price on each applicable trading day. The Company may also redeem the notes, if certain tax laws related to Canadian withholding tax change subject to certain further conditions. The redemption of notes in either case shall be at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

For accounting purposes, the Company has designated the notes at fair value through profit or loss ("FVTPL"). The equity conversion option was not separately classified as equity, since the Company has the ability to settle the option at fair value in cash, common shares or a combination of cash and common shares in certain circumstances. The Company does not separately account for the fair value of the equity conversion option as a derivative, as it has classified the entire notes as a liability accounted for at FVTPL. The notes were initially recognized at fair value on the balance sheet with all subsequent changes in fair value excluding the impact of the change in fair value related to Company's own credit risk being recorded immediately in the statement of operations and changes in fair value related to the Company's own credit risk through OCI. Transaction costs directly attributable to the issuance of the notes were immediately expensed in the statement of operations in the amount of \$16,380.

The overall change in fair value of the notes during the three and six months ended September 30, 2018 was \$288,984 and \$301,224 which included accrued contractual interest of \$990 and \$7,224.

On August 14, 2018 the Company entered into a subscription agreement with CBG Holdings LLC ("CBG"). In accordance with the indenture, the closing of this investment would result in a Fundamental Change which provides the note holders with the right to surrender all or any portion of their notes for conversion at any time from or after the date that is 30 scheduled trading days prior to anticipated effective date of the Fundamental Change. On September 18, 2018 the Company notified the note holders of this proposed Fundamental Change and, the notes are subject to conversion at any time from or after September 18, 2018 until the related fundamental change repurchase date. As a result of the proposed Fundamental Change the Company does not have the unconditional right to defer settlement of the liability and the convertible notes have been classified as current as of September 30, 2018. On November 1, 2018 this investment was completed (Note 27(c)).

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**Unsecured convertible debentures**

On September 5, 2018, the Company acquired Hiku and assumed the obligations under their convertible debenture and on September 7, 2018 provided a change of control notice to Debenture holders to notify them of their right until October 19, 2018 to require Hiku to purchase all or any part of their Debenture at a price equal to 105% of the principal amount of its Debentures plus accrued and unpaid interest thereon up to, but excluding, September 7, 2018.

On September 21, 2018, in accordance with the terms of the debentures Hiku provided notice of forced conversion to the debenture holders. The Company shares traded above \$40.43 for 10 consecutive trading days and the Company elected to exercise its right to convert the outstanding principal amount of Debentures into the Company's common shares and pay any interest up to and including force conversion date of November 5, 2018. The convertible debentures were classified as current as of September 30, 2018.

**Mortgages and Term Loans**

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.

The mortgage with a maturity date of December 1, 2019 is secured by a first charge on the Tweed Farms property.

In respect of the mortgage with a maturity date of December 1, 2020, the mortgage is secured by a first charge on the Mettrum Bowmanville property.

The mortgages payable, all with Farm Credit Canada, a Canadian Crown Corporation 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 revolving lines of credit for up to \$6,018 with Farm Credit Corporation, with variable interest rates based on the FCC Variable Mortgage 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 lines of credit are subject to disbursement conditions related to capital expenditures at Tweed Farms and Mettrum. The lines of credit were undrawn as at September 30, 2018 and March 31, 2018.

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

**(b) Long-term financial liabilities**

At September 30, 2018 long-term financial liabilities of \$7,750 (March 31, 2018 – \$61,150) is comprised of the Vert Mirabel Put Liability with a fair value of \$7,500 (March 31, 2018 – \$4,850). It also includes a commitment to fund \$250 of licensing expenses related to the strategic agreement with LiveWell (see Note 14 (iii)).

At March 31, 2018 long-term financial liabilities also included \$56,300 which represented the fair value of the BC Tweed Put Liability on that date. This liability was settled on July 5, 2018 on the acquisition of the non-controlling interest's 33% interest.

