# CANOPY GROWTH CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2017**

**FEBRUARY 14, 2018**

Canopy Growth Corporation ("the Company" or "Canopy Growth") is a publicly traded corporation, incorporated in Canada, with its head office located at 1 Hershey Drive, Smiths Falls, Ontario. Canopy Growth trades on the Toronto Stock Exchange ("TSX") under the ticker symbol "WEED".

This Management's Discussion and Analysis of the Financial Condition and Results of Operation ("MD&A") is dated February 14, 2018. It should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements (the "Interim Financial Statements") for the three and nine months ended December 31, 2017, including the accompanying notes.

Unless otherwise indicated, all financial information in this MD&A is reported in thousands of Canadian dollars, except share amounts. This MD&A was prepared with reference to National Instrument 52-109 – Continuous Disclosure Obligations of the Canadian Securities Administrators. This MD&A provides information for the three and nine months ended December 31, 2017 and up to and including February 13, 2018.

By their nature, the Interim Financial Statements do not include all the information required for full annual financial statements. Accordingly, this MD&A should be read in conjunction with the Company's audited amended and restated consolidated financial statements and notes thereto for the year ended March 31, 2017 and the related MD&A for the year ended March 31, 2017 which was amended and restated as of November 13, 2017.

The Interim Financial Statements and this MD&A have been reviewed by the Company's Audit Committee and was approved by the Company's Board of Directors on February 13, 2018.

The accompanying Interim Financial Statements were prepared in compliance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34"), in accordance with subparagraph 3.2(1) (b) of NI 52-107 and include the accounts of the Company and its subsidiaries and the Company's interests in affiliated companies (see page 5). All intercompany balances and transactions have been eliminated on consolidation.

Additional information filed by us with the Canadian Securities Administrators, including quarterly reports, annual reports and annual information forms are available on-line at www.sedar.com and also on the Company's website at www.canopygrowth.com, and Short Form Prospectuses with respect to the bought deals dated April 8, 2016, August 18, 2016, December 16, 2016 and January 31, 2018 are available on-line at www.sedar.com.

Canopy Growth does not engage in any U.S. marijuana-related activities as defined in Canadian Securities Administrators Staff Notice 51-352. While the Company has a number of partnerships with U.S.-based companies that may themselves participate in the U.S. cannabis market, these relationships are licensing relationships that see intellectual property developed in the United States brought into Canada, and in no manner involve Canopy Growth in any US activities respecting cannabis.

Financial information contained herein is expressed in thousands of Canadian dollars, except share and per share amounts, or as otherwise stated.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This MD&A contains certain “forward-looking statements” and forward-looking information within the meaning of Canadian securities laws, including but not limited to statements relating to:

- assumptions and expectations described in the Company’s critical accounting policies and estimates;
- the Company’s expectations regarding the adoption and impact of certain accounting pronouncements;
- the Company’s expectations regarding legislation, regulations and licensing related to the cultivation, production and sale of cannabis products by the Company’s wholly-owned subsidiaries;
- the expected number of users of medical cannabis or the size of the medical cannabis market in Canada and internationally;
- the expected number of users of recreational cannabis or the size of the recreational cannabis market in Canada and internationally;
- the potential time frame for the implementation of legislation to legalize regulated recreational cannabis use in Canada and internationally and the potential form implementation of the final legislation will take, including the method of delivery and framework adopted or to be adopted by various Canadian provinces or other jurisdictions;
- the potential size of the regulated recreational cannabis market in Canada should regulated recreational use be legalized;
- the ability to enter and participate in international market opportunities;
- the Company’s expectations with respect to the Company’s future financial and operating performance;
- the Company’s expectations with respect to future performance, results and terms of strategic initiatives, strategic agreements and supply agreements;
- product sales expectations;
- development of affiliated brands, product diversification and future corporate development;
- anticipated results of research and development;
- inventory and production capacity expectations including discussions of plans or potential for expansion of capacity at existing or new facilities;
- expectations with respect to future expenditures and capital activities;
- statements about expected use of proceeds from fund raising activities; and
- the Company’s ability to achieve profitability without further equity financing.

The words “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates” “forecasts”, “intends”, “anticipates”, or “believes” or variation (including negative variations) of such words and phrases, or statements that certain actions, events, or results “may”, “could”, “would”, “might”, or “will” be taken, occur or to achieve are all forward-looking statements. Forward-looking statements are based on the reasonable assumptions, estimates, internal and external analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled "RISKS AND UNCERTAINTIES". Although the Company has attempted to identify important factors that could cause actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events, or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as at the date of the MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

## CORPORATE STRATEGY

Canopy Growth, an early mover in the Canadian market, is a multi-brand cannabis company that believes its strong focus on and investment in brand, market and product differentiation, increased cannabis supply through Company and partner cannabis production platforms, and education, to help citizens safely, effectively and responsibly use cannabis, will create a dominant global business with the potential to generate a significant and sustained return on invested capital over the long-term.

The Company's strategy is to focus on developing and scaling to be the world's biggest multi-platform, creator of high value branded offerings in multiple formats for medical cannabis markets in Canada and abroad where federally legal, and for regulated recreational markets when they are federally legalized.

During the third quarter and since then, the Company has directed its efforts on major expansion plans to increase both capacity and capability in six provinces, so far, and six countries to date and ensuring those plans are well funded, as evidenced by the recent investment on November 2, 2017 of $244,990 by an affiliate of Constellation Brands ("Constellation") (NYSE: STZ and STZ.B) and the gross proceeds of $200,680 from the bought deal financing that closed on February 7, 2018. The expansion plans under development in Canada include over 5.0 million sq. ft. of greenhouse and indoor facilities.

The Company has also committed to making investments in marketing, branding and sales functions strengthening Canopy Growth's position in Canadian and international medical markets, as well as for the coming Canadian regulated recreational market expected to commence in mid-2018.

The Company is also investing in its internal administrative and supporting infrastructure, including governance programs, to build a strong and capable organization to maintain its market leadership and capture and scale into new market opportunities.

The Company's operations are focused on ensuring a consistent selection and availability of cannabis strains for sale in all formats. As at February 13, 2018, there were 45 offerings for sale on the Tweed Main Street online store including dry flower, oils, soft gel capsules across multiple branded categories.

**Controlled or jointly controlled subsidiaries**

| Legal entity | Defined as | % Ownership | Accounting method |
|---|---|---|---|
| Tweed Inc. | Tweed | 100.0% | consolidation |
| Tweed Farms Inc. | Tweed Farms | 100.0% | consolidation |
| Bedrocan Canada Inc. | Bedrocan Canada | 100.0% | consolidation |
| Spectrum Cannabis Canada Ltd. (formerly Mettrum Ltd.) | Spectrum Cannabis | 100.0% | consolidation |
| Tweed Grasslands Cannabis Inc. | Tweed Grasslands | 100.0% | consolidation |
| Mettrum Hempworks Inc. | Mettrum Hempworks | 100.0% | consolidation |
| Groupe H.E.M.P.CA | Group H.E.M.P. | 75.0% | consolidation |
| Spektrum Cannabis GmbH | Spektrum Cannabis | 100.0% | consolidation |
| Vert Cannabis Inc. | Vert Cannabis | 100.0% | consolidation |
| 2344823 Ontario Inc. d/b/a Bodystream | Bodystream | 100.0% | consolidation |
| Apollo Applied Research Inc. and Apollo CRO Inc. | together "Apollo" | 100.0% | consolidation |
| Spot Therapeutics Inc. | Spot | 100.0% | consolidation |
| Spectrum Chile SpA | Spectrum Chile | 85.0% | consolidation |
| Grow House JA Limited | Tweed JA | 49.0% | consolidation |
| Canopy Rivers Corporation | Canopy Rivers | 34.1% | consolidation |
| Spectrum Cannabis Denmark Aps | Spectrum Cannabis Denmark | 62.0% | consolidation |
| Les Serres Vert Cannabis | Vert Mirabel | 66.7% | consolidation |
| BC Tweed Joint Venture Inc. | BC Tweed | 66.7% | joint operation |

**Investments in affiliates**

| Legal entity | Defined as | % Ownership | Accounting method |
|---|---|---|---|
| Agripharm Corp. | Agripharm | 40.0% | equity |
| Canopy Health Innovations Inc. | Canopy Health | 43.9% | equity |
| Bedrocan Brasil S.A. | Bedrocan Brasil | 39.4% | equity |
| Entourage Phytolab S.A. | Entourage | 38.5% | equity |
| AusCann Group Holdings Ltd. | AusCann | 11.0% | FVTOCI and FVTPL |
| Vapium Incorporated | Vapium | 12.2% | cost |
| HydRx Farms Ltd. (operating as Scientus Pharma Inc.) | HydRx | 9.8% | cost |
| TerrAscend Corp | TerrAscend | 24.0% | equity and FVTPL |
| James E. Wagner Cultivation Ltd. | JWC | 14.7% | cost |
| Radicle Medical Marijuana Inc. | Radicle | 23.8% | equity |

## THIRD QUARTER 2018 HIGHLIGHTS

### *Financial*

- Third quarter revenue was $21,700, representing a 123% increase over the quarter ended December 31, 2016 when revenue totaled $9,752, and a 24% increase over revenues of $17,569 in the second quarter of fiscal 2018;
- 2,330 kilograms and kilogram equivalents[1] sold in the third quarter ended December 31, 2017, representing an increase of 87% over the third quarter of last year, and an increase of 15% over the second quarter of fiscal 2018 in which 2,020 kilograms and kilogram equivalents were sold;
- Oil sales, including gel caps, accounted for 23% of third quarter product revenue (reported revenue net of merchandise revenue, clinic revenue and shipping fees). Oil sales in the third quarter accounted for 2,132 litres (or approximately 262 kilogram equivalents) of the kilogram and kilogram equivalents stated above;
- Average sales price per gram was $8.30 for the third quarter, as compared to $7.36 last year in the same quarter and $7.99 in the second quarter of fiscal 2018;
- The weighted average cost per gram before shipping and fulfillment was $1.03 per gram as compared to $1.25 per gram in the second quarter of fiscal 2018 and $1.41 per gram in the third quarter of fiscal 2017. The cost per gram also reflects value-add processing for cannabis oils and sector-exclusive Softgel capsules, both carrying significantly higher margins than dried flower product. The weighted average cost per gram to the point of harvest fell to only $0.59 per gram, the sixth consecutive quarter when the cost to the point of harvest was less than $1 per gram and declined from the previous quarter;
- The third quarter gross margin before the fair value related impacts in cost of sales was $12,534 or 58% of revenue as compared to $6,241 and 64% of revenue in the same quarter of last year, and $10,082 or 57% of revenue for the second quarter of fiscal 2018. The third quarter gross margin before the fair value related impacts in cost of sales includes operating expenses associated with subsidiaries that are not yet cultivating or selling cannabis (such as BC Tweed, Vert Mirabel (Quebec), Tweed 53 (Edmonton, Alberta) and Spot Therapeutics (Fredericton, New Brunswick)). Excluding the costs of the non-cultivating subsidiaries totaling $2,936, the gross margin before non-cash gains and losses would have been $15,470 or 71% of sales;
- Net earnings in the third quarter of fiscal 2018 amounted to $11,014, or $0.01 per basic and diluted share, compared to net earnings of $2,976 or $0.03 per basic and $0.02 per diluted share in the third quarter of fiscal 2017; and
- Consolidated cash and cash equivalents were $237,708 at December 31, 2017 prior to the addition of net proceeds of $192,514 from the bought deal that closed on February 7, 2018 and proceeds from the Canopy Rivers private placement, net of $5,141 investment by Canopy Growth, of $20,859, that closed on January 10, 2018

[1] *Kilogram equivalents refers to cannabis oils where 8 ml is the equivalent of approximately 1 gram of dried cannabis.*

### *Operations*

- Approximately 69,000 registered patients at December 31, 2017 compared to approximately 63,000 at September 30, 2017 and 29,000 at December 31, 2016;
- Harvested 7,961 kilograms in the quarter as compared to 4,167 kilograms in the second quarter of fiscal 2018; and
- Inventory and biological assets valued at a record $108,318, inventories are continuing to be scaled to meet management's expectation of market demands, including the legalized recreational market expected later in calendar 2018.

### *Corporate Initiatives*

*Strategic*

- On December 8, 2017, Canopy Growth and the Province of Newfoundland and Labrador announced that the Company had entered into a supply and production agreement. Canopy Growth will supply up to 8,000 kg of high quality cannabis products annually for the first two years of the deal. Under the terms of the agreement, Canopy Growth will establish a new production facility in Newfoundland and Labrador capable of producing 12,000 kg per year. Canopy Growth's wholly-owned subsidiary, Tweed Inc. ("Tweed") is eligible to apply to operate four new retail locations in the province. These four licenses would represent the first announced privately owned and operated legal cannabis retail locations in the country;
- On November 2, 2017, Canopy Growth entered into a strategic relationship with the leading total beverage alcohol supplier in the United States, Constellation Brands ("Constellation") (NYSE: STZ and STZ.B). Constellation is a leading international producer and marketer of a fast-growing, high-performing portfolio of beer, wine and spirits brands. As part of the strategic relationship, an affiliate of Constellation invested approximately $245,000 in Canopy Growth in exchange for common shares, representing a 9.9% equity share in the Company at that time, and warrants. The strategic relationship will see Constellation provide broad support in the areas of consumer analytics, market trending, marketing and brand development to Canopy Growth. In addition, the Company and Constellation intend to collaborate to develop and market cannabis-based beverages that can be marketed as regulated recreational products in markets where and when such products are federally legal.

  In exchange for the investment which closed on November 2, 2017, a total of 18,876,901 Canopy Growth common shares were issued at a price of $12.9783 per share based on a 5-day volume weighted average price (VWAP) as of the close of markets on October 27, 2017. An equal number of common share purchase warrants were issued at the same price, subject to certain restrictions, expiring 30 months from the closing date. The common shares and warrants have a hold period of four months and one day from the closing date to March 2, 2018, with the warrants being exercisable in two equal tranches, with the first exercisable tranche date being August 1, 2018 and the second exercisable tranche date being February 1, 2019.

  Canopy Growth will principally use the proceeds to fund the expansion of its growing platform and to support ongoing investments in value-add processing and new product development and research.

*Capacity Expansion*

- On December 18, 2017, Canopy Growth and subsidiary Canopy Rivers entered into an agreement to form a new company Vert Mirabel together with Les Serres Stéphane Bertrand Inc. ("Bertrand"), a large-scale tomato greenhouse operator in Mirabel, Quebec. Bertrand currently produces tomatoes and other vegetables under 700,000 sq. ft. of modern greenhouse, most of which was built in 2015. The entire greenhouse will be upgraded and retrofitted for cannabis production by April 2018. Subject to Health Canada and other standard regulatory approvals, the Company anticipates being ready to begin production by May 2018. The Company has a 40.7% interest in Vert Mirabel and Canopy Rivers has a 26% interest in Vert Mirabel; and
- On October 10, 2017, the Company entered into a definitive agreement to form a new company, BC Tweed together with a large-scale greenhouse operator to develop 1.3 million sq. ft. of greenhouse growing capacity in British Columbia with an exclusive option to develop a further 1.7 million sq. ft. of existing greenhouse infrastructure at a second BC location. Subsequently, the Company exercised the option to develop the second BC location. The Company has a 66.6% interest in BC Tweed.

*International Development*

- On December 5, 2017, Spectrum Denmark announced plans to establish a 40,000 m2 production facility in Odense, Denmark. On December 18, 2017, Spectrum Denmark announced that the production facility in Odense, Denmark had been issued a cannabis production license by Laegemiddelstyrelsen. The Company holds 62% of the share capital in Spectrum Denmark; and
- On October 25, 2017, the Company announced that it launched a strategic partnership in the Jamaican cannabis market as part of its ongoing international expansion. Tweed JA, will serve the needs of the Jamaican medical cannabis market. Canopy Growth holds 49% of the share capital of Tweed JA, which, with conditional license approvals already in place, has begun construction of its facility outside Kingston, Jamaica.

**RECENT DEVELOPMENTS**

- On February 14, 2018, Canopy Growth announced that the Company had signed a letter of intent (“LOI”)with the Société des alcools du Québec’s ("SAQ") to provide the Quebec market with 12,000 kilos of high-quality cannabis annually. In signing the LOI with Quebec, the Company is the only cannabis company to secure supply agreements with each announcing provincial entity and increases the commitments from Canopy Growth to up to 25,000 kilograms across four provincial jurisdictions;

- On February 7, 2018, the Company closed a bought deal to issue 5,800,000 common shares at a price of $34.60 per common share, for gross proceeds of $200,860 before share issue costs of $8,166. The financing was co-led by GMP Securities L.P. and BMO Capital Markets and included Canaccord Genuity Corp., Eight Capital, Beacon Securities Limited, and PI Financial Corp. This financing marked the first equity led deal by a major Canadian chartered bank in the cannabis sector;

- On January 16, 2018, Canopy Growth and the Province of Prince Edward Island (“PEI”) announced that the Company has entered a supply Memorandum of Understanding (“MOU”) to guarantee a regulated supply of high-quality cannabis into PEI’s retail and online stores. Under the terms of the MOU, Canopy Growth will allocate a minimum supply of 1,000 kg of high-quality cannabis for the first year of the agreement to ensure that the Province has access to a wide variety of cannabis products. The two-year supply agreement will renew for a third-year upon agreement of the Company and Province. Complementing the supply arrangement and in collaboration with many of its key partners, Canopy Growth has also designed educational resources to assist the Province in developing best-in-class education for its staff and stores; and

- On January 10, 2018, Canopy Growth announced that its subsidiary, Canopy Rivers closed a non-brokered private placement offering of 23,636,363 Class B common shares (the "Shares") at a price of $1.10 per Share. Pursuant to the offering, Canopy Rivers raised aggregate gross proceeds of $26,000. The Company subscribed for 4,673,938 Shares for $5,141. Following this offering, the Company's interest in Canopy Rivers was diluted to 31.5%, but has a 90.2% voting control, excluding shares held in escrow.

## DESCRIPTION OF THE BUSINESS

### MEDICAL MARIJUANA REGULATORY FRAMEWORK IN CANADA

On August 24, 2016, the Government of Canada introduced new regulations governing the use of cannabis for medical purposes. These new regulations, known as the ACMPR, were introduced in response to the February 24, 2016 decision rendered by the Federal Court of Canada in the Allard et al v the Federal Government of Canada case. The plaintiffs in the Allard case argued that the MMPR violates their Charter of Rights and the court, in a lengthy and detailed judgment, agreed with the plaintiffs. The court gave the Government of Canada until August 24, 2016 to determine how existing regulations should be amended to ensure that patients have the access to medical cannabis that they need.

The ACMPR, remained largely consistent with the former Marihuana for Medical Purposes Regulations ("MMPR"), but restores the ability of patients to grow their own cannabis at home, including the ability to designate a third-party grower through regulations akin to the former *Medical Marihuana Access Regulations* (MMAR). Under the ACMPR, patients who choose to grow at home, subject to a maximum number of plants, will be required to register their production sites and provide copies of their medical authorization to Health Canada to allow for monitoring and auditing of their activities.

Under the ACMPR, patients are required to obtain a medical approval from their healthcare practitioner and provide a medical document to the licensed producer from which they wish to purchase cannabis. Since the requirements under the new regulations are both simpler and involve fewer obstacles to access than the previous regulatory regime, it is anticipated that the growth in the number of approved patients will accelerate. Moreover, the new system allows for competition among licensed producers on a host of factors including product quality, customer service, price, variety and brand awareness, allowing for well-positioned and capitalized producers to leverage their position in the marketplace.

Health Canada recently reported that over 235,000 patients had enrolled into the ACMPR program by September 30, 2017[2]. By 2024, Health Canada estimates that the number of patients using medical cannabis will grow to 450,000 creating a market worth an estimated $1,300,000[3], estimates that management believes is very conservative considering the growth in patient enrollment that has been experienced to date in the program. Eight Capital estimates that by 2024 the medical cannabis market in Canada will be worth $3,000,000[4].

[2] http://www.hc-sc.gc.ca/dhp-mps/marihuana/info/market-marche-eng.php

[3] http://www.cbc.ca/news/canada/1-3b-medical-marijuana-free-market-coming-to-canada-1.1872652

[4] Eight Capital "The Value Case for Investing in the Cannabis Sector", market research report published July 26, 2017

When regulated recreational to cannabis is legalized (see "**Legalization of Regulated recreational to Cannabis in Canada**"), it is expected that the ACMPR will be replaced by a new regulatory framework that will cover both the medical and regulated recreational markets.

## LEGALIZATION OF REGULATED RECREATIONAL CANNABIS IN CANADA

### Background

CIBC World Markets reports estimates of the potential value of the regulated recreational cannabis market in Canada range from $5,000,000 to $10,000,000 per year. The lower market value of $5,000,000 per year translates into yearly consumption of 770,000 kilograms of cannabis, assuming a price of approximately $6.50 per gram.[5] To put the potential size of the Canadian regulated recreational market in context, Statistics Canada valued the beer market in Canada, in 2014, at $8,700,000.[6]

On April 13, 2017, the Canadian Federal Government tabled legislation (Bill C-45) which aims to legalize regulated recreational to cannabis in Canada. Government officials are targeting on or before July 2018 as the timing of implementation for the Cannabis Act. Bill C-45 has passed second reading in the House of Commons. It was referred to the Standing Committee on Health for study. Bill C-45 was studied by the Standing Committee on Health and has been referred back to the House of Commons with amendments for third reading. Of note, one of the amendments proposed by the governing Liberal party seeks to ensure the legalization of edibles and cannabis concentrates within 12 months of legalization. Bill C-45 passed third reading in the House of Commons and has been referred to the Senate for consideration. The Bill is currently at second reading in the Senate. As expected, Canadian Licensed Producers ("LP"), which currently supply the medical marijuana market, will also be responsible for supplying marijuana to the regulated recreational market.

While the Task Force's recommendations leaned toward a model where LPs would not be allowed to advertise as with the tobacco industry, the Company believes Bill C-45 will be more lenient and allow some form of brand differentiation. Canopy Growth looks forward to continued discussion on this topic as regulations are developed. The legislation does not prescribe specific limitations other than details on overly promotional language or targeting youth. Prohibiting promotion aimed at children is a common-sense approach and Canopy applauds these limitations as expressed in the bill.

Federal legislation, once created, will enable provinces to distribute and retail Cannabis. Each Canadian province and territory is preparing for the sale and distribution of cannabis for regulated recreational. The revenue generating opportunities and economic development potential of the control and sale of cannabis for regulated recreational is not lost on provinces.

[5] http://research.cibcwm.com/economic_public/download/eijan16.pdf
[6] http://www.statcan.gc.ca/daily-quotidien/150504/dq150504a-eng.htm

**Provincial Distribution and Retail Frameworks**

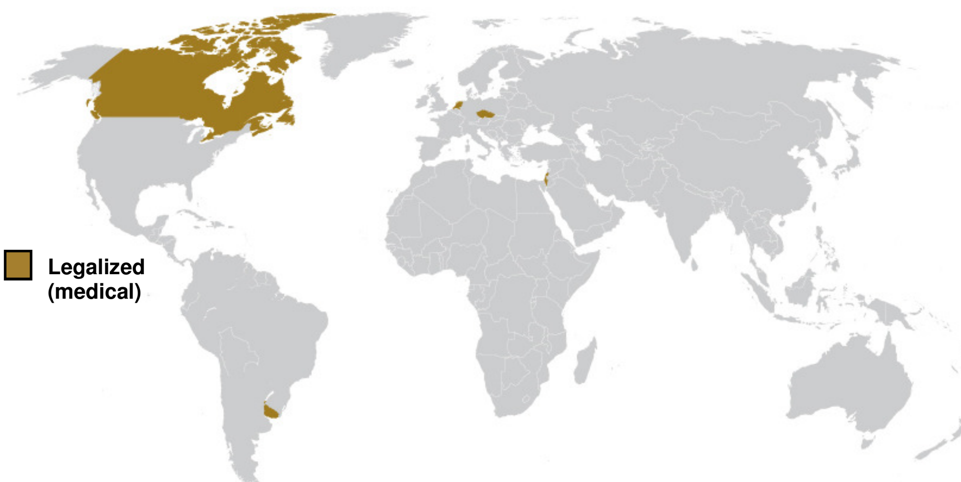
To date, the provinces of Ontario[7], New Brunswick[8], Quebec[9] and PEI[10] have announced that their provincial liquor control agencies will oversee the distribution and retail on non-medicinal cannabis. The provinces of Manitoba[11], Saskatchewan[12], Alberta[13] and British Columbia[14] have announced that the provincial liquor control agency will be responsible for distribution and oversee the private retail of non-medicinal cannabis.

While responsible government agencies and/or designated private companies in their respective provinces are likely to begin rolling out physical retail storefront locations in the months leading up to and after the legal regulated recreational market opens, Canopy Growth believes that, in certain provinces, it will take two years and possibly longer to rollout the full network of regulated cannabis retail stores that is required to satisfy consumer demand. As such, Canopy Growth believes most of the sales in the first two years of the regulated recreational market will go through provincial online sales.

## LEGALIZATION OF CANNABIS IN INTERNATIONAL JURISDICTIONS

In 2014, a limited number of countries in the world, in addition to Canada, specifically, Israel, Czech Republic, Netherlands and Uruguay had established federally legal cannabis access regimes.

Figure 1: Map of countries with federally legal cannabis access regimes in 2014



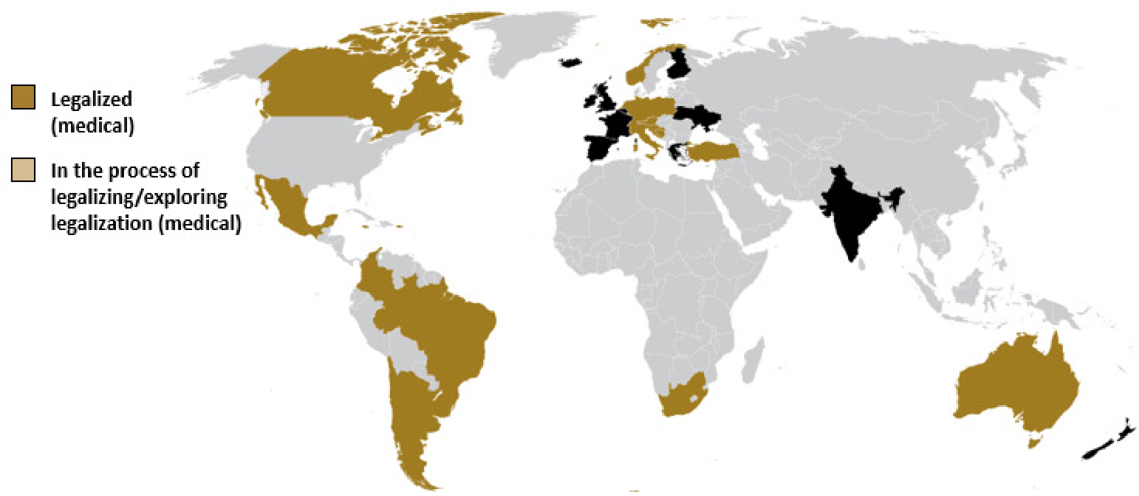

[7] https://news.ontario.ca/mof/en/2017/09/ontarios-cannabis-retail-and-distribution-model.html
[8] http://www2.gnb.ca/content/gnb/en/news/news_release.2017.09.1206.html
[9] http://plus.lapresse.ca/screens/b9063848-7868-4a20-846b-a84fcd3a747f%7C_0.html
[10] https://www.princeedwardisland.ca/en/news/province-sets-next-policy-directions-cannabis-legalization
[11] http://news.gov.mb.ca/news/?archive=&item=42491
[12] https://globalnews.ca/news/3951690/marijuana-to-be-sold-in-private-saskatchewan-stores-and-online/
[13] https://www.alberta.ca/cannabis-framework.aspx
[14] https://globalnews.ca/news/3897846/bc-government-unveils-how-cannabis-will-be-sold-once-legalized/

Since 2014, the actions of governments around the world have signaled a significant change in attitudes towards cannabis. To date, federal governments in at least 20 additional countries including Argentina, Austria, Australia, Brazil, Denmark, Chile, Columbia, Germany, Greece, Israel, Italy, Jamaica, Mexico, Netherlands, Norway, Poland, Puerto Rico, South Africa, Switzerland and Turkey have formally legalized medicinal cannabis access to either foster research into cannabis-based medical treatments and/or towards increasing legal access to medical cannabis for their citizens. For example, on January 19, 2017, the German parliament passed legislation that legalized medical cannabis and included provisions for medical cannabis treatment expenses to be covered by health insurance.

In addition, many other countries including Belgium, Ireland, England, France, Portugal, Spain and India have established formal government efforts to explore the legalization of medicinal cannabis access.

To date, Uruguay is the only country in the world that has legalized both medical and adult access to cannabis.

Figure 2: Map of countries with/exploring federally legal cannabis access regimes in 2017




Canopy Growth, with the assistance of international subsidiaries or partners, has secured the necessary agreements to export medicinal cannabis to Australia, Brazil and Germany. Canopy Growth believes that an opportunity will exist, for some time to come, to export medical cannabis to countries that require a secure supply of medicinal cannabis but have yet to develop domestic production capabilities.

The Company believes that over time many countries will move to establish domestic production capabilities, in part due to the economic development opportunities that this represents. With cannabis continuing to emerge from the shadows, many countries are looking to Canada, and its regulatory framework for the production and commercialization of medical cannabis, with much interest and respect. As Canada has developed an enviable regulatory model, companies acting within that framework have expertise, knowledge and potentially product to share with the global community.

Eight Capital estimates that the total addressable market for medical cannabis globally will be approximately $180 billion over time.[15]

[15] Eight Capital, "The Value Case for Investing in the Cannabis Sector", market research report published July 26, 2017.

## OVERVIEW OF CANOPY GROWTH CORPORATION

At December 31, 2017, there were 701 full-time employees in the Company as compared to 202 at December 31, 2016.

Canopy Growth, an early mover in the Canadian market, is a multi-brand cannabis company that believes its strong focus on and investment in brand, market and product differentiation, increased cannabis supply through Company and partner cannabis production platforms, and education, to help citizens safely, effectively and responsibly use cannabis, will create a dominant global business with the potential to generate a significant and sustained return on invested capital over the long-term.

As discussed above **(SEE Legalization of Cannabis in International Jurisdictions)**, many countries around the world are moving to provide their citizens with legal access to cannabis products produced by a commercial regulated industry, similar to that pioneered in Canada.

## BRANDS

## PLATFORMED USER EXPERIENCE – TWEED MAIN STREET

The Company has established Tweed Main Street as the platform for its core customer experiences, both online and physical "brick and mortar" locations.

With expected prominence of online sales during the initial rollout of the regulated recreational market and the continuation of the existing ACMPR e-commerce-driven market for Canadian medical patients, Canopy Growth undertook several initiatives in the first nine months of calendar 2017 to continue leading the online cannabis space. These initiatives include the launch of the Tweed Main Street online store, a single online platform that enables registered patients to purchase medicinal cannabis from multiple producers across numerous brands.

Product availability in Tweed Main Street reached consistency as to selection and availability of strains and formats during the second quarter of fiscal 2018 due to the company's prior production investments.

Further engagement between the Company's brands and customers is facilitated by the Company's expanding network of *Tweed Main Street Shops*. These physical "brick and mortar" locations in Southern Ontario (Barrie, Guelph, Hamilton and Toronto) provide an opportunity for interested individuals to learn about medical cannabis in a helpful, supportive and consumer-friendly environment. The model could pivot to allow cannabis sales if provincial regulations allow under recreational frameworks.

Tweed Main Street offers an income-tested Compassionate Pricing Promise whereby eligible patients may obtain a 20% discount off regular prices.