**17. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES**

|                           | April 1,<br>2018 | Cash flows | Non-cash changes         |                          | September 30<br>2018 |
|---------------------------|------------------|------------|--------------------------|--------------------------|----------------------|
|                           |                  |            | Acquisition/<br>Disposal | Fair value<br>adjustment |                      |
| Long-term borrowings      | \$ 8,078         | \$ (643)   | \$ 1,261                 | \$ -                     | \$ 8,696             |
| Convertible senior note   | -                | 600,000    | -                        | 301,224                  | 901,224              |
| Finance lease obligations | 344              | (104)      | -                        | -                        | 240                  |
| Long-term debt            | \$ 8,422         | \$ 599,253 | \$ 1,261                 | \$ 301,224               | \$ 910,160           |



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**18. SHARE CAPITAL**

**(a) Authorized**

An unlimited number of common shares.

(i) *Equity Raises*

For the three and six months ended September 30, 2018 no equity financings occurred.

(ii) *Acquisitions*

During the six months ended September 30, 2018 the Company issued the following shares as a result of business combinations that occurred in the current or prior periods:

|  | Notes  | Number of<br>Shares | Share<br>Capital | Share<br>Based<br>Reserve |
|--|--------|---------------------|------------------|---------------------------|
| Issuance of shares for Annabis acquisition<br>- net of share issue costs of \$10                               | 9(v)   | 50,735              | \$ 1,558         | \$ -                      |
| Issuance of shares for DCL acquisition<br>- net of share issue costs of \$58                                   | 9(i)   | 666,362             | 24,644           | 694                       |
| Acquisition related share issuances for the<br>three months ended June 30, 2018                                |        | 717,097             | \$ 26,202        | \$ 694                    |
| Issuance of shares for Spectrum Cannabis<br>Colombia S.A.S. acquisition<br>- net of share issue costs of \$101 | 9(ii)  | 1,193,237           | 46,018           | -                         |
| Issuance of shares for CHI acquisition<br>- net of share issue costs of \$202                                  | 9(iii) | 3,076,941           | 97,832           | -                         |
| Issuance of shares for Hiku acquisition<br>- net of share issue costs of \$250                                 | 9(iv)  | 7,943,123           | 543,616          | -                         |
| Shares released from escrow related to the<br>Vert acquisition   |        | 88,469              | -                | -                         |
| Acquisition related share issuances for the<br>three months ended September 30, 2018                           |        | 12,301,770          | \$ 687,466       | \$ -                      |

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 (iii) Other

During the period ended September 30, 2018 the Company's other share issuances were comprised of:

|   | Notes | Number<br>of Shares | Share<br>Capital | Share<br>Based<br>Reserve |
|---|-------|---------------------|------------------|---------------------------|
| Shares issued for lease purchase option from 80521 Newfoundland & Labrador Limited - net of share issue costs of \$25 | 7(b)  | 332,009             | \$ 8,714         | \$ -                      |
| Shares issued relating to the Spectrum Cannabis Denmark ApS milestone - net of share issue costs of \$21              | 18(c) | 250,817             | 2,433            | (2,454)                   |
| Shares released from escrow relating to the Vert Medical acquisition - net of share issue costs of \$12               |       | 20,641              | 657              | (669)                     |
| Shares released from escrow to LBC Holdings, Inc.   |       | 6,274               | 187              | (187)                     |
| Other share issuances for the three months ended June 30, 2018  |       | 609,741             | \$ 11,991        | \$ (3,310)                |
| Shares issued relating to the Spectrum Cannabis Denmark ApS milestone   |       | 752,451             | 9,545            | (9,545)                   |
| Shares issued to Canindica Capital Ltd  | 9(ii) | 595,184             | 23,004           | (23,004)                  |
| Shares issued to BC Tweed Partner for performance conditions  |       | 155,158             | 1,880            | (1,880)                   |
| Shares issued for the Bodystream performance target agreement   |       | 134,281             | 1,323            | (1,323)                   |
| Amendment of agreement with LBC Holdings, Inc.  |       | 69,405              | 2,500            | -                         |
| Shares issued relating to the Niagara asset acquisition   |       | 53,764              | 2,000            | -                         |
| Shares issued relating to acquired intangibles  |       | 7,728               | 251              | -                         |
| Shares released from escrow to LBC Holdings, Inc.   |       | 6,274               | 211              | (211)                     |
| Other share issuances for the three months ended September 30, 2018   |       | 1,774,245           | \$ 40,714        | \$ (35,963)               |

During each of the three and six month period ended September 30, 2018, 6,274 (three and six month period ended September 30, 2017 – 21,959 and 43,918, respectively) common shares were released from escrow under the agreement with LBC Holdings, Inc., a company controlled by the artist known as Snoop Dogg. The remaining 12,549 common shares are escrowed for release, subject to meeting certain service criteria.