## PRODUCTION BRANDS

The Company's core production brands are:

**Tweed**

A key focus of the Company, since its inception, has been the development of its flagship Tweed brand. From the name, quality and consistency, logo and design aesthetic, to the tone and light-hearted copy, Tweed deliberately chose to incorporate a sense of texture and approachability that welcomes customers and encourages an intimate relationship and trust with the brand. In support of its brand, Tweed focuses heavily on its social media and earned media presence as an engagement strategy. Management believes Tweed has emerged as the most dynamic brand in the industry with exceptionally strong appeal and recognition in the medical cannabis industry. Tweed is currently positioned as a diverse medicinal cannabis brand offering high-quality cannabis in multiple product forms – dried, oil and easy-to-consume, soft gels. The Tweed brand will evolve towards an adult lifestyle brand to best serve the needs of the future regulated recreational market in Canada.

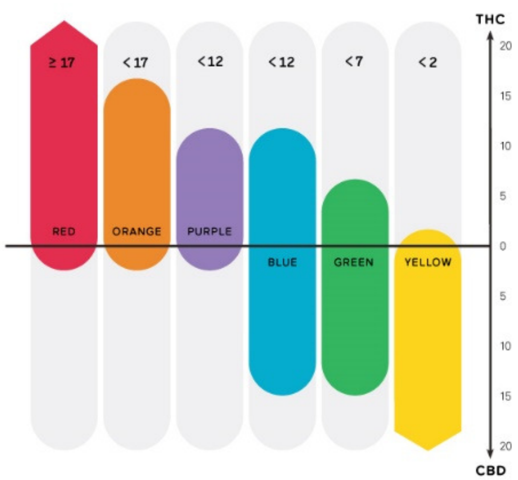
**Black Label**

Black Label is Tweed's premium sub-brand meant to carry innovative product types and delivery formats in addition to certain dried strains that warrant a premium price point. On June 19, 2017, Tweed launched the sale of the sector's first encapsulated cannabis oil soft gels under the Black Label brand. Black Label soft gels provide a very convenient delivery format that is easy to carry and easy to consume.

**Spectrum Cannabis**

On February 1, 2017, the Company acquired ACMPR licensed producer Mettrum. As part of the acquisition, Canopy Growth acquired the trademarked Mettrum Spectrum, which simplifies the dialogue around strength and dosage by categorizing medical cannabis using a straightforward colour-coded guide.

Figure 3: Strain categorization by colour spectrum (and % of THC or CBD)




On June 19, 2017, Canopy Growth announced a new international medical brand that will serve as the Company's physician and patient-facing identity. Spectrum Cannabis, with roots in the Mettrum Spectrum, will focus on physician interactions, stakeholder outreach, and patient education.

On September 18, 2017, the Company introduced Spectrum Cannabis to the medical market in Canada. As part of the introduction of Spectrum Cannabis to the medical market in Canada, the Company rebranded Mettrum to Spectrum Cannabis. The launch of Spectrum Cannabis in Canada, and joining Spectrum Cannabis in Germany, Denmark and Chile ensures a consistent and recognizable global brand across all federally legal jurisdictions where Canopy Growth operates.

**Bedrocan Canada**

The Bedrocan brand has been associated with standardized cannabis to medical patients in the Netherlands for more than 20 years. The Company acquired the Bedrocan Canada brand in 2015 to strengthen the Company's position in the Canadian medical cannabis market. The Company intends for the Bedrocan brand to remain solely focused on the medical market, even when a legalized regulated recreational market is implemented in Canada.

## AFFILIATED BRANDS

**Leafs By Snoop**

Tweed has partnered with Snoop Dogg, a renowned cannabis connoisseur and business pioneer in the Cannabis sector. Snoop and business partner Ted Chung recently launched online media platform MERRY JANE, the definitive cultural destination for news and original content.

Tweed and Snoop Dogg have partnered to bring the *Leafs By Snoop* offering of diverse whole-flower and oil strains, including a high CBD option and mid to high-range THC options, to Canada and exclusively available to Tweed patients.

**DNA-Certified**

DNA Genetics, world-renowned Cannabis breeders, have won awards in every category in the Cannabis Cup, the world's preeminent cannabis competition. In October 2015, Tweed and DNA Genetics announced an exclusive partnership that would see Tweed leverage DNA's expertise in cannabis breeding to bring new, exclusive DNA Certified strains to Tweed patients. With an official certification on select strains, DNA is adding a stamp of approval. DNA Certified cannabis has been personally bred, phenotyped and inspected by DNA Genetics.

On October 23, 2017, the Tweed and DNA Genetics announced the renewal and expansion of their partnership through to October 2022. As part of the expansion, Tweed and DNA Genetics have expanded their exclusive licensing relationship into Jamaica, where, so long as federally legal, Tweed JA and DNA will work similarly in the medical market to cultivate the best possible cannabis genetics.

**Green House Seeds Company and Organa Brands**

For 30 years Green House Seeds Company ("Green House") has been at the forefront of cannabis legalization by advocating for its normalization and expansion into new territories. A leader in cannabis genetics, Green House has won many international awards including Cannabis Cups and Highlife Cups. Organa Brands Ltd. ("Organa Brands"), founded in 2010, is a cannabis extract product innovator. Bringing together some of the best minds in the regulated cannabis market, Organa Brands operates one of the longest-running $CO_2$ extraction facilities – Organa Labs.

On November 16, 2017 and effective December 1, 2017, the Company entered into an agreement with Green House and Organa Brands (see **"Agripharm Cannabis Production – Partner Capacity offtake"**) that will see Agripharm's production facility in Creemore, Ontario serve as the cultivation site of sought after cannabis genetics that are infused into consumer-friendly ingestion formats, and put them on stores shelves across the country, and abroad where federally legal. Agripharm will not conduct any business in the United States. Products from the new Agripharm are expected to begin entering the market in the second half of calendar 2018.

**CraftGrow**

Tweed's curated CraftGrow collection brings even more variety to registered patients by bringing otherwise unaffiliated partner's products into the store. It's a win-win model that increases the SKU count available through the Tweed Main Street platform while in turn providing partner's customizable access to the Company's platform including rigorous product Quality Assurance program, online market place, award winning customer care and call centre capabilities as well as Tweed's large and growing customer base.

## CANNABIS PRODUCTION

Through its wholly-owned subsidiaries, Canopy Growth operates numerous state-of-the-art production facilities with over 600,000 sq. ft. of licensed indoor and greenhouse production capacity. The Company has eight licenses to cultivate and sell cannabis under the ACMPR program. The Company's subsidiaries have a combined licensed vault monetary capacity of $437,500.

As it relates to future production needs, Canopy Growth is a diversified cannabis producer. It will continue to place the highest priority on meeting the needs of medical patients, expanding internationally as federal laws permit, and increasing its capacity to serve regulated recreational customers across Canada in the future. With that in mind, widespread capacity expansion totaling over 5.0 million sq. ft. of production space has been announced to date.

## CANNABIS PRODUCTION – COMPANY OWNED FACILITIES

The Company's wholly-owned subsidiaries operate licensed cannabis production facilities in locations across Canada as described below.

**Smiths Falls, Ontario**

The license for this facility covers 168,000 sq. ft, and covers 24 completed grow rooms and related vegetation, nutrient delivery and post-production infrastructure. On June 19, 2017, the Company announced that its Smiths Falls facility received a certificate of Good Manufacturing Practices (GMP) as issued by the German authority, Regierungspräsidium Tübingen.

The Smiths Falls facility also includes an in-house laboratory and R&D area, cannabis oil extraction infrastructure, a high-level security vault and a breeding facility that features several breeding rooms, phenotyping rooms, as well as male and female plant rooms.

Tweed received a Dealer's License pursuant to the provisions of the Controlled Drugs and Substances Act and its Regulations and has begun operating this purpose-built area, built to Good Manufacturing Practice ("GMP") specifications, within the Smiths Falls facility. As a licensed dealer, Tweed will be able to conduct research and possess cannabis and cannabis derivatives in forms that are not currently covered by the ACMPR. Tweed can also begin development of innovative products for future market opportunities, and with necessary approvals undertake the export of non-dried form of cannabis to other jurisdictions.

The total footprint of the existing Smiths Falls facility, at 472,000 sq. ft. can support a significant increase in production, processing and order fulfillment capacity. Canopy Growth has begun construction in the remaining unlicensed portion, approximately 300,000 sq. ft. Smiths Falls is also the corporate headquarters and will act as a strategic post-production hub where, in addition to production, value-added brand differentiation functions occur.

The 42-acre site at 1 Hershey Drive could house hundreds of thousands of square feet of additional production and processing space.

**Niagara-on-the-Lake, Ontario**

The production facility in Niagara-on-the-Lake, Ontario ("Niagara") is comprised of a greenhouse facility that is 375,000 sq. ft., of which 350,000 sq. ft. represents the greenhouse and 25,000 sq. ft. is used for post-harvest processing storage, shipping and offices. Currently, all dried cannabis produced in the Niagara greenhouse is transferred in bulk to the Company's facility in Smiths Falls for final processing and sale. All 350,000 sq. ft. of the greenhouse is utilized to produce medical cannabis.

On June 19, 2017, the Company announced that its Niagara facility received a certificate of Good Manufacturing Practices (GMP) as issued by the German authority, Regierungspraesidium Tübingen.

With the ability to grow high-quality strains that support premium price points, in a low-cost greenhouse environment, the Company can be expected to generate higher margins on the premium strains cultivated in the Niagara greenhouse facility.

Upon completion of the announced expansion, Tweed Farms will be home to over 1,000,000 sq. ft. of greenhouse space under glass, including the recently acquired and adjacent greenhouse property, plus post-harvest facilities including a recently renovated 10,000 sq. ft. of updated space for new drying rooms and an upgraded laboratory.

**Scarborough, Ontario**

Canopy Growth's indoor facility in the Greater Toronto Area leverages over two decades of indoor standardized cannabis growing experience of Netherlands-based Bedrocan International BV ("Bedrocan International"). This approximately 50,000 sq. ft. production facility is licensed, and includes 34 vegetative and growing rooms. The Toronto facility exclusively cultivates Bedrocan strains.

The Company acquired its facility in Toronto on August 28, 2015 as part of the acquisition of Bedrocan Canada pursuant to a definitive plan of arrangement, in which the Company acquired all of the issued and outstanding securities of Bedrocan Canada.

**Bowmanville South, Ontario**

The Bowmanville South facility's current license allows for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried marijuana and marijuana plants or seeds. The license covers approximately 75,000 sq. ft. and includes 13 growing rooms as well as necessary vegetation, nutrient delivery and plant destruction infrastructure.

The Bowmanville South facility sits on a 7-acre site which provides the opportunity for future expansion. The Company is currently planning the expansion of this location, by up to 100,000 sq. ft. of growing capacity, as the market for legal cannabis develops. In addition, on October 6, 2017, the Company acquired a parcel of land next to the Bowmanville South location to add approximately 33 acres for future expansion.

**Yorkton, Saskatchewan**

The Yorkton facility operates as Tweed Grasslands. Tweed Grasslands will operate a 90,000 sq. ft. facility, of which approximately 15,000 sq. ft. is currently licensed, with the capacity to expand operations to over 300,000 sq. ft. on the parcel of land if necessary. This facility received it sales license under the ACMPR in January 2018.

**Saint-Lucien, Quebec**

On November 2016, the Company acquired a pre-license applicant, Vert Cannabis (formerly Vert Medical), and the lease on a relatively small production facility in Drummondville, Quebec. Since being acquired by Canopy Growth, the Company has fully upgraded the site's approximate 10,000 sq. ft. facility to the Company's standards. On December 22, 2017, the Company announced that Vert Cannabis received its ACMPR production license.

The Company also has the right to purchase the 90 acres of leased land and building located in Saint-Lucien, Québec.

**Newfoundland & Labrador**

On December 8, 2017, Canopy Growth announced that the Company had entered into a supply and production agreement. Under the terms of the agreement, Canopy Growth will supply up to 8,000 kg of high quality cannabis products annually for the first two years of the deal and will establish a new production facility in Newfoundland and Labrador capable of producing 12,000 kg per year, bringing an expected 145 jobs in an emerging sector and major capital investment to the region. Site locations are in the process of being evaluated.

## CANNABIS PRODUCTION – PARTNER OR JOINTLY OWNED FACILITIES

The Company may enter into agreements with select partners for the development of additional facilities in Canada and other international jurisdictions where cannabis is federally legal. For the select partners, the Company will look for partners that can bring specific capabilities, expertise and financial resources to the venture.

**Edmonton, Alberta**

Canopy Growth announced on June 24, 2017 that it will expand its footprint into Edmonton, Alberta with a 100,000+ sq. ft. facility that will be leased to Canopy Growth by the Goldman Group, a related party, with an option to purchase the facility at the end of each 5-year quarter of the 20-year lease. The transaction closed in August 2017 with the existing tenants vacating October 1, 2017 so that expansion construction could begin. The agreement and licensing are contingent upon Health Canada and municipal approvals. Construction has already been initiated to fit-up the Edmonton facility to meet the standards necessary for licensing.

**Fredericton, New Brunswick**

On August 28, 2017, the Company announced that it had acquired Spot Therapeutics Inc. ("Spot"), an ACMPR applicant based in Fredericton, New Brunswick. Additionally, Canopy Rivers, an affiliated entity of the Company, entered into a definitive agreement to complete the purchase of an industrial building and property where the Company's Fredericton-based production and distribution platform is being established. The Company will lease the building from Canopy Rivers. The facility will operate under the Tweed brand and support the Company's global operations with high quality, large scale cannabis production capabilities. The existing building and infrastructure is in excellent condition and includes almost 40,000 sq. ft. of dedicated production space. The facility is anticipated to be ready for licensing and production before the end of 2018. Once licensed, this initial footprint is anticipated to produce over 4,000 kg of dried cannabis annually. The property is suited for expansion to over 100,000 sq. ft.

### British Columbia

On October 10, 2017, the Company entered into a definitive agreement to form a new company, BC Tweed Joint Venture Inc. ("BC Tweed") together with a large-scale greenhouse operator ("the Partner") develop 1.3 million sq. ft. of greenhouse growing capacity in lower British Columbia with an exclusive option, since exercised, to develop a further 1.7 million sq. ft. of existing greenhouse infrastructure at a second BC location.

Applications have been submitted for both sites and subject to Health Canada and other standard regulatory approvals. Canopy Growth is hopeful that it will have product available from BC Tweed as soon as July 1, 2018. BC Tweed agreed to lease the 1.3 million sq. ft. (30- acre) and 1.7 million sq. ft. (39-acre) greenhouse facilities located in lower BC from an affiliate of the Partner, with an option to acquire the properties. BC Tweed significantly supplements the Company's industry leading production portfolio and positions Canopy Growth with production and distribution facilities from coast to coast across the country.

The BC Tweed Partner brings multi-generational knowledge of greenhouse operations and efficiencies having managed and operated over 5.8 million sq. ft. of greenhouse infrastructure in various climates throughout North America over the past 30 years. The Partner is an experienced large scale, low cost, hydroponic greenhouse operator, with industry leading food safety, traceability and compliance expertise and a deep focus on sustainable production practices and efficiencies. The Partner brings tier one assets and an operations team with over 200 years of combined growing experience.

### Mirabel, Quebec

On December 18, 2017, the Company and its subsidiary Canopy Rivers entered into an agreement to form a new company, Les Serres Vert Cannabis Inc. ("Vert Mirabel"), together with Les Serres Stéphane Bertrand Inc. ("Bertrand"), a largescale tomato greenhouse operator in Mirabel, Quebec. Bertrand currently produces tomatoes and other vegetables under 700,000 sq. ft. of modern greenhouse, most of which was built in 2015. The entire greenhouse is expected to be upgraded and retrofitted for cannabis production by April 2018. With the assistance and guidance of Canopy Growth, the application for this site has been submitted; and subject to Health Canada and other standard regulatory approvals, the Company anticipates being ready to begin production by May 2018. Under the terms of the agreement, Vert Mirabel will, subject to satisfaction of certain conditions, lease the 700,000 sq. ft. greenhouse facility from Bertrand. Vert Mirabel will also be provided with an option to acquire the property.

## CANNABIS PRODUCTION – PARTNER CAPACITY OFFTAKE

The Company has established a number of programs designed to help sector partners, both license applicants and LPs, establish and/or grow their licensed operations and achieve greater success faster. Through these programs, additional cannabis production capacity will be secured for sale to the Company's customers.