 (iv) Warrants

|   | Number of<br>whole<br>warrants | Average<br>exercise<br>price | Warrant<br>value |
|---|--------------------------------|------------------------------|------------------|
| <b>Balance at March 31, 2018</b>                                      | 18,912,012                     | \$ 12.96                     | \$ 70,454        |
| Exercise of warrants  | (35,110)                       | 3.80                         | (189)            |
| Expiry of warrants  | (1)                            | 3.80                         | -                |
| <b>Balance at June 30, 2018</b>                                       | 18,876,901                     | \$ 12.98                     | \$ 70,265        |
| Grant, exercise, and expiry of warrants                               | -                              | -                            | -                |
| Replacement warrants granted through Hiku acquisition (Note 9(a)(iv)) | 920,452                        | 41.28                        | 30,611           |
| <b>Balance at September 30, 2018</b>                                  | 19,797,353                     | \$ 14.30                     | \$ 100,876       |

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**(b) Omnibus plan**

On September 15, 2017, shareholders approved an Omnibus Incentive Plan ("Omnibus Plan") pursuant to which the Company is able to issue share-based long-term incentives. All directors, officers, employees and independent contractors of the Company are eligible to receive awards of common share purchase options ("Options") restricted share units ("RSUs"), deferred share units ("DSUs"), stock appreciation rights ("Stock Appreciation Rights"), restricted stock ("Restricted Stock"), performance awards ("Performance Awards") or other stock based awards (collectively, the "Awards"), under the Omnibus Plan. In addition, shareholders also approved the 2017 Employee Stock Purchase Plan of the Company (the "Purchase Plan").

Under the Purchase Plan, the aggregate number of common shares that may be issued is 400,000, and the maximum number of common shares which may be issued in any one fiscal year shall not exceed 200,000.

Under the Omnibus Plan, the maximum number of shares issuable from treasury pursuant to Awards shall not exceed 15% of the total outstanding shares from time to time less the number of shares issuable pursuant to all other security-based compensation arrangements of the Company (being the existing employee stock option plan ("ESOP") and the Purchase Plan). The maximum number of common shares reserved for Awards is 33,460,906 at September 30, 2018. As of September 30, 2018, the only Awards issued have been options under the ESOP and RSUs. No shares have been issued under the Purchase Plan as it has not yet been implemented.

The ESOP is administered by the Board of Directors of the Company who establishes exercise prices, at not less than the market price at the date of grant, and expiry dates. Options under the Plan generally remain exercisable in increments with 1/3 being exercisable on each of the first, second and third anniversaries from the date of grant, and has expiry dates set at six years from issuance. The Board of Directors has the discretion to amend general vesting provisions and the term of any award, subject to limits contained in the Plan.

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

|   | Options<br>issued | Weighted<br>average<br>exercise price |
|---|-------------------|---------------------------------------|
| Balance outstanding at March 31, 2018                             | 17,245,835        | \$ 12.95                              |
| Options granted   | 2,595,000         | 40.51                                 |
| Options exercised   | (637,187)         | 8.00                                  |
| Options forfeited/cancelled                                       | (234,153)         | 21.00                                 |
| Balance outstanding at June 30, 2018                              | 18,969,495        | \$ 16.79                              |
| Options granted   | 5,942,000         | 50.45                                 |
| Replacement options issued as a result of the<br>CHI acquisitions | 568,005           | 14.98                                 |
| Replacement options issued as a result of the<br>Hiku acquisition | 291,629           | 10.64                                 |
| Options exercised   | (3,207,004)       | 6.48                                  |
| Options forfeited/cancelled                                       | (355,287)         | 27.06                                 |
| Balance outstanding at September 30, 2018                         | 22,208,838        | \$ 28.16                              |

For the three and six months ended September 30, 2018 the Company recorded \$23,227 and \$36,774, respectively, in share-based compensation expense related to options issued to employees (for the three and six months ended September 30, 2017 - \$4,343 and \$6,855) and \$5,609 and \$7,704, respectively, in share-based compensation expense related to options issued to contractors (for the three and six months ended September 30, 2017 - \$620 and \$631). For the period ended September 30, 2018 compensation expense includes an amount related to 422,974 options being provided in exchange for services which are subject to performance conditions.

During the quarter ended September 30, 2018, the Company issued replacement options to employees in accordance with the CHI and Hiku acquisitions (Note 9(iii) and 9(iv), respectively). For the three and six month period ended September 30, 2018 (September 30, 2017 - \$nil) the Company recorded share-based compensation expense of \$8,085 related to these replacement options, of which \$7,502 relates to an immediate share-based compensation expense recorded at the CHI acquisition date to reflect the accelerated vesting of certain CHI replacement options.

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In determining the amount of share-based compensation related to options issued during the year, the Company used the Black-Scholes option pricing model to establish the fair value of options granted during the three months ended September 30, 2018 and 2017 on their measurement date by applying the following assumptions:

|                                    | <b>September 30,<br/>2018</b> | September 30,<br>2017 |
|------------------------------------|-------------------------------|-----------------------|
| Risk-free interest rate            | <b>2.18%</b>                  | 1.52%                 |
| Expected life of options (years)   | <b>2-5</b>                    | 3-5                   |
| Expected annualized volatility     | <b>76%</b>                    | 59%                   |
| Expected forfeiture rate           | <b>11%</b>                    | 10%                   |
| Expected dividend yield            | <b>nil</b>                    | nil                   |
| Black-Scholes value of each option | <b>\$ 29.13</b>               | \$ 4.10               |

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. Beginning the fourth quarter of Fiscal 2017, the Company began using its own historical volatility. 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.

The Company recorded \$7,676 and \$12,859 in the three and six months ended September 30, 2018 (three and six months ended September 30, 2017 – \$878 and \$1,272) in share-based compensation expense related to the issuance of shares and options in Canopy Rivers to employees and consultants (refer to Note 11).

During the six months ended September 30, 2018, 3,207,004 ESOP options were exercised ranging in price from \$1.32 to \$27.99 for gross proceeds of \$24,891.

During the three and six months ended September 30, 2018 the Company issued 12,344 and 94,432, respectively, RSUs to consultants and directors of the Company of which 52,781 vested immediately, 29,307 vest over 5 years and 12,344 vest over 6 years. For the three months and six months ended September 30, 2018 the Company recorded \$428 and \$2,675 in share-based compensation expense related to these RSUs (three and six months ended September 30, 2017 – \$nil).

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**(c) Share-based compensation expense related to acquisition and asset purchase milestones**

Share-based compensation expense related to acquisition milestones is comprised of:

|                                   |          |   | Compensation expense          |                               | Compensation expense          |                               |
|-----------------------------------|----------|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|                                   |          | Remaining shares to be issued on completion of milestones | September 30, 2018 (3 months) | September 30, 2017 (3 months) | September 30, 2018 (6 months) | September 30, 2017 (6 months) |
|                                   | Notes    | Released during Q2/2019                                   |                               |                               |                               |                               |
| Apollo/Bodystream                 |          | 134,281   | \$ 1,480                      | \$ 1,043                      | \$ 4,087                      | \$ 2,087                      |
| Spektrum Cannabis GmBH            |          | -   | 44                            | 86                            | 133                           | 172                           |
| Spot                              |          | -   | 93                            | 55                            | 208                           | 55                            |
| Spectrum Denmark                  |          | 752,451   | 6,478                         | -                             | 8,379                         | -                             |
| BC Tweed                          |          | 155,158   | 954                           | -                             | 1,387                         | -                             |
| Vert Mirabel                      |          | -   | 443                           | -                             | 1,016                         | -                             |
| Green Hemp                        |          | -   | 231                           | -                             | 460                           | -                             |
| Intellectual property acquisition |          | -   | 238                           | -                             | 582                           | -                             |
| Annabis                           | 9(a)(v)  | -   | 163                           | -                             | 350                           | -                             |
| DCL                               | 9(a)(i)  | -   | 1,831                         | -                             | 2,448                         | -                             |
| Colombia                          | 9(a)(ii) | -   | 9,417                         | -                             | 9,417                         | -                             |
| Canindica                         | 9(a)(ii) | 595,184   | 29,358                        | -                             | 29,358                        | -                             |
|                                   |          |   | \$ 50,730                     | \$ 1,184                      | \$ 57,825                     | \$ 2,314                      |