### Tweed's Curated *CraftGrow* Line

On April 19, 2017, Canopy Growth announced the launch of Tweed's curated *CraftGrow* line, which brings high quality cannabis grown by a diverse set of producers to Tweed Main Street's customers. To date, nine distinct partners including AB Laboratories Inc., Canada's Island Garden, Delta 9 Cannabis Inc., JWC Ltd., PhyeinMed Inc., PUF Ventures Inc. SweetGrass Inc., TerrAscend Corp. and Valens GroWorks, have joined *CraftGrow*, all with different growing styles and approaches to cannabis. Cannabis grown by Canada's Island Garden, located on Prince Edward Island, became available for sale in Tweed Main Street on June 19, 2017.

**Agripharm**

Agripharm holds the lease and Health Canada license for a 15,000 sq. ft. facility at Creemore, Ontario. Prior to December 1, 2017 Agripharm was a wholly owned subsidiary of the Company. On December 1, 2017, the Company's interest in Agripharm was diluted from 100% to 40% under a collaborative agreement whereby in exchange for the issuance of shares, Green House and Organa Brands have granted an exclusive, royalty-free license in Canada to certain proprietary technology, trademarks, genetics, know-how and other intellectual property to Agripharm, subject to compliance with applicable law. The agreement will create a new Canadian home-base for Green House and Organa Brands where they will work together with Canopy Growth to produce cannabis products for the Canadian market. Green House will oversee day-to-day operations and bring their own expertise into cultivation, while Organa Brands will implement world-class extraction functions as new and novel value-add products become part of the regulatory environment.

Pursuant to the agreement, the Company has the right to purchase all of the cannabis products produced by Agripharm, subject to the right of Agripharm to sell up to 25% of its products directly in its own physical brick and mortar retail locations. In addition, the Company will sublicense the proprietary technology, trademarks, genetics, know-how and other intellectual property from Agripharm to ensure that Canopy Growth is able to satisfy consumer demand across Canada for the suite of Green House and Organa Brands products. Agripharm will not do business in the United States.

**Canopy Rivers**

On April 27, 2017, Canopy Growth announced the commitment of $20,000 in seed capital funding for a complementary but distinct company that will provide financial and strategic support to ACMPR applicants and existing Licensed Producers. Specifically, the newly formed company, Canopy Rivers Corporation ("Canopy Rivers"), will collaborate with Canopy Growth to foster and secure a diverse product supply of high quality, safe cannabis for Canopy Growth's customers.

Canopy Rivers plans to engage in strategic transactions with LPs and selected LP applicants. Canopy Rivers' relationship and agreement with Canopy Growth also provides partners with potential access to the industry's largest portfolio of patients and potential consumers via Canopy Growth's Tweed Main Street and Craft Grow programs and platform.

For the Company, this strategic agreement with Canopy Rivers provides Canopy Growth with a secure, and predictable source of incremental cannabis supply, increased diversification of its products available for sale, and an ideal partner to generate referral and introduction opportunities for Tweed Main Street and the Company's Craft Grow programs and platforms.

On May 12, 2017, the Company advanced $20,000 in the form of a convertible debenture. On June 16, 2017, Canopy Rivers closed an offering to raise aggregate gross proceeds of $36,230, at which time the convertible debenture including interest was converted to equity. This offering increased the cash resources available for Canopy Rivers to provide growth capital and strategic support within the regulated cannabis industry to approximately $56,000.

January 10, 2018, the Company announced that Canopy Rivers has closed a non-brokered private placement offering that raised aggregate gross proceeds of approximately $26,000. Canopy Growth invested $5,141 in the round and 9 employees and a director of Canopy Growth invested $2,357.

To date, Canopy Rivers has made investments through varying financial instruments in seven companies, both licensed under the ACMPR and applicants awaiting licensing. These investments also include off-take agreements with Canopy Growth with the applicants when they obtain their Health Canada licenses.

## DOMESTIC CANNABIS PRODUCTION SUMMARY

Table 1 below provides a summary of the Company's licensed facilities and the facility development projects in Canada (for International projects, see **International Development and International Cannabis Production Summary**), including their approximate size and the calendar year in which completion of the development projects is anticipated.

| Facility | Type | Status | Approx. Size (sq. ft., rounded) | Anticipated Development Project Completion |
|---|---|---|---|---|
| Smiths Falls, Ontario | Indoor | 168,000 sq. ft. licensed Development Project Underway | 450,000 | CY2018 |
| Niagara-on-the-Lake, Ontario | Hybrid Greenhouse | 350,000 sq. ft. licensed Development Project Underway | 1,000,000 | CY2018 |
| British Columbia - Site 1 | Hybrid Greenhouse | Development Project Underway | 1,300,000 | CY2018 |
| British Columbia – Site 2 | Hybrid Greenhouse | Development Project Underway | 1,700,000 | CY2018 |
| Mirabel, Quebec | Hybrid Greenhouse | Development Project Underway | 700,000 | CY2018 |
| Newfoundland & Labrador | Indoor | Potential Sites Being Evaluated | 150,000 | CY2019 |
| Edmonton, Alberta | Indoor | Development Project Underway | 100,000 | CY2019 |
| New Brunswick | Indoor | Development Project Underway | 50,000 | CY2018 |
| Yorkton, Saskatchewan | Indoor | Licensed | 60,000 | |
| Bowmanville, Ontario | Indoor | Licensed | 75,000 | |
| Creemore, Ontario[1] | Indoor | Licensed | 15,000 | |
| St. Lucien, Quebec | Indoor | Licensed | 10,000 | |
| Scarborough, Ontario | Indoor | Licensed | 50,000 | |
| **Total:** | | | **5,675,000** | |

Table 1: Domestic Cannabis Production Summary

Note 1: Agripharm facility 40% owned by the Company for which the Company has an off-take arrangement for between 75%-100% of production

## CANOPY GROWTH'S POSITIONING FOR THE CANADIAN REGULATED RECREATIONAL MARKET

Early in the development of the Company's plan to enter the future Canadian Regulated Cannabis Market, management realized that securing channels to market was equally, if not more, important than licensed cultivation capacity. With the provincial liquor agencies being given responsibility for establishing distribution and retail frameworks focused the majority of its management outreach on building relationships with these agencies. To aid in this effort, the Company hired a government relations team with over two decades of direct liquor agency experience.

It is worthwhile highlighting that the Company has engaged in outreach to other retail networks including national pharmacy chains. As it remains unclear as to when other retail networks, including pharmacies, will be permitted to sell cannabis, the Company determined that efforts to secure supply related agreements with pharmacy chains would provide limited, if any, real value to the Company in the short to medium-term.

When selecting Licensed Producers to supply cannabis for recreational retail sales, provincial governments and/or their liquor control agencies, many factors, including cannabis inventory and production capacity, product quality, product variety, product branding, price, sales support and economic commitments to the provinces are expected to influence product demand and supplier selection.

In preparation for the launch of a regulated recreational cannabis market expected in the summer of 2018 (July 2018), the provincial liquor agencies are actively seeking multi-year supply arrangements with a limited number of licensed producers that they believe can provide them supply certainty. Management believes that most provinces are likely to enter into supply arrangements with 4 or 5 primary suppliers.

Cannabis producers positioning to become primary provincial suppliers will need to demonstrate that they have sufficient inventory levels and in production capacity at March 31, 2018. The supply related agreements established by the provincial liquor agencies in Newfoundland & Labrador, New Brunswick and Prince Edward Island contemplate two-year supply contracts. It is anticipated that many, if not all, of the remaining provincial and territorial liquor agencies will enter similar supply agreements with primary suppliers.

For Licensed Producers that meet the inventory and capacity requirements sought by the provinces and who successfully secure a primary supplier relationship, management believes the two-year supply contracts can be expected to provide certainty of business operation and secure a channel to market for additional capacity that the selected producers may bring into production as well as partner capacity offtake.

To position the company to confidently secure primary supplier contracts with all of the provincial liquor agency, the Company has invested significant resources to establish the largest cannabis inventory and licensed and in-production capacity by the end of the first calendar quarter 2018. At December 31, 2017, management believes the company had the largest inventory of harvested product and biological assets with a value exceeding $108,318. As of February 13, 2018, management believes the Company has the largest licensed and in production platform in Canada, at over 600,000 sq. ft. In addition, the Company expects to have up to an additional 5,000,000 sq. ft. enter production over the next twelve months. With the combination of the sector's largest inventory and the Company's vast production platform, management believes the Company is well positioned to secure large supply channels into the regulated recreational market and ultimately supply a significant portion of that market.

The Company's *CraftGrow* program discussed elsewhere, which assists smaller local/regional Licensed Producers in getting their product to market, provides additional value-added consideration should provincial liquor control agencies seek the flexibility to showcase products of local/regional Licensed Producers within a trusted supply agreement with a larger producer.

With renowned cannabis brands (Tweed, *Leafs By Snoop* & DNA Genetics), strong customer and online communication, substantial product variety, management believes consumer demand for the Company's products will be strong.

With licensed cultivation and production operations in Ontario and Saskatchewan and Quebec as well as announced development plans spanning British Columbia, Alberta, New Brunswick and Newfoundland & Labrador, Canopy Growth has made meaningful economic development commitments in various provinces.

Management believes large scale Licensed Producers are well positioned to support the provinces in their efforts to establish, oversee and implement physical and online cannabis retail. The Company, with comprehensive standard operating procedures for secure cultivation, production, storage and transportation of Cannabis and significant, highly secure vault storage capacity in place or under development in multiple locations across the country, is well positioned to assist provincial agencies with the provisioning of secure cannabis storage and transportation. With the largest customer base in the legal Canadian cannabis market and broadest product portfolio in the sector, the Company can offer provincial agencies/crown corporations/retailers with significant consumer product demand intelligence to assist with product selection.

Management believes Licensed Producers will be required to have operational information technology systems, including Enterprise Resource Planning systems, to interface with the sophisticated inventory management, ordering and billing systems in operation at the various liquor boards. Canopy Growth has invested significantly in the upgrading of our IT infrastructure, including the implementation of an Enterprise Resource Planning application. To help guide the implementation of information technology systems required to interface with the various provincial liquor agencies, the Company's Chief Information Officer ("CIO") has established relationships with the CIOs of many of these agencies.

The large product volumes that will be required to be packaged and shipped to the provincial liquor agencies demands the automation of product packaging and shipping functions. As with information technology systems, Canopy Growth has invested significant resources in improving the efficiency of these functions through increasing utilization of automated systems.

The provincial liquor control agencies are being tasked with implementing and managing the distribution and, in many cases, the retail of cannabis products. As management functions within the liquor agencies and new staff being hired to support the rollout of cannabis distribution and retail likely have limited previous experience/knowledge of the product, Management believes significant in market sales support and education will be required. The Company has established a sales management and in market support team and programs to educate and prepare retail staff. To date, the Company has entered into agreements with the liquor agencies in New Brunswick and Prince Edward Island for the development and delivery of education programs.

As highlighted earlier, Canopy Growth believes that, in certain provinces, it will take two years and possibly longer to rollout the full network of regulated cannabis retail stores that is required to satisfy consumer demand. As such, Canopy Growth believes that most of the sales in the first two years of the regulated recreational market will go through provincial online sales. With less than 6 months to establish a robust online retail system and cannabis marketplace, management expects that certain, if not many, provinces could benefit from leveraging the existing online ecommerce, customer demand data and transactional information technology systems that have been deployed by the Company. The Company's Tweed Main Street online store (See **Overview of Canopy Growth Corporation, Tweed Main Street**), a single online marketplace offering cannabis for sale from multiple producers across numerous brands – delivering a shopping experience that consumers expect, is uniquely suited to deliver the online retail experience that provincial agencies/crown corporations/retailers will be expected to deliver.

## PRIMARY CANNABIS SUPPLY ARRANGEMENTS

Leveraging the combined strength of the Company's cannabis inventory, in production and future capacity, branding and substantial economic commitments, Canopy Growth is the sole licensed producer to have entered into cannabis-related supply agreements with each announcing provincial agency. Details of the agreements are provided below.

- **Quebec –** On February 14, 2018, Canopy Growth announced that the Company had signed a letter of intent with the Société des alcools du Québec's ("SAQ") to provide the Quebec market with 12,000 kilos of high-quality cannabis annually;

- **Prince Edward Island** - On January 16, 2018, Canopy Growth and the Province of Prince Edward Island ("PEI") announced that the Company has entered a supply Memorandum of Understanding ("MOU") to guarantee a regulated supply of high-quality cannabis into PEI's retail and online stores. Under the terms of the MOU, Canopy Growth will allocate a minimum supply of 1,000 kg of high-quality cannabis for the first year of the agreement to ensure that the Province has access to a wide variety of cannabis products. The two-year supply agreement will renew for a third-year upon mutual agreement of the Company and Province. Complementing the supply arrangement and in collaboration with a number of its key partners, Canopy Growth has also designed educational resources to assist the Province in developing best-in-class education for its staff and stores.

- **Newfoundland & Labrador** - On December 8, 2017, Canopy Growth and the Province of Newfoundland and Labrador announce that the Company has entered into a supply and production agreement. Canopy Growth will supply up to 8,000 kg of high quality cannabis products annually for the first two years of the deal. Under the terms of the agreement, Canopy Growth will establish a new production facility in Newfoundland and Labrador capable of producing 12,000 kg per year. Canopy Growth's wholly-owned subsidiary, Tweed Inc. ("Tweed") is eligible to apply to operate four new retail locations in the province. These four licenses would represent the first announced privately owned and operated legal cannabis retail locations in the country.

- **New Brunswick** - On September 15, 2017, the Company and the Province of New Brunswick announced a supply Memorandum of Understanding (MOU) to provide a reliable and high-quality supply of cannabis products into New Brunswick's retail stores. The first year of the two-year supply agreement between the Company and the province is for up to 4,000 kg of cannabis and cannabis derivative products. On January 19, 2018, Canopy Growth and the New Brunswick Liquor Corporation ("ANBL") announced the roll out of a retail training program intended to educate and prepare Cannabis NB retail staff for the legalization of recreational cannabis. The training program, the first of its kind in Canada, will consist of four pillars combining online, self-study, and classroom components. The four areas of concentration include: Customer Service, Cannabis Product Knowledge, Safety and Responsible Use, and Policies Procedures & Systems.

## CORPORATE DEVELOPMENT

Canopy Growth's core focus is strengthening the Company's market share position in federally legal cannabis markets. To achieve this, the Company will continue making deliberate investments, including via acquisition and entering into strategic partnerships to:

- Increase the strength and differentiation of the Company's multiple brands;
- Increase awareness of the healthcare community as to the potential applications of medical cannabis;
- Increase the efficiency and effectiveness of the Company's customer engagement resources;
- Increase the diversity, quality and inventory of products, across value and premium cannabis market segments, through owned production capacity, partner or joint owned capacity as well as partner capacity offtake;
- Implement robust information technology systems including Enterprise Resources Planning;
- Drive automation into packaging and shipping to improved distribution capabilities;
- Drive production and yield efficiencies and focus on cost reduction efforts;
- Implement effective sales management and market support capabilities in advance of launch of Canadian Regulated Recreational market;
- Drive growth in international markets in which cannabis is federally legal;
- Expand the Company's business into the development of value-added products in preparation for, and the marketing, production and sale of value-added products as permitted by regulations; and
- Diversify the Company's business in the distinct but complimentary legal cannabis markets.