In certain cases, the number of shares to be issued is based on the volume weighted average share price at the time the milestones are met. The number of shares has been estimated assuming the milestones were met at September 30, 2018. The number of shares to be issued to the previous shareholders of Spectrum Colombia and Canindica excludes shares to be issued on July 4, 2023 based on the fair market value of Canopy LATAM on that date.

**(d) Other share based payments**

The Company recorded share-based compensation of \$nil (\$22 and a gain of \$15 for the three and six month period ended September 30, 2017) for escrowed shares issued on the acquisition of MedCann Access that were related to employment.

The Company recorded expenses in the amount of \$3,801 and \$4,585 for the three and six month period ended September 30, 2018 (\$230 and \$177 for the three and six months ended September 30, 2017, respectively) related to shares provided in exchange for royalty and marketing services. The Company has determined that these services received are best measured by reference to the fair value of the equity granted as the services are rendered. These expenses have been allocated as either sales and marketing expenses or royalty expenses reflected in cost of sales, depending on the terms of the agreement.

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**19. OTHER EXPENSE, NET**

|   | Notes     | Three months ended    |                       | Six months ended      |                       |
|---|-----------|-----------------------|-----------------------|-----------------------|-----------------------|
|   |           | September 30,<br>2018 | September 30,<br>2017 | September 30,<br>2018 | September 30,<br>2017 |
| Fair value changes on financial assets classified as FVTPL      | 14        | \$ 48,200             | \$ 146                | \$ 28,853             | (3,354)               |
| Convertible debt issuance costs                                 | 16(a)     | (335)                 | -                     | (16,380)              | -                     |
| Fair value changes on financial liabilities designated as FVTPL | 16(a)     | (223,374)             | -                     | (226,194)             | -                     |
| Fair value increase in Put Liability                            | 16(b)     | (850)                 | -                     | (18,950)              | -                     |
| Gain on warrant liability remeasurement                         | 13(i)     | 720                   | -                     | 720                   | -                     |
| Gain/loss disposal of property, plant and equipment             |           | (37)                  | (3)                   | (1,909)               | (129)                 |
| Gain on acquisition of consolidated entity                      | 9(a)(iii) | 62,682                | -                     | 62,682                | -                     |
| Other income (expense), net                                     |           | 1,655                 | 98                    | (587)                 | 123                   |
| <b>Total other expense, net</b>                                 |           | <b>\$ (111,339)</b>   | <b>\$ 241</b>         | <b>\$ (171,765)</b>   | <b>(3,360)</b>        |

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**20. EXPENSES BY NATURE**

Operating expenses and cost of sales totalled \$237,955 and \$18,546 for the three months ended September 30, 2018 and 2017, respectively, and \$294,577 and \$38,659 for the six months ended September 30, 2018 and 2017, respectively. Total operating expenses and cost of sales were distributed by nature as follows:

|  | Three months ended    |   | Six months ended      |   |
|--|-----------------------|---|-----------------------|---|
|  | September 30,<br>2018 | September 30,<br>2017<br><i>(Restated -<br/>see note 3)</i> | September 30,<br>2018 | September 30,<br>2017<br><i>(Restated -<br/>see note 3)</i> |
| Employee compensation and benefits                             | \$ 36,796             | \$ 10,534   | \$ 59,448             | \$ 20,474   |
| Raw materials used and consumables                             | 8,435                 | 2,935   | 16,558                | 5,478   |
| Other costs of sales   | 8,914                 | 2,615   | 15,233                | 4,310   |
| Net valuation gains related to inventory and biological assets | 9,727                 | (21,708)  | (42,032)              | (34,648)  |
| Share-based compensation                                       | 97,056                | 7,276   | 128,007               | 11,234  |
| Acquisition-related costs                                      | 3,203                 | 865   | 5,086                 | 1,701   |
| Depreciation and amortization                                  | 9,294                 | 5,291   | 15,587                | 10,348  |
| Legal and professional fees                                    | 9,196                 | 2,248   | 12,957                | 3,664   |
| Royalties  | 170                   | 452   | 925                   | 981   |
| Consultants  | 15,082                | 1,678   | 23,539                | 2,751   |
| Facility expenses  | 13,004                | 1,477   | 20,631                | 2,779   |
| Patient assistance   | 1,709                 | 1,704   | 3,847                 | 3,382   |
| Marketing and promotion  | 14,537                | 765   | 17,681                | 1,405   |
| Office expenses  | 5,626                 | 1,131   | 8,577                 | 2,355   |
| Travel and other employee expenses                             | 4,549                 | 862   | 7,283                 | 1,670   |
| Bank and payment processor fees                                | 657                   | 421   | 1,250                 | 775   |
| <b>Total</b>   | <b>\$ 237,955</b>     | <b>\$ 18,546</b>  | <b>\$ 294,577</b>     | <b>\$ 38,659</b>  |

**21. 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 is 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. As at September 30, 2018 and 2017, all instruments were anti-dilutive based on having a net loss attributable to common shareholders for the period.

**22. COMMITMENTS AND CONTINGENCIES**

(a) The Company leases production and retail space under operating leases which range in expiration from July 2018 to October 2037 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.

(b) 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 interim financial statements since the amount cannot be reliably measured at this point.

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(c) Prior to its acquisition by the Company, Mettrum had initiated voluntary Type III recalls for products where trace amounts of an unauthorized pesticide was found to have been applied in certain Mettrum products. A Type III recall refers to a situation in which the use of, or exposure to, a product is not likely to cause any adverse health consequences. In March 2017, two separate class action lawsuits relating to the Mettrum recalls were initiated naming Mettrum Health Corp. as respondent.

The proposed action seeks damages for the proposed class of individuals who purchased the products affected by the recall. The Company and its insurers are contesting the litigation. The litigation process will continue into the foreseeable future before the class action suit is certified by the court and unless settled out of court. No amount has been recorded in the interim financial statements since the amount cannot be reliably measured at this point.

**23. SUPPLEMENTARY CASH FLOW INFORMATION**

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

|  | <b>For the six months ended</b> |   |
|--|---------------------------------|---|
|  | <b>September 30,<br/>2018</b>   | September 30,<br>2017<br><i>(Restated - see<br/>note 3)</i> |
| Amounts receivable                       | \$ (21,242)                     | \$ (938)  |
| Prepaid expenses and other assets        | (6,811)                         | (1,580)   |
| Biological assets and inventory          | (61,050)                        | (9,802)   |
| Accounts payable and accrued liabilities | 1,150                           | (585)   |
| Deferred revenue                         | (902)                           | 306   |
| Other liabilities                        | -                               | (56)  |
| <b>Total</b>                             | <b>\$ (88,855)</b>              | <b>\$ (12,655)</b>  |

**Non-cash transactions**

Excluded from the September 30, 2018 interim statements of cash flows was a total of \$111,386 in accounts payable and accrued liabilities as follows: \$110,608 of property, plant and equipment and assets in process purchases and \$778 of share issue costs. Included for the September 30, 2018 interim statements of cash flows is a total of \$49,679 in accounts payable and accrued liabilities as follows: \$49,627 of property, plant and equipment and assets in process purchases and \$52 of share issue costs.

Excluded from the September 30, 2017 interim statements of cash flows was a total of \$4,945 in accounts payable and accrued liabilities as follows: \$4,936 of property, plant and equipment and assets in process purchases and \$9 of share issue costs. Included for the September 30, 2017 interim statements of cash flows was a total of \$3,860 in accounts payable and accrued liabilities as follows: \$3,770 of property, plant and equipment and assets in process purchases and \$90 of share issue costs.