## INTERNATIONAL DEVELOPMENT

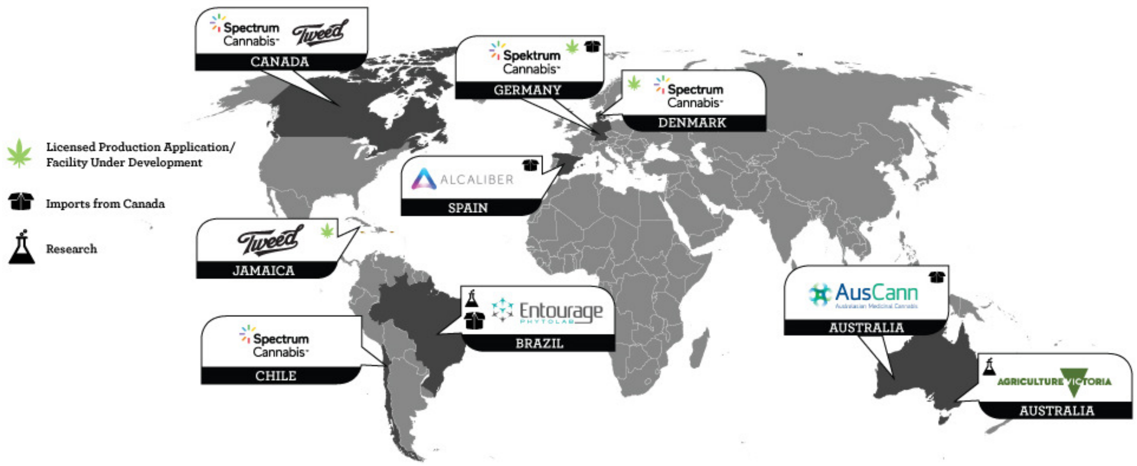
Management believes that a significant opportunity exists today to leverage the Company's expertise, financial strength and business model in federally legal cannabis markets around the world. In addition, management believes future opportunities are likely to exist for the Company in jurisdictions where governments are actively moving towards such a legal framework. Subject to regulatory approval, strategic international business opportunities pursued by the Company could include:

- Providing advisory services to third-parties that are interested in establishing licensed cannabis cultivation and sales operations;
- The export of medical cannabis in countries outside of Canada; and
- Ownership of cannabis cultivation and sales operations in countries outside of Canada, where it is federally legal to do so.

Canopy Growth, with the assistance of international subsidiaries or partners, has secured the necessary agreements to export medicinal cannabis to Australia, Brazil and Germany. Canopy Growth believes that an opportunity will exist, for some time to come, to export medical cannabis to countries who wish to secure a supply of medicinal cannabis but have yet to develop domestic production capabilities. To date, the Company has announced subsidiaries, partnerships or business activities in Germany, Chile, Denmark, Jamaica, Australia, Brazil and Spain as described below.

Canopy Growth does not engage in any U.S. marijuana-related activities as defined in Canadian Securities Administrators Staff Notice 51-352. While the Company has a number of partnerships with U.S.-based companies that may themselves participate in the U.S. cannabis market, these relationships are licensing relationships that see intellectual property developed in the United States brought into Canada, and in no manner involve Canopy Growth in any US activities respecting cannabis.

Figure 4: International subsidiaries, partnerships or business activities




**Spektrum Cannabis GmbH**

Spektrum Cannabis GmbH (“Spektrum” and formerly MedCann GmbH Pharma and Nutraceuticals) is a German-based pharmaceutical distributor that was acquired by the Company on December 12, 2016.

On July 25, 2016, the Corporation announced that Tweed had received necessary approvals in Canada and Germany to begin export of medical cannabis for sale to German patients, and will be working with Spektrum, a then privately held pharmaceutical importer and manufacturer in Germany. Since then, Spektrum has placed Tweed-branded cannabis strains in hundreds of German pharmacies.

To date, Spektrum distributes cannabis products to over 400 pharmacies across Germany. Spektrum’s processing facility is GMP certified by Regierungspraesidium Tübingen.

**Spectrum Chile SpA**

The Company announced on June 20, 2017 its complementary expansion into South America with Spectrum Chile. Medical markets in Chile are emerging and the Company plans to enter the market aggressively in order to position itself as a leader. Through a strategic partnership with a domestic Chilean medical cannabis company, Spectrum Chile will work to ensure Chilean patients have access to high-quality cannabis products.

**Spectrum Denmark ApS**

On September 20, 2017 the Company formed Spectrum Denmark. Spectrum Denmark will produce, cultivate and distribute medical cannabis products in Denmark. Spectrum Denmark will also seek to establish operations in other jurisdictions in Europe where federally lawful and regulated. The Company owns 62% of the issued shares of Spectrum Denmark and Danish Cannabis ApS ("Danish Cannabis") owns the remaining 38% of shares. A principal in Danish Cannabis, Moellerup Estate, has for years been one of the largest hemp producers in Europe. Moellerup Brands include a wide range of hemp food products from gin, beer, granola, oil, to flour, cosmetics and hemp for CBD oil production. The Company will fund the operation of Spectrum Denmark through loan of up to $10 million to be released in tranches, bearing interest at 5%. Upon achievement of defined milestones Danish Cannabis will exchange its shares in Spectrum Denmark for up to 1,906,214 common shares in Canopy Growth.

On December 5, 2017, Spectrum Denmark purchased a 40,000 sq. m. meter operating greenhouse facility in Odense, Denmark ("Odense") for cash consideration of $3,241. On December 18, 2017, the Company announced that Spectrum Denmark had been issued a cannabis production license by Laegemiddelstyrelsen, Denmark's Medicines Agency. The license was issued without conditions, meaning that Spectrum Cannabis Denmark will not be limited to a production cap or limited to the product formats it can produce. High quality oils and dried cannabis flowers will be produced in Odense and sold under the Spectrum Cannabis brand using the proprietary Spectrum colour-coded strain classification system. The license announced today is valid through 2021.

**Tweed JA**

On September 6, 2017, the Company subscribed for 49% of the issued and outstanding shares of Grow House JA Limited (now operating as Tweed JA), for $3,769 payable in cash. Tweed JA is a Jamaican company that had received a provisional license to cultivate and sell medical cannabis and has already begun construction of its greenhouse facility.

Canopy Growth believes that the production and formulation model it has built in Canada, combined with the strength of the existing team in Jamaica, made up of experienced entrepreneurs with substantial cannabis cultivation experience, will drive the national conversation around cannabis forward, and promote Jamaica's well-established and renowned ganja, oils and other cannabis products on a global level.

**AusCann Group Holdings Ltd.**

On May 20, 2016, the Company closed a minority stake with AusCann (ASX:AC8), in exchange for consultation in a number of areas including production, quality assurance and operations, and strategic advisory services. In exchange for these services, the Company initially received a 15% interest and options in Auscann, but, following subsequent dilutive financings, now owns an 11.01% interest in AusCann, including its pro rata participatory investment of $1,214 in AusCann's last financing which closed in May 2017. At December 31, 2017, the AusCann investment was valued at $24,904.

The expertise and advisory services offered or performed by Canopy Growth subsidiaries will be exclusively carried out by Tweed Inc. and Tweed Farms Inc.

On September 13, 2017, the Company announced that it had entered into a supply agreement with AusCann, whereby Canopy Growth will act as AusCann's exclusive supplier of medical cannabis for the Australian market, beginning with the transfer of a range of medicines for research and commercialization in Australia.

**Alcaliber S.A.**

On September 11, 2017, the Company and its wholly-owned subsidiary Spektrum announced a supply license agreement with Spain's Alcaliber, S.A. ("Alcaliber"). Per the supply license agreement, Canopy Growth and Spektrum will grant Alcaliber a license to use certain strains and seeds to be grown and cultivated at Alcaliber's facilities for sale worldwide.

Alcaliber specializes in research and development, breeding and cultivation, and the extraction, purification and preparation of Narcotic Raw Materials ("NRMs") and Active Pharmaceutical Ingredients ("APIs"). Last year, Alcaliber exported 125 tonnes of alkaloids to 40 countries around the world, representing a 20% market share for NRMs. Alcaliber has been granted a license to cultivate, produce, manufacture, export/import, and commercialize cannabis for medical and scientific purposes by the Spanish Agency of Medicinal Products and Medical Devices.

**Bedrocan Brasil S.A. and Entourage Phytolab S.A**.

On June 28, 2016, the Company announced an agreement with São Paulo, Brazil-based Entourage. Under the agreement, wholly-owned subsidiary Bedrocan Canada, Bedrocan International BV (formerly Bedrocan Beheer BV) and local Brazilian partners created a new company called Bedrocan Brasil, which will facilitate the importation of Bedrocan's proprietary standardized cannabis varieties and know-how into the Brazilian market. Additionally, Canopy Growth will partner with Entourage to develop cannabis-based pharmaceutical medical products for the Brazilian and international markets and launch a clinical research plan.

Canopy Growth's holding in Entourage is 38.5% and its holding in Bedrocan Brasil is 39.4%.

**Victoria Agriculture**

On January 16, 2018, Canopy Growth and the Victorian State Government announced the signing of a MOU to further develop research and technical capabilities in the production of medical cannabis in Australia. The work will focus on medical applications for cannabis genetics, strain development, cultivation, and processing. This partnership will directly contribute to the emerging medical cannabis industry in Australia, allowing for improved patient access in that market, creating a leadership position for Australia and Canopy Growth in the Asia Pacific geography.

## CORPORATE POSITION ON CONDUCTING BUSINESS IN THE UNITED STATES AND OTHER INTERNATIONAL JURISDICTIONS WHERE CANNABIS IS FEDERALLY-ILLEGAL

Canopy Growth does not engage in any U.S. marijuana-related activities as defined in Canadian Securities Administrators Staff Notice 51-352. While the Company has a number of partnerships with U.S.-based companies that may themselves participate in the U.S. cannabis market, these relationships are licensing relationships that see intellectual property developed in the United States brought into Canada, and in no manner involve Canopy Growth in any US activities respecting cannabis.

Canopy Growth will only conduct business activities related to growing or processing cannabis, in jurisdictions where it is federally legal to do so. Canopy Growth believes that conducting activities which are federally-illegal, or investing in companies which do, puts the company at risk of prosecution, puts at risk its ability to operate freely, and potentially could jeopardize its listing on major exchanges now and in the future, limiting access to capital from large and reputable global funds.

## PRODUCT DIVERSIFICATION

Management also believes a significant potential future opportunity exists, within an appropriate regulatory framework, to improve the Company's profit margins by vertically integrating up the value chain towards products that treat cannabis and cannabinoids as ingredients rather than the base product. This view applies to the medical and regulated recreational cannabis/cannabinoid markets.

The Company's ongoing investment in brand development, increased cannabis production capacity, global expansion and product diversification is likely to delay when the Company's business becomes cash flow positive. Management believes the focus on growing the Company's market share will drive significantly higher cash earnings and shareholder returns over the long-term.

### Cannabis-Based Medical Therapies

The Company established the cannabis research incubator, Canopy Health, to develop and research clinically ready cannabis drug formulations and dose delivery systems. Canopy Growth is the preferred commercialization partner for Intellectual Property ("IP") developed by Canopy Health.

To facilitate participation in Canopy Health research efforts by notable medical scientists and provide equity ownership opportunities, the Company's initial ownership in Canopy Health has been limited to a minority position and is likely to be reduced over time. Canopy Health is a Canadian Controlled Private Corporation.

Canopy Health will operate as a research engine and will focus on creating an IP portfolio that can be built into commercial opportunities for the Company and its subsidiaries. Pursuant to agreements between Canopy Health and Canopy Growth, Canopy Growth and its subsidiaries will work closely with Canopy Health whereby Canopy Growth will act as a primary supplier of cannabis products for clinical research, as a research partner through its subsidiary Tweed. Tweed's Controlled Drugs and Substance Dealer's License from Health Canada, will allow it to, among other things, possess cannabis and cannabis by-products for the purposes of analytical testing, and in the commercialization of IP created by Canopy Health.

In addition to a focus on human health, through Canopy Health's subsidiary Canopy Animal Health is also driving research efforts toward creating cannabis-based healthcare products for companion animals. Canopy Animal Health's goal is to provide family pets with specialized cannabinoid medicines to maintain, improve or extend their quality of life.

On September 27, 2017, Canopy Health announced that it had filed nine provisional patents pertaining to the applications of cannabis and cannabinoid-based therapeutics in sleep and related nervous system disorders. To date, Canopy Health has filed 27 provisional patents with the USPTO.

Also on September 27, 2017, Canopy Health announced that it had closed additional funding through sales of common shares bringing total funds raised to date for Canopy Health to over $15,800. Capital was secured through new and existing shareholders, including $4,000 from the Company. The Company's interest in Canopy Health common shares is 43.9%.

### Innovating Formats In-House and Through Strategic Partnerships

Canopy Growth believes regulations concerning product formats will evolve in the near term to allow for the production and sale of cannabis related consumer products and a wider variety of medically focused products. Canopy Growth is laying the foundation for both product categories through its own product innovation and by partnering with other innovative entrepreneurs in the cannabis industry.

On July 20, 2017, Isodiol International Inc. (“Isodiol”) announced it had signed a licensing agreement with the Company. Under this licensing agreement, Canopy Growth will have the right to manufacture and distribute Isodiol’s "Pot-O-Coffee" and "Pot-O-Tea" branded cannabis infused single serve K-Cup products in Canada and certain other markets internationally as federal regulations allow. Licensed products include caffeinated and de-caffeinated product lines as well as Isodiol's single serve "Pot-O-Coco". In addition to the Canadian rights, Canopy Growth shall have the right of first refusal to sell the "Pot-O" brand products in any territory outside of the US, Mexico and Puerto Rico.

On September 28, 2017, the Company and Skinvisible Pharmaceuticals, Inc. ("Skinvisible"), a research and development company with a patented drug delivery system, announced they have signed a definitive license agreement for Skinvisible’s patented topical formulations. Per the agreement, Canopy Growth is exclusively licensed to distribute Skinvisible’s topical products in Canada and shall have a first right of refusal for all other countries, excluding China and the United States. The agreement covers two distinct product lines made with Skinvisible’s Invisicare® technology. Skinvisible will first develop unique topical hemp-based products that will be launched by Canopy Hemp Corporation in Canada. The agreement also includes potential cannabis-based topical products using the Invisicare® technology, when and if federal regulations permit CBD or THC infused topical products for sale in Canada.

On November 7, 2017, the Company announced it had signed a definitive licensing agreement with Farm to Farma Inc. (“FTF”) for FTF’s innovative Trokie® lozenges. Under this licensing agreement, Canopy Growth will have the exclusive right to manufacture and distribute FTF’s Trokie® lozenges through its subsidiaries in Canada, as permitted by federal regulations, and shall have a first right of offer for all other countries where federally legal and excluding the United States.

### HEMP-Based Products

The Company has taken steps to diversify its cannabis-related business into the development, production and sale of hemp-based medical, regulated recreational and industrial products. Hemp and cannabis come from the *Cannabis sativa L* specie, but are genetically distinct and are further distinguished by use, chemical makeup and cultivation methods. Hemp, which refers to the non-psychoactive (less than 0.3% THC) varieties of *Cannabis sativa L*, is a renewable raw material used in thousands of products including health foods, body care, clothing, construction materials, biofuels and plastic composites. The acquisition of wholly-owned subsidiary Mettrum and its *Mettrum Originals* brand of Hemp-based consumer food and skincare products along with the acquisition of subsidiary Group H.E.M.P.CA, with its developing line of Hemp-based products, give the Company entry into the growing hemp market. The Company believes that entry into the regulated hemp market, whose regulations allow for more robust consumer-facing brand marketing, advertising and retail channels, will serve to strengthen the Company’s consumer facing brands in the future.

On January 25, 2018, the Company announced that it has closed the acquisition of assets and intellectual property from Green Hemp Industrie Ltd. ("Green"). Combining the Company's expertise in large-scale cannabinoid extraction processes with Green's unique whole-plant hemp harvesting knowledge and library of stable CBD-rich hemp genetics to positions Canopy Growth leader in low-cost, high yield CBD production. Field operations, located near located near Hagen, Saskatchewan, are ready to scale from 600 acres in 2018 to 2,500 acres in 2019. To support this growth, custom built extraction infrastructure will be installed at the Company's facility in Yorkton, Saskatchewan. Management believes that the logistical advantages of having its hemp production and processing in the same location/province will improve the efficiency of its CBD supply chain. On closing, the Company issued 24,576 common shares. The Company may issue up to another 24,576 common shares if certain production related milestones are achieved.

**STRATEGIC RELATIONSHIP AND INVESTMENT**

On October 30, 2017, Canopy Growth announced that it had entered a strategic relationship with the leading total beverage alcohol supplier in the United States, Constellation Brands ("Constellation") (NYSE: STZ and STZ.B). Constellation is a leading international producer and marketer of a fast-growing, high-performing portfolio of beer, wine and spirits brands.

The strategic relationship will see Constellation provide broad support in the areas of consumer analytics, market trending, marketing and brand development to Canopy Growth. In addition, Canopy Growth and Constellation intend to collaborate to develop and market cannabis-based beverages that can be marketed as regulated recreational products in markets where and when such products are federally legal.

As part of the strategic relationship, an affiliate of Constellation invested approximately $245 million in Canopy Growth in exchange for common shares that, following the transaction which closed on November 2, 2017, represents a 9.9% equity share in the Company as at such date.

In exchange for the investment, a total of 18,876,901 Canopy Growth common shares were issued on November 2, 2017 at a price of $12.9783 per share based on a 5-day volume weighted average price (VWAP) as of the close of markets on October 27, 2017. An equal number of common share purchase warrants will be issued at the same price, subject to certain restrictions, expiring 30 months from the closing date. The common shares and warrants will have a hold period of four months and one day from the closing date, with the warrants being exercisable in two equal tranches, with the first exercisable tranche date being August 1, 2018 and the second exercisable tranche date being February 1, 2019. The Company will principally use the proceeds to fund the expansion of its growing platform and to support ongoing investments in value-add processing and new product development and research.

## RESULTS OF OPERATIONS

The following table sets forth consolidated statements of operations and balance sheet data, which is expressed in thousands of Canadian dollars, except share and per share amounts, for the indicated periods.

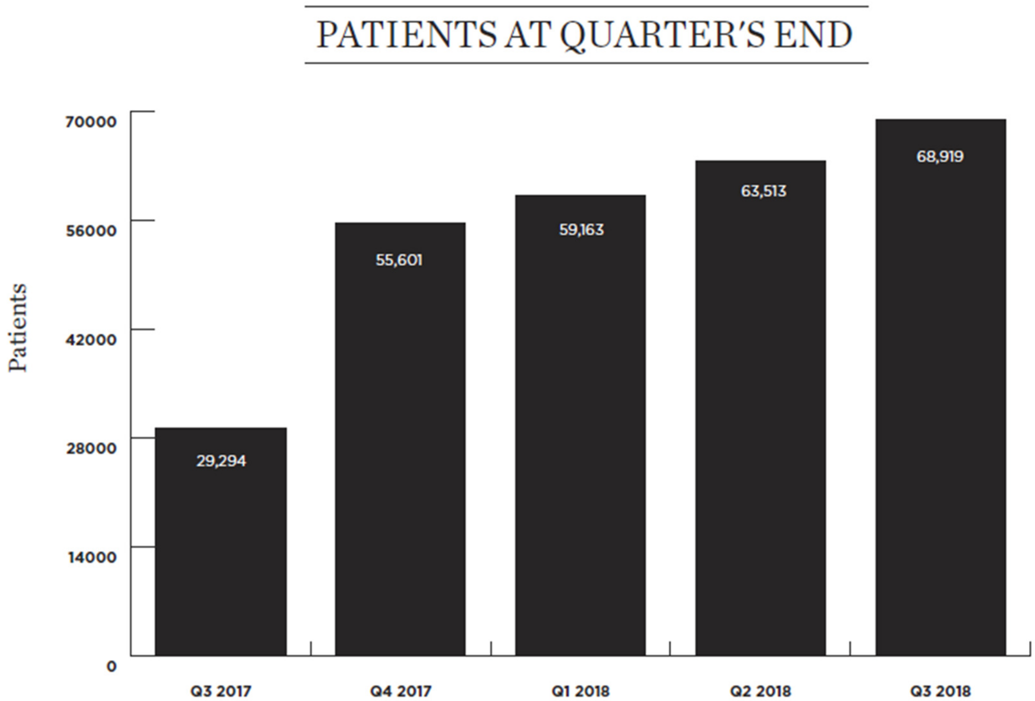
**SELECTED OPERATIONAL INFORMATION**
***(CDN $000's, except share amounts)***

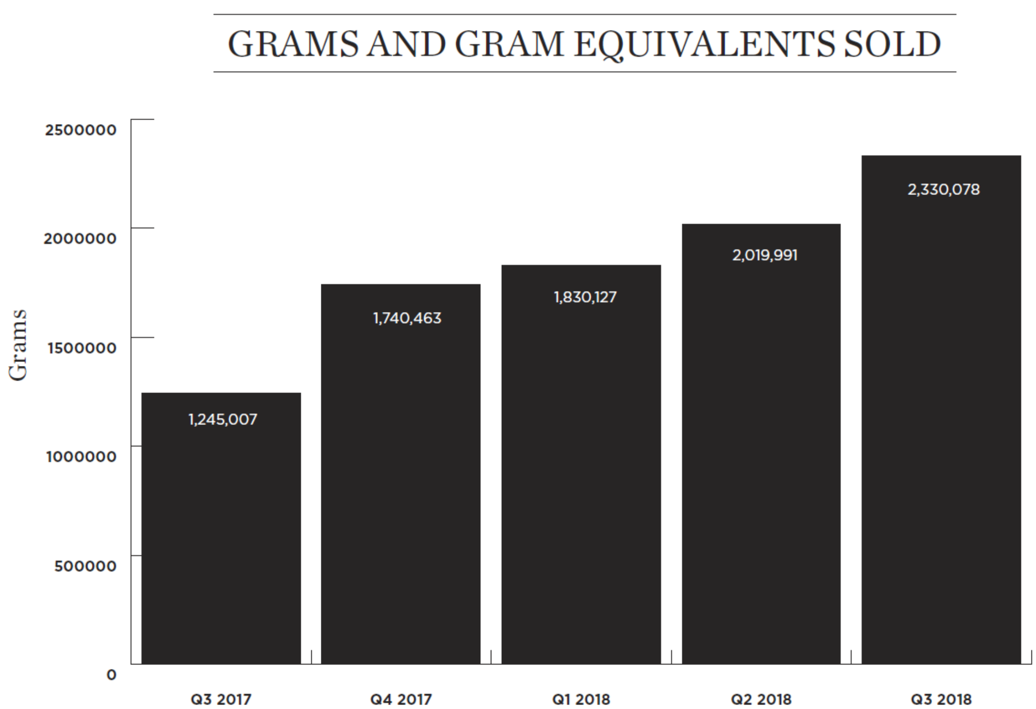
| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **December 31, 2017** | December 31, 2016 | **December 31, 2017** | December 31, 2016 |
| Revenue | **21,700** | 9,752 | **55,142** | 25,234 |
| Gross margin before fair value impacts in cost of sales | **12,534** | 6,241 | **31,641** | 15,544 |
| Gross margin before fair value impacts in cost of sales % | **58%** | 64% | **57%** | 62% |
| Gross margin | **18,570** | 16,943 | **67,015** | 36,215 |
| Gross margin % | **86%** | 174% | **122%** | 144% |
| Operating expenses before acquisition costs and non-cash operating expenses | **20,746** | 8,262 | **51,302** | 21,119 |
| Total operating expenses | **44,602** | 12,190 | **98,264** | 29,382 |
| (Loss) income from operations | **(26,032)** | 4,753 | **(31,249)** | 6,833 |
| Net income after taxes | **11,014** | 2,976 | **227** | 4,457 |
| Net income (loss) attributable to Canopy Growth Corporation | **1,583** | 2,992 | **(8,809)** | 4,473 |
| Net income (loss) per share - basic | **$ 0.01** | $ 0.03 | **$ (0.05)** | $ 0.04 |
| Weighted average shares - basic | **182,029,481** | 116,813,261 | **171,075,324** | 109,725,439 |
| Net income (loss) per share - diluted | **$ 0.01** | $ 0.02 | **$ (0.05)** | $ 0.04 |
| Weighted average shares - diluted | **194,739,044** | 123,034,872 | **171,075,324** | 114,094,787 |

| **Selected statements of financial position information** | **December 31, 2017** | March 31, 2017 |
|---|---|---|
| Cash and cash equivalents | **237,708** | 101,800 |
| Biological assets | **15,075** | 14,725 |
| Inventory | **93,243** | 45,981 |
| Other working capital | **484** | (5,874) |
| Current and long-term debt | **8,793** | 10,330 |
| Deferred tax liability | **38,759** | 35,924 |
| Shareholders' equity | **1,019,858** | 639,726 |

**THIRD QUARTER REVIEW**

Results of Operations for the three and nine months ended December 31, 2017 as compared to the three and nine months ended December 31, 2016.



**SELECTED QUARTERLY INFORMATION**

| | Q3'18 | Q2'18 | Q1'18 | Q4'17 |
|---|---|---|---|---|
| Revenue | $ 21,700 | $ 17,569 | $ 15,873 | $ 14,661 |
| Net income (loss) attributable to Canopy Growth Corporation | 1,583 | (1,338) | (9,054) | (11,994) |
| Net income (loss) per share - basic | $ 0.01 | $ (0.01) | $ (0.06) | $ (0.08) |
| Weighted average shares - basic | 182,029,481 | 167,226,218 | 163,884,269 | 147,060,478 |
| Net income (loss) per share - diluted | $ 0.01 | $ (0.01) | $ (0.06) | $ (0.08) |
| Weighted average shares - diluted | 194,739,044 | 167,226,218 | 163,884,269 | 147,060,478 |

| | Q3'17 | Q2'17 | Q1'17 | Q4'16 |
|---|---|---|---|---|
| Revenue | $ 9,752 | $ 8,498 | $ 6,984 | $ 5,042 |
| Net income (loss) attributable to Canopy Growth Corporation | 2,992 | 5,430 | (3,949) | (5,122) |
| Net income (loss) per share - basic | $ 0.03 | $ 0.05 | $ (0.04) | $ (0.05) |
| Weighted average shares - basic | 116,813,261 | 108,872,770 | 103,663,724 | 98,529,186 |
| Net income (loss) per share - diluted | $ 0.02 | $ 0.05 | $ (0.04) | $ (0.05) |
| Weighted average shares - diluted | 123,034,872 | 112,254,363 | 103,663,724 | 98,529,186 |

## REVENUE

Revenue for the three months ended December 31, 2017 and 2016 was $21,700 and $9,752, respectively. The Company believes the sale of cannabis oils will represent a significant revenue stream going forward. In the three months ended December 31, 2017 and 2016, oils, including gel caps, accounted for $4,458 and $1,300, respectively, or 23% and 14% of product revenue, respectively.

Revenue in the nine months ended December 31, 2017 totaled $55,142 as compared to $25,234 in the same period last year. In the nine months ended December 31, 2017 and 2016, oils, including gel caps, accounted for $10,840 and $2,895, respectively.

The total quantity of cannabis sold during the three months ended December 31, 2017 was 2,330 kilograms and kilogram equivalents at an average price of $8.30 per gram, up from 1,245 kilograms and kilogram equivalents at an average price of $7.36 in same period last year due to an increasing mix of oil products and oil-based soft gel caps being sold.

Year-to-date, the Company has sold 6,198 kilograms and kilogram equivalents at an average price of $8.11 per gram compared to 3,399 kilograms at an average price of $7.12 per gram in the nine months ended December 31, 2016.

## COST OF SALES

Plants that are in pre-harvest are considered biological assets and are capitalized on the balance sheet at fair market value less cost to sell at their point of harvest. Fair market value estimates are based directly on the Company's selling list prices for specific medical cannabis strains and estimated or expected selling prices to provincial crown corporations in a regulated domestic recreational market, as applicable, though no such prices have yet been established. Costs to sell include trimming, fulfillment, testing and shipping costs. As they continue to grow through the pre-harvest stages, a corresponding non-cash unrealized gain is recognized in income through cost of sales, reflecting the changes in fair value of the biological assets. At harvest, the biological assets are transferred to inventory at their fair value, which becomes the deemed cost for inventory. Inventory is later expensed to cost of sales when sold and offsets against the gain on biological assets. In addition, the cost of production is expensed through cost of sales and represents overheads and other production costs of growing and selling the plants. Together, the inventory production costs expensed, the fair value changes in biological assets included in inventory sold and the gain from changes in the fair value of biological assets comprise cost of sales. Management expects cost of sales to vary from quarter to quarter based on the number of pre-harvest plants, the strains being grown, and where the pre-harvest plants are in the grow cycle at the end of the period.

During the three and nine months ended December 31, 2017, the Company harvested 7,961 kg and 17,702 kg, respectively. In comparison, during the three and nine months ended December 31, 2016, the Company harvested 5,264 kg and 8,858 kg, respectively. At December 31, 2017, 2017, the unharvested biological assets had an expected yield of 6,444 kg, as compared to expected yield of unharvested biological assets at December 31, 2016 of 3,129 kg. The Company is ramping up production and inventories for later in calendar 2018 when the legalized recreational market is expected to commence to meet expected demand from consumers and the provinces.

The net cost of sales of $3,130 during the three months ended December 31, 2017 was comprised of inventory production costs expensed to cost of sales of $9,166, fair value changes in biological assets included in inventory sold and other inventory charges of $23,692 offset by the unrealized gain on changes in the fair value of biological assets of $29,728. The impact of changes in the fair value of biological assets recorded during the quarter was due in large part to the full utilization of Tweed Farms in Niagara-on-the-Lake and to the new grow rooms fully operating at Smiths Falls, and to the refitted former Mettrum Bowmanville facility back in full production. In the quarter ended December 31, 2016, the net recovery to cost of sales was $7,191 with inventory production costs expensed amounting to $3,511, fair value changes in biological assets included in inventory sold and other inventory charges of $4,983 more than offset by the unrealized gain on changes in the fair value of biological assets of $15,685.

The net recovery to cost of sales of $11,873 during the nine months ended December 31, 2017 was comprised of inventory production costs expensed to cost of sales of $23,501, fair value changes in biological assets included in inventory sold and other inventory charges of $46,339 more than offset by the unrealized gain on changes in the fair value of biological assets of $81,713. In the nine months ended December 31, 2016, the net recovery to cost of sales was $10,981 with inventory production costs expensed amounting to $9,690, fair value changes in biological assets included in inventory sold and other inventory charges of $12,332 more than offset by the unrealized gain on changes in the fair value of biological assets of $33,003.

The inventory production costs expensed to cost of sales of $9,166 is principally comprised of the cash costs of the inventory sold in the period, being 2,330 kilograms and kilogram equivalents at a weighted average cost of $2.53 per gram, or $5,890. In addition, other cash period costs include those related to merchandise and accessories sold amounting to $340 and $2,936 related to cash operating costs of subsidiaries not yet cultivating or selling cannabis, such as BC Tweed, Vert Mirabel (Quebec), Tweed 53 (Edmonton, Alberta) and Spot Therapeutics (Fredericton, New Brunswick). This compares to the same period last year when 1,245 kilograms and kilogram equivalents were sold at a weighted average cost per gram of $2.58 and costs of $247 related to accessories sold and $50 related to cash operating costs of subsidiaries not yet cultivating or selling cannabis to total $3,511 in the third quarter of last year.

**WEIGHTED AVERAGE COST PER GRAM (NON-GAAP MEASURE)**

The weighted average cost per gram is comprised of:

i) Costs to harvest (from cloning to harvest) include all of the cash operating costs including principally growing labour, utilities such as hydro and water, grow nutrients, rent, and allocated overheads;

ii) Post-harvest costs consist of cash operating costs related to the production of value added products including cannabis oils and soft gel capsules. Post-harvest costs also include cash operating costs associated with trimming, milling, drying, lab services and testing, and allocated overheads; and

iii) Shipping and fulfillment costs consist of cash costs related to labour for pre-packaging and dispensing and order fulfilment and shipping along with package materials such as bottles, boxes, and labels and allocated overheads. These costs include investments that the Company chooses to make to create a vastly superior customer experience. Management believes that brands and experiences matter and investing in better shipping options, packaging worthy of collecting, and brands people seek are a key differentiator in the cannabis market. Shipping and fulfilment cash costs also relate to expedited courier delivery to patients, where applicable, and royalties paid under licensing agreements to product and brand partners including *Leafs By Snoop* and DNA Genetics.

| Weighted Average Cost Gram Information | Three Months Ended December 31, 2017 | September 30, 2017 | June 30, 2017 | March 31, 2017 | December 31, 2016 |
|---|---|---|---|---|---|
| Cost per Gram to Harvest | $ 0.59 | $ 0.72 | $ 0.76 | $ 0.86 | $ 0.87 |
| Post Harvest Cost per Gram | $ 0.44 | $ 0.53 | $ 0.51 | $ 0.60 | $ 0.54 |
| **Cost per Gram before shipping and fulfilment** | **$ 1.03** | **$ 1.25** | **$ 1.27** | **$ 1.46** | **$ 1.41** |
| Cost per Gram for Shipping and Fulfilment | $ 1.50 | $ 1.48 | $ 1.50 | $ 1.44 | $ 1.17 |
| **Weighted Average Cost per Gram** | **$ 2.53** | **$ 2.73** | **$ 2.77** | **$ 2.90** | **$ 2.58** |

In the third quarter of fiscal 2018, the weighted average cost per gram to the point of harvest was $0.59 as compared to $0.87 in the same period last year, representing a decrease of 47%. The decrease in costs to the point of harvest is due in part to operating efficiencies from capital investments made to facility infrastructures, increased utilization of facilities and higher overall plant yields, including the summer harvest at the Tweed Farms greenhouse. The third quarter of fiscal 2018 is the sixth consecutive quarter when the cost to point of harvest was less than $1 per gram and fell relative to the previous quarter. These costs are competitive within the industry, and especially competitive for a product mix including high quality indoor production as well as greenhouse production and may see further optimization as increasing percentages of each facility are brought online and efficiencies are fully realized.