Cash and cash equivalents consist of the following:

|   | <b>September 30,<br/>2018</b> | March 31,<br>2018 |
|---|-------------------------------|-------------------|
| Cash  | \$ 429,401                    | \$ 322,560        |
| Short-term guaranteed investment certificates | -                             | -                 |
| <b>Total cash and cash equivalents</b>        | <b>\$ 429,401</b>             | <b>\$ 322,560</b> |



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**24. FINANCIAL INSTRUMENTS****(a) Fair value of financial assets and liabilities that are measured at fair value on a recurring basis**

The following table summarizes the valuation techniques and key inputs used in the fair value measurement of level 2 financial instruments:

| <b>Financial asset/financial liability</b> | <b>Valuation techniques</b>        | <b>Key inputs</b>                               |
|--|------------------------------------|---|
| AusCann shares                             | Put option pricing model           | Quoted prices in active market                  |
| AusCann options                            | Black-Scholes option pricing model | Quoted prices in active market                  |
| Convertible senior note                    | Convertible note pricing model     | Quoted prices in over-the-counter broker market |
| JWC warrants                               | Black-Scholes option pricing model | Quoted prices in active market                  |
| Solo Growth shares                         | Put option pricing model           | Quoted prices in active market                  |
| TerrAscend warrants                        | Black-Scholes option pricing model | Quoted prices in active market                  |

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The following table summarizes the valuation techniques and significant unobservable inputs in the fair value measurement of level 3 financial instruments

| <b>Financial asset/financial liability</b>         | <b>Valuation techniques</b>        | <b>Significant unobservable inputs</b>       | <b>Relationship of unobservable inputs to fair value</b>  |
|--|------------------------------------|--|---|
| Agripharm warrant                                  | Black-Scholes option pricing model | Share price                                  | Increase or decrease in share price will result in an increase or decrease in fair value          |
| Agripharm royalty interest and repayable debenture | Discounted cash flow               | Discount rate                                | Increase or decrease in discount rate will result in a decrease or increase in fair value         |
|  |                                    | Future royalties                             | Increase in future royalties to be paid will result in an increase in fair value                  |
| BC Tweed and Vert Mirabel put liability            | Discounted cash flow               | Discount rate                                | Increase or decrease in discount rate will result in a decrease or increase in fair value         |
|  |                                    | Future wholesale price and production levels | Increase in future wholesale price and production levels will result in an increase in fair value |
| BC Tweed call option                               | Market approach                    | Appraised value of property                  | Increase or decrease in value will result in a increase or decrease in fair value                 |
| Civilized shares                                   | Market approach                    | Share price                                  | Increase or decrease in share price will result in an increase or decrease in fair value          |
| Civilized warrants                                 | Black-Scholes option pricing model | Share price                                  | Increase or decrease in share price will result in an increase or decrease in fair value          |
| Good Leaf shares                                   | Market approach                    | Share price                                  | Increase or decrease in share price will result in an increase or decrease in fair value          |
| Good Leaf warrants                                 | Black-Scholes option pricing model | Share price                                  | Increase or decrease in share price will result in an increase or decrease in fair value          |
| HydRx shares                                       | Market approach                    | Share price                                  | Increase or decrease in share price will result in an increase or decrease in fair value          |
| JWC royalty interest                               | Discounted cash flow               | Discount rate                                | Increase or decrease in discount rate will result in a decrease or increase in fair value         |
|  |                                    | Future royalties                             | Increase in future royalties to be paid will result in an increase in fair value                  |
| Canopy Rivers warrant liability                    | Black-Scholes option pricing model | Share price                                  | Increase or decrease in share price will result in an increase or decrease in fair value          |
| Radicle repayable debenture                        | Discounted cash flow               | Discount rate                                | Increase or decrease in discount rate will result in a decrease or increase in fair value         |

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

**(b) Fair value of financial assets and liabilities that are not measured at fair value but fair value disclosures are required**

The carrying values of cash, short-term investments, accounts receivable and restricted investments and accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity. The carrying value of mortgage payables approximates their fair value.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

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

**25. SEGMENTED INFORMATION**

The Company operates in one segment, the production, distribution and sale of both medical and adult or recreational cannabis in the period ended September 30, 2018.