In the third quarter of fiscal 2018, the weighted average cost per gram during post-harvest, including cash costs related to the production of cannabis oils and Softgel capsules, was $0.44 as compared to $0.53 in the second quarter of fiscal 2018, representing a decrease of 19%. The decrease in post-harvest costs is due in part to gains in the efficiency of oil extraction resulting from use of the custom built industrial scale extraction machine that was commissioned at the end of the first quarter of fiscal 2018, as well as efficiencies gained through improvements in the Company's trimming, drying and pre-packing processes.

In the third quarter of fiscal 2018, the weighted average cost per gram for shipping and fulfillment costs was $1.50 as compared to $1.17 in the same quarter last year. The increase in shipping and fulfillment costs during the third quarter of fiscal 2018 was due to higher investment in packaging, delivery and overall experience excellence.

## GROSS MARGIN (NON-GAAP MEASURE)

The third quarter Fiscal 2018 gross margin before the effects of the IFRS fair value accounting for biological assets and inventory was $12,534 or 58% of sales, as compared to $6,241 or 64% of sales in the third quarter of last year. The lower gross margin percentage was due primarily to the impact of cash operating costs of subsidiaries not yet cultivating or selling cannabis, described earlier in this MD&A. Excluding the costs of the non-cultivating subsidiaries totaling $2,936, the gross margin before non-cash gains and losses would have been $15,470 or 71% of sales.

The IFRS reported gross margin was $18,570 or 86% of revenue, for the three-month period ended December 31, 2017. In the comparative period ended December 31, 2016, the gross margin on the same basis was $16,943 or 174% of revenue. In the nine-month period ended December 31, 2017, gross margin was $67,015 or 122% of revenue, compared to $36,215 or 144% of revenue in same period last year. Gross margin includes the fair value changes in biological assets included in inventory sold and unrealized gain on changes in fair value of biological assets.

The IFRS gross margin was mostly impacted by the full utilization of Tweed Farms and the new grow rooms in use at Smiths Falls and Bowmanville fully operating again to result in a higher gain on changes in the fair value of biological assets relative to the third quarter of last year, and partially offset by the inventory net realizable value adjustment described above.

The Company's announced production expansion plans, which will add up to 5,000,000 sq. ft. over the next 12 months, are expected to yield harvests that will produce increased volumes of available inventories for domestic sales and for export. The Company continues to refine its production processes and methodologies to increase production yields and gross margins.

**OPERATING EXPENSES**

Sales and marketing expenses for the three months ended December 31, 2017 were $9,409 or 43% of revenue. In comparison, sales and marketing expenses for the three months ended December 31, 2016 were $3,780 or 39% of sales. Sales and marketing expenses for the nine-months ended December 31, 2017 were $23,452 or 43% of revenue. In the comparative period last year, sales and marketing expenses were $8,850 or 35% of revenue.

Sales and marketing expenses include staffing and increasing resources to the marketing and sales functions needed in the coming regulated recreational and international markets, costs associated with the Company's medical outreach program, and the growing customer care center which interfaces directly with the Company's growing base of patients. Since December 31, 2016, the number of patients have grown from over 29,000 to over 69,000 at December 31, 2017. The outreach program is targeted towards ensuring that healthcare practitioners understand how they can incorporate medical cannabis into their practices. These expenditures are consistent with the Company's view that strong brand recognition is essential to the Company's successful ongoing customer acquisition strategy, particularly in the coming recreational market in Canada. These costs represent a strategic investment, which management believes will have a future benefit in customer acquisition and retention. Further, the Company is making these investments to aggressively seek new domestic and international business opportunities to build for the future.

Research and development ("R&D") expenses for the three months ended December 31, 2017 and 2016 were $287 or 1% of revenue and $439 or 5% of revenue, respectively. R&D expenses for the nine-months ended December 31, 2017 were $914 or 2% of revenue. In the comparative period last year, research and development expenses in the nine-months ended December 31, 2016 were $1,345 or 5% of revenue.

The Company's R&D team is researching a variety of intellectual property opportunities, including those relating to growth patterns under different environmental scenarios and the genetics of various strains, the production of encapsulated cannabis oil capsules in higher volumes as well as in the development and implementation of internal testing resources, capabilities and procedures. In addition, the Company has invested in the development of patent pending technology related to equipment that the Company has engineered specifically for the cannabis industry to be incorporated in Canopy Growth's operations. Also, ongoing R&D work being performed in the Company's Dealers License Area is expected to lead to the development of new cannabis-based product form factors that will enter the market when permitted.

General and administrative ("G&A") expenses for the three months ended December 31, 2017 and 2016 were $11,050 and $4,043, respectively and 51% of sales and 41% of sales, respectively. G&A expenses in the nine-months ended December 31, 2017 were $26,936 or 49% of revenue. In the comparative period last year, G&A expenses were $10,924 or 43% of revenue in the nine-months ended December 31, 2016.

The G&A expenses include higher legal and professional services fees related to investments in governance, expanded operations and supporting business development as well as expanding the Company's information technology capability. G&A expenses also included higher employee compensation costs due to increased staff levels, necessary use of consultants and advisory services while expanding and commercializing the Company's operations, and facility costs in five principal growing operations, compliance costs associated with meeting Health Canada requirements, as well as other public company compliance related expenses including related professional fees. Overall, the increase in G&A reflects the Company's growth and building of commercial capacity and capability. As international expansion forms a key component of the

Company's business growth strategy, the Company expects to incur related costs, such as legal and tax advice, while pursuing these business ventures in the future.

Acquisition-related expenses for the three -month period ended December 31, 2017 and 2016 were $790 and $1,383, respectively. Acquisition-related expenses in the third quarter period ended December 31, 2017 were primarily related to $584 related to the BC Tweed Joint Venture and $206 related to other M&A and M&A advisory services. The Acquisition-related expenses in the third quarter of fiscal 2017 were also due to the ongoing evaluation of potential acquisitions performed during the period and increased legal, accounting and strategic business consulting services required to complete or evaluate the transactions. The Company may acquire strategic businesses and assets in the future as it pursues its growth strategy. As such, the Company may incur related acquisition expenses, including legal, accounting and strategic business consulting service related fees, in the future.

Share-based compensation expense related to options granted to employees and consultants of the Company and to acquisition-related milestones, of $8,965 and $8,914, respectively (three months ended December 31, 2016 - $1,497 and $nil, respectively). The acquisition-related milestone share based compensation primarily related to Spectrum Denmark, BC Tweed, Apollo and Bodystream and to other affiliates, as summarized in Note 19 to the financial statements. Year to date, the share-based compensation expense amounted to $17,708 and share-based compensation expense related to acquisition milestones was $11,228 (nine months ended December 31, 2016 - $3,345 and $nil, respectively).

**ADJUSTED EBITDA (NON-GAAP MEASURE)**

The Company's "Adjusted EBITDA" is a Non-GAAP metric used by management that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management defines the Adjusted EBITDA as the Income (loss) from operations, as reported, before interest, tax, and adjusted for removing other non-cash items, including the share-based compensation expense, depreciation, and the non-cash effects of accounting for biological assets and inventories, and further adjusted to remove acquisition related costs. Management believes Adjusted EBITDA is a useful financial metric to assess its operating performance on a cash adjusted basis before the impact of non-cash items and acquisition activities.

Adjusted EBITDA in the third quarter fiscal 2018 amounted to a loss of $7,076 compared to a loss of $1,403 in the same period last year. In the nine-months ended December 31, 2017, the Company's Adjusted EBITDA amounted to a loss of $18,348 compared to a loss of $4,573 in the same period last year.

| CANOPY GROWTH CORPORATION | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Adjusted EBITDA[1] Non-GAAP Measure** | **Three Months Ended** | | | | **Nine Months Ended** | | | |
| **(In CDN$000's)** | | **December 31, 2017** | | December 31, 2016 | | **December 31, 2017** | | December 31, 2016 |
| **Adjusted EBITDA[1] Reconciliation** | | | | | | | | |
| **(Loss) income from operations - as reported** | $ | (26,032) | $ | 4,753 | $ | (31,249) | $ | 6,833 |
| **IFRS non-cash accounting related to biological assets and inventory** | | | | | | | | |
| Fair value changes in biological assets included in inventory sold and other inventory charges | | 23,692 | | 4,983 | | 46,339 | | 12,332 |
| Unrealized gain on changes in fair value of biological assets | | (29,728) | | (15,685) | | (81,713) | | (33,003) |
| | | (6,036) | | (10,702) | | (35,374) | | (20,671) |
| Share-based compensation expense (per statement of cash flows)[2] | | 19,015 | | 2,115 | | 30,249 | | 4,347 |
| Acquisition Costs | | 790 | | 1,383 | | 2,491 | | 1,975 |
| Depreciation and amortization | | 5,187 | | 1,048 | | 15,535 | | 2,943 |
| | | 24,992 | | 4,546 | | 48,275 | | 9,265 |
| **Adjusted EBITDA** | $ | (7,076) | $ | (1,403) | $ | (18,348) | $ | (4,573) |

*1 - Adjusted EBITDA is Earnings Before Interest, Tax, and Depreciation and other non-cash items, and as adjusted for acquisition related items.*
*2 - Includes $8,914 and $11,228 for the three and nine months ended December 31, 2017, respectively, in share-based compensation expense related to acquisition milestones*

## OTHER EXPENSES AND NET INCOME

Other expenses are made up of interest received from the cash the Company has deposited with a Schedule A Canadian financial institution and was offset by long-term debt interest expense for loans at Tweed Farms, Bedrocan and Spectrum and capital leases. For the three months ended December 31, 2017 and 2016, the above netted to other expenses of $33 and interest expense of $181, respectively. The net other expenses during the three months ended December 31, 2017 related to long-term mortgage debt outstanding more than offset by the interest earned on short-term investments.

The Company recorded fair value changes on financial assets of $35,854 for the three months ended December 31, 2017, which is recognized primarily from the strategic agreement with TerrAscend. The warrants represent a derivative financial instrument that is initially measured at fair value and subsequently remeasured to its fair value at the end of each reporting period with changes in fair value recorded in the condensed interim statement of operations through profit and loss. The Company also recognized $2,363 for the three months ended December 31, 2017, which is recognized from the strategic agreement with AusCann. Under the agreement, the Company obtained shares and options. The options represent a derivative financial instrument that is initially recognized at fair value and subsequently remeasured to its fair value at the end of each reporting period.

In connection with the Agripharm agreement entered into with Green House and Organa Brands where the Company's ownership interest was reduced to 40%, the Company recognized a gain of $8,820 in the third quarter ended December 31, 2017.

The Company recorded an income tax expense of $7,595 for the three months ended December 31, 2017 relating to changes in the deferred tax liability. In the comparative period last year, the Company recorded income tax expense of $701.

Net earnings for the three months ended December 31, 2017 was $11,014 compared to net income of $2,976 in the comparative period last year.

## LIQUIDITY

As at December 31, 2017, the Company had cash and cash equivalents available of $237,708, up from $101,800 at the end of fiscal 2017. The increase from the end of fiscal 2017 was mainly due to the cash received from the Canopy Rivers private placement of $36,320 in June 2017, a $25,000 private placement common share issuance in July 2017, investment of approximately $245,000 by an affiliate of Constellation Brands and the exercise of options and warrants totaling $8,225 offset by cash used to fund operations of $44,595 and investments in facility enhancements totaling $130,339. The Company's cash and cash equivalents includes cash held by Canopy Rivers, amounting to $24,161 at December 31, 2017.

While the Company has incurred cash losses to date, management anticipates success and eventual cash profitability of the business, though there can be no assurance that the Company will gain adequate market acceptance for its products or be able to generate sufficient positive cash flow to achieve its business plans.

The Company's objectives when managing its liquidity and capital structure are to generate sufficient cash to fund the Company's operating, acquisition and organic growth requirements.

The table below sets out the cash, biological assets, inventory, other working capital, and long-term debt at December 31, 2017 and March 31, 2017.

| **(CDN $000's)** | | **December 31, 2017** | | March 31, 2017 |
|---|---|---|---|---|
| Cash & cash equivalents | **$** | **237,708** | $ | 101,800 |
| Biological assets | | **15,075** | | 14,725 |
| Inventory | | **93,243** | | 45,981 |
| Other working capital | | **484** | | (5,874) |
| Current and long-term debt | | **8,793** | | 10,330 |

The increase in total working capital to $345,011 (March 31, 2017 - $154,941) was primarily due to the increase in inventory, the investment in the Company by an affiliate of Constellation Brands and the cash raised by Canopy Rivers which was consolidated in the financial statements.

As at December 31, 2017, on average, the biological assets were 36% complete as to the next expected harvest date, compared to 43% average stage of completion as at March 31, 2017. The Company's biological assets (plants in various stages of growth) had an expected yield of approximately 6,444 kilograms as at December 31, 2017, compared to 5,858 kilograms as at March 31, 2017. The higher expected yield at December 31, 2017 was due to the new grow rooms coming on line at Smiths Falls and having Spectrum operations integrated and online.

At December 31, 2017, inventory quantities amounted to 16,837 kilograms of dry cannabis. Of this amount, 2,606 kilograms was finished goods available for sale; 6,059 kilograms of product in process of testing and awaiting release for sale, and 8,172 kilograms of extract-grade cannabis held for conversion to oils and capsules. This compares to March 31, 2017 when a total of 8,360 kilograms of dry cannabis was in inventory, comprised of 377 kilograms of finished goods, 3,173 kilograms of product awaiting approvals to be released for sale, and 4,810 kilograms of extract-grade cannabis being held for conversion to oils and to capsules. In addition, the Company had a total of 5,919 litres of cannabis oil, ranging from concentrated resins, or refined oil, to oil in its finished state and available for sale, and 391 kilograms of capsules on hand at December 31, 2017, up from 1,799 litres held at March 31, 2017, also ranging from concentrated resins to finished oils available for sale.

Inventory at December 31, 2017 amounted to $93,243 (March 31, 2017 - $45,981) and biological assets amounted to $15,075 (March 31, 2017 - $14,725), together totaling $108,318 (March 31, 2017 - $60,706) all of which Management believes is required to meet expected market demands, including the legalized recreational market expected later in calendar 2018.

The increase in inventory since March 31, 2017 was principally due to the harvests at the Company's greenhouse in Niagara-on-the-Lake. Harvested plants were added to inventories during the quarter and quantities maintained to meet the growth in sales expected and meet strain availability requirements, and the expansion of oils.

The long-term assets which total $720,900 (March 31, 2017 - $523,934) were comprised principally of intangible assets of $400,207, property, plant and equipment, associated deposits and assets in process of $177,142 that relate to the infrastructure build out for growing production and operations, investments in associates and other financial assets of $141,619 which are comprised of various investments the Company and its subsidiaries have made, and other assets of $1,932.

The chart below highlights the Company's cash flows during the quarter ended December 31, 2017 and 2016.

| **(CDN $000's)** | **Nine months ended** | |
|---|---|---|
| Net cash provided by (used in) | **December 31, 2017** | December 31, 2016 |
| Operating activities | **$ (44,595)** | $ (11,384) |
| Investing activities | **(130,339)** | (17,446) |
| Financing activities | **310,842** | 105,937 |
| Cash and cash equivalents, beginning of year | **101,800** | 15,397 |
| Cash and cash equivalents, end of period | **$ 237,708** | $ 92,504 |

## CASH USED IN OPERATING ACTIVITIES

The cash used in operating activities prior to changes in working capital during the nine-months ended December 31, 2017 amounted to $21,909, with net earnings of $227, which included the IFRS accounting unrealized gain on biological assets of $81,713, the fair value changes on financial assets of $32,152 and the gain on disposal of Agripharm of $8,820 to more than offset the fair value changes in biological assets included in inventory sold and other inventory charges of $46,339 and other non-cash items such as depreciation and amortization of $15,535, total share-based compensation of $30,249, and income tax expense of $9,635. The cash used in operating activities after changes in working capital during the nine month period ended December 31, 2017 amounted to $44,595.

In the comparative period last year, the cash used in operating activities prior to changes in working capital amounted to $6,073, with net income of $4,457 which included the non-cash unrealized gain on biological assets of $33,003 to more than offset the fair value changes in biological assets included in inventory sold and other inventory charges of $12,332 and other non-cash items such as depreciation and amortization of $2,943, total share-based compensation of $4,347, the increase in fair value of acquisition consideration liabilities of $1,193, and income tax expense of $863. The cash used in operating activities after changes in working capital during the nine month period ended December 31, 2016 amounted to $11,384.

## CASH USED IN INVESTING ACTIVITIES

The cash used in investing activities during the nine-months ended December 31, 2017 of $130,339 was primarily due to the expansion of growing capacity at Tweed and Tweed Farms, and the development of Tweed BC amount to investments of $86,107, investments made by the Company and its subsidiaries of $46,556, partially offset by proceeds on the sale of Bennett North of $7,000. In comparison, to the nine- months ended December 31, 2016, the cash used in investing activities of $17,446 was due to purchases of property, plant, and equipment and assets in process.

## CASH FROM FINANCING ACTIVITIES

The cash provided by financing activities during the nine-months ended December 31, 2017 of $310,842 due to investment by an affiliate of Constellation of approximately $245,000, $35,135 raised by Canopy Rivers and net proceeds from July private placement of $24,160, the Company also received proceeds from the July private placement for net proceeds of $24,160 and the exercise of stock options and warrants amounting to $8,225, which were partially offset by the repayment of long-term debt amounting to $1,141 and payment of share issue costs of $1,345.

In the comparative period, the cash provided by financing activities during the nine-months ended December 31, 2016 of $105,937 mainly resulted from the bought deal financings which closed on April 15, 2016, August 24, 2016 and December 22, 2016 for combined net proceeds of $99,206, the proceeds from the issuance of new mortgage debt of $3,500, and the proceeds from the exercise of warrants and stock options amounting to $3,583. The cash proceeds were partially offset by the repayment of long-term debt amounting to $612.

## LIQUIDITY, FINANCING AND CAPITAL RESOURCES

The Company is subject to risks including, but not limited to, its inability to raise additional funds through debt and/or equity financing to support the Company’s development and continued operations and to meet the Company’s liabilities and commitments as they come due. Specifically, the Company has a history of losses with an accumulated deficit of $30,105, share capital of $866,550 and working capital of $345,011 as at December 31, 2017. This compares to an accumulated deficit of $21,296, share capital of $621,541 and working capital of $154,941 as at March 31, 2017. See below under the heading “Risk Factors”.

## CAPITAL ACTIVITIES

The Company manages its capital with the objective of maximizing shareholder value and sustaining future development of the business. The Company defines capital as the Company’s equity and any debt it may issue. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the Company’s activities. The Company, upon approval from its Board of Directors, will undertake to balance its overall capital structure through new share issues, the issue of debt or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company’s principal capital needs are for funds to expand its growing rooms, ancillary rooms, strategic acquisitions, and general working capital requirements to fund operations and to support growth including new opportunities to produce and sell cannabis oil and dry cannabis buds. Since its formation, the Company has financed its cash requirements primarily through the issuance of capital stock with the following exceptions.

On November 7, 2014, a mortgage was obtained on the Tweed Farms property. The mortgage was obtained from Farm Credit Canada for an original amount of $1,875 (December 31, 2017 - $1,155) at an annual interest rate of 5.3% and had a term of 5 years and an amortization period of 7 years. On August 5, 2016, the Company obtained a second mortgage on the Tweed Farms property with the same Canadian financial institution for an original amount of $3,500 (December 31, 2017 – $2,888) with an annual interest rate of 4.9%, term of 5 years and an amortization period of 7 years. Through the acquisition of Mettrum on January 31, 2017, the Company has an additional mortgage of $2,846, also with the same Canadian financial institution, on the Mettrum property, with an annual interest rate of 4.8%, term of 5 years and an amortization period of 7 years. Through the acquisition of Bedrocan on August 28, 2015, the Company has a long-term debt facility totaling $1,646 with an interest rate of 10%, due on July 1, 2024, payable in blended monthly payments (See **"Transactions with Related Parties"**).

The Company also has revolving lines of credit for up to $5,500 with the same Canadian financial institution holding the three mortgages, with variable interest rates based on the CIBC prime rate plus 1.2% with a 5-year term and interest only payments on drawn amounts, but is payable on demand or may be prepaid at any time at the option of the Company. The 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 December 31, 2017.

The Company's authorized share capital is an unlimited number of common shares of which 190,958,380 common shares were issued and outstanding as at December 31, 2017, after excluding 1,201,079 escrowed shares to be released after meeting certain conditions (March 31, 2017 – 162,187,262 common shares).

The Company has 14,350,455 options outstanding at December 31, 2017 under the Company employee stock option plan ("ESOP") at prices between $0.43 and $19.42 per share (March 31, 2017 – 10,044,112 option shares).

At December 31, 2017 the Company also had 18,935,492 warrants for common shares outstanding. This includes 18,876,901 warrants held by an affiliate of Constellation with an exercise price of $12.9783 which expire on May 1, 2020 and 58,591 warrants with exercise prices between $3.80 and $4.56 which expire on April 30, 2018.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements other than those as stated below in the section titled "Transactions with Related Parties".

## TRANSACTIONS WITH RELATED PARTIES

The Company had previously been leasing office premises from Tweed Hershey Drive Inc., which was related through common ownership (the Company's CEO and chairman is a significant shareholder of the lessor). On January 13, 2017, the Company acquired the land and buildings at 1 Hershey Drive in Smiths Falls, Ontario. Details of the amounts expensed and owing related to these premises are detailed in Note 17 Related Parties in the unaudited condensed interim consolidated financial statements for the three and nine months ended December 31, 2017.

The Company leases premises for the two Bedrocan facilities in Toronto and a facility in Edmonton from a company controlled by Murray Goldman, a director of Canopy Growth Corporation. The Bedrocan facility leases expire on October 15, 2018 and August 31, 2024 and the Edmonton facility lease expires on July 31, 2037. Details of the amounts expensed and owing related to these premises are described in Note 21 Related Parties in the unaudited condensed interim consolidated financial statements for the three and nine months ended December 31, 2017.

The Company leases premises for the Mettrum Hemp's production facility located in Barrie, Ontario from the former founder and shareholder of Mettrum Hemp and former officer of Mettrum, now the president of Mettrum Hemp and a shareholder of the Company. The lease has a term of five (5) years with an expiration date of March 31, 2020 together with one (1) extension term of five (5) years. Details of the amounts expensed and owing related to these premises are described in Note 21 Related Parties in the unaudited condensed interim consolidated financial statements for the three and nine months ended December 31, 2017.

The Chief Executive Officer has been engaged to provide services to the Company at $55 per quarter and is eligible for up to a $300 annual bonus. Details of the amounts expensed and owing are described in Note 21 Related Parties in the unaudited condensed interim consolidated financial statements for the three and nine months ended December 31, 2017.

The Company currently has a loan payable to a director of the Company. Included in interest expense for the three and nine months ended December 31, 2017 was an amount of $44 and $130, respectively (for the three and nine months ended December 31, 2016 - $42 and $134, respectively). At December 31, 2017, the loan balance was $1,606 (March 31, 2017 - $1,724).

Pursuant to the share purchase agreement with Hemp.CA, the Company entered a lease for Vert and Hemp.CA properties with a shareholder of Hemp.CA and who is now, Senior Vice President and Managing Director of Hemp.CA. The lease expires on November 1, 2036 and the Company has two automatic renewal terms of 10 years each. For the three and nine months ended December 31, 2017, the expense incurred under this lease including base rent and operating costs was $14 and $39, respectively.

During the three and nine months ended December 31, 2017, $112 and $464, respectively was expensed in director's fees (for the three and nine months ended December 31, 2016 - $54 and $166, respectively). The Company had $nil owing in accounts payable and accrued liabilities to directors at December 31, 2017 (March 31, 2017 - $nil).

The Company has loans receivable from four officers and two directors relating to the share purchase loan described in the unaudited condensed interim consolidated financial statements for the three and nine months ended December 31, 2017. At December 31, 2017, the loans receivable was $308 (March 31, 2017 - $nil).

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

## CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be publicly disclosed is recorded, processed, summarized and reported on a timely basis. An evaluation of the design of Disclosure Controls was done under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, the material weaknesses set forth below under “Previously Identified Material Weaknesses” were noted.

### Internal Controls Over Financial Reporting

National Instrument 52-109 requires the CEO and CFO to certify that they are responsible for establishing and maintaining internal controls over financial reporting (“ICFR”) for the Company and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. The CEO and CFO are also responsible for disclosing any changes to the Company's internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

The Company’s management, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company´s internal control over financial reporting as of March 31, 2017, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013 (the “COSO 2013 Framework”). Management considers that the following material weaknesses identified as of March 31, 2017 have not been fully remediated.

**Previously Identified Material Weaknesses Not Fully Remediated**

As of March 31, 2017, management concluded that the Company’s internal controls over financial reporting were not effective. Material weaknesses cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. Management has determined that the following material weaknesses have not been fully remediated as of the date hereof:

**Reliance on End User Computing (“EUC”)** - Corporate-wide EUC spreadsheets used in financial reporting have not been inventoried. Risks exist that these spreadsheets are inadequately secured and retained. In addition, the accounting complexities encountered in the financial reporting relies on equally complex spreadsheets. Spreadsheets are inherently prone to error due to their manual nature. The Company´s controls related to spreadsheets did not address all risks associated with updating assumptions, manual entry into spreadsheets, completeness of data entry, nor evidence of review of completed spreadsheets; and

**IT General Controls** - The Company did not maintain effective general information technology controls related to user access and change management processes. Risks exist that IT systems were not effectively secured and controlled, which may lead to unauthorized or unintended processing within financial reporting systems.

**Remediation Plan and Activities**

Management commenced remediation of these material weaknesses in fiscal 2017 and fiscal 2018, its remediation plan and actions undertaken include the following:

1. A revalidation of information technology user access and refresher training has been undertaken and implementation of tools to allow for tighter management of user access has commenced. Additionally, process improvements have been undertaken in both the areas of user access and change management.
2. Continued engagement of third party resources to assist the Company in its risk assessment process and in completing the design and implementation of certain internal controls over financial reporting pursuant to the COSO 2013 Framework and remediation of the Company’s general information technology controls over information security and change management processes;
3. Continued progress in the plan for an inventory listing of EUC spreadsheets in use, implementation of IT supported systems to reduce reliance on EUC tools and adoption of a platform for storage of EUC spreadsheets; and
4. A cross-functional business transformation process, enabled by a new end to end Enterprise Resource Planning (“ERP”) system was launched in June 2017 to standardize and automate business processes and controls across the organization domestically and internationally. The project is a major initiative that is utilizing third party consultants and will expand the depth and breadth of the finance and information technology organizations. The project, named Project Summit, is expected to extend into the fall of calendar 2018, and will enable continuous improvement and scalability.

Other than those described above, there have been no changes in the Company's internal control over financial reporting during the three months ended December 31, 2017 that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

No assurance can be provided at this time that the actions and remediation efforts will effectively remediate the material weaknesses described above or prevent the incidence of other material weaknesses in the Company's internal control over financial reporting in the future. Management, including the Chief Executive Officer and Chief Financial Officer, does not expect that disclosure controls and procedures or internal control over financial reporting will prevent all errors, even as the remediation measures are implemented and further improved to address the material weaknesses. A control system is subject to inherent limitations and even those systems determined to be effective can provide only reasonable, but not absolute, assurance that control objectives will be met with respect to financial statement preparation and presentation.

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has limited the scope of the design of the Company's disclosure controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures and internal controls over financial reporting of the recently acquired operations of Mettrum Health Corp. (acquired January 31, 2017 and now Spectrum Health Corp.), Tweed Grasslands Cannabis Inc. (acquired May 1, 2017), Spot Therapeutics Inc (acquired on August 28, 2017), Grow House JA Limited (acquired 49% on September 6, 2017), Spectrum Cannabis Denmark ApS (acquired control on September 20, 2017), Les Serres Vert Cannabis Inc. (acquired 66.7% interest on December 18, 2017), BC Tweed Joint Venture Inc. (acquired 66.7% interest on October 10, 2017). The operations of Spectrum Health Corp., Tweed Grasslands Cannabis Inc., Spot Therapeutics Inc., Grow House JA Limited, Spectrum Cannabis Denmark ApS , Les Serres Vert Cannabis Inc. and BC Tweed Joint Venture Inc. combined, represent approximately 36% of the Company's assets (approximately 5% of current assets and 60% of non-current assets); they also represent approximately 22% of current liabilities and 14% of long-term liabilities, 7% of the Company's revenues and 14% of operating expenses for the three months ended December 31, 2017.

**NON-GAAP AND ADDITIONAL GAAP MEASURES**

The Company uses "Income from operations" as an additional GAAP financial measure within the financial statements and MD&A, but is not a defined term under IFRS to assess performance. Management believes that this measure provides useful supplemental information to investors and is computed on a consistent basis for each reporting period.

Income from operations is calculated as total revenues less total operating expenses derived from the Consolidated Statements of Operations. It is used by management to analyze operating performance, but it is not intended to represent an alternative to net earnings or other measures of financial performance in accordance with IFRS.

"Weighted Average Cost Per Gram" is a metric used by management to measure performance efficiencies in growing and selling medical cannabis. The metric is calculated by breaking out costs related to the inventory grown, harvested, and sold in the period, to arrive at a weighted average cost per gram to grow, harvest, and sell cannabis.

"Adjusted EBITDA" is a metric used by management which is Income (loss) from operations, as reported, before interest, tax, and adjusted for removing other non-cash items, including the stock based compensation expense, depreciation, and the non-cash effects of accounting for biological assets and inventories, and further adjusted to remove acquisition related costs. Management believes "Adjusted EBITDA" is a useful financial metric to assess its operating performance on a cash basis before the impact of non-cash items and acquisition related activities.

RISKS AND UNCERTAINTIES

Many factors could cause the Company's actual results, performance and achievements to differ materially from those expressed or implied by the forward-looking statements and forward-looking information, including without limitation, the following factors, which are discussed in greater detail under the heading "Risk Factors" in the Company's AIF dated June 29, 2017 and in the Company's Short-Form Prospectuses dated December 16, 2016, August 18, 2016, and April 8, 2016 and January 31, 2018 filed with securities regulators and available on www.sedar.com, which risk factors are incorporated by reference into this document, and should be reviewed in detail by all readers:

- The Company has a history of losses, may incur significant losses in the future and may not achieve or maintain profitability;
- The Company's ability to grow, store and sell medical cannabis in Canada are dependent upon licenses from Health Canada which are subject to ongoing compliance and reporting requirements;
- The activities of the Company are subject to regulation by governmental authorities, particularly Health Canada;
- The laws, regulations and guidelines generally applicable to the cannabis industry domestically and internationally may change in ways currently unforeseen by the Company;
- Any amendment to or replacement of the ACMPR may cause adverse effects to the Company's operations. The risks to the business of the Company represented by this decision and subsequent regulatory changes could reduce the addressable market for the Company's products and could materially and adversely affect the business, financial condition and results of operations of the Company;
- On April 13, 2017, the Government of Canada released the proposed Cannabis Act to regulate the production, distribution and sale of cannabis for unqualified adult use. On November 27, 2017, the