All property, plant and equipment and intangible assets are located in Canada, except for \$17,585 which is located outside of Canada.

All revenues were principally generated in Canada during the three and six months ended September 30, 2018, except for \$2,235 and \$5,610, respectively, related to exported medical cannabis generated outside of Canada (three and six months ended September 30, 2017 - \$78 and \$404, respectively).

**26. CAPITAL MANAGEMENT**

As at September 30, 2018 total managed capital was comprised of shareholders' equity and debt of \$2,750,982 (March 31, 2018 - \$1,251,660).

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 (refer to Note 16).

**27. SUBSEQUENT EVENTS****(a) Restructuring of the Company's investment in TerrAscend**

On October 9, 2018, Canopy Growth and Canopy Rivers entered into an arrangement agreement with TerrAscend pursuant to which TerrAscend will restructure its share capital by way of a plan of arrangement. The restructuring is intended to accommodate TerrAscend's strategic pursuits, while also maintaining strict compliance with industry regulations and the policies of the various securities exchanges.

Pursuant to the Arrangement, the Company will exercise its TerrAscend warrants for no cash consideration, resulting in the net issuance of 16,318,912 common shares based on the five day volume weighted average trading price of the common shares of TerrAscend on the Canadian Securities Exchange (the "CSE") for the period ending October 5, 2018, the last trading day prior to the date of the Arrangement Agreement. All common shares held by the Company will thereafter be exchanged pursuant to the Arrangement for new, conditionally exchangeable shares in the capital of TerrAscend (the "Exchangeable Shares").

The Exchangeable Shares will become convertible into common shares following changes in U.S. federal laws regarding the cultivation, distribution or possession of marijuana, the compliance of TerrAscend with such laws and the approval of the various securities exchanges upon which the holder's securities are listed. The Exchangeable Shares are not transferrable or monetizable until exchanged into common shares. In the interim, each holder of Exchangeable Shares will not be entitled to voting rights, dividends or other rights upon dissolution of TerrAscend.

The agreement is subject to TerrAscend shareholder approvals and necessary regulatory approvals and is expected to close in the third quarter.

**(b) Acquisition of ebbu, Inc. ("ebbu")**

On October 15, 2018 the Company entered into an agreement to acquire the assets of ebbu, Inc. ("ebbu"), an Evergreen, Colorado-based hemp research leader. Canopy Growth, through a newly formed subsidiary, will employ ebbu's assets and personnel to conduct R&D. On closing, Canopy Growth will issue \$25,000 in cash and 6,221,210 Company common shares. Up to a further \$100,000 will be payable by the Company if certain scientific related milestones are achieved within two years following closing. Canopy Growth will have the option of satisfying such milestone payments in cash, shares or a combination of cash and shares. If such payments are satisfied in shares, the number of shares shall be calculated based on the volume weighted average price of the shares on the TSX for the 20 trading days immediately prior to the date of achievement of the applicable milestone.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**(Expressed in CDN \$000's except share amounts)

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**(c) Investment by CBG Holdings LLC**

Pursuant to the subscription agreement dated August 14, 2018, between the Company and CBG Holdings LLC ("CBG"), on November 1, 2018 the Company issued 104,500,000 common shares and 139,745,453 common share purchase warrants to CBG, an affiliate of Constellation Brands Inc. ("Constellation"). Of those warrants, 88.5 million are exercisable at a price per share of \$50.40, and 51.3 million are exercisable at the volume weighted average price at the time of exercise. On closing of the investment, Constellation would be the beneficial owner (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of 56% of the voting control over the Company's common shares.

In accordance with the terms of the convertible senior notes (Note 16) the closing of the CBG investment results in a Fundamental Change. The holders were advised of the proposed Fundamental Change on September 18, 2018. The notes will be convertible from September 18, 2018 until 5 p.m. on December 5, 2018 which is the fundamental change repurchase date. The investment also meets the definition of a Make Whole Fundamental Change such that the initial conversion rate of the notes will be increased from 20.7577 common shares per \$1,000 principal amount of the notes to 23.7423 from November 1, 2018 until 5 p.m. on December 4, 2018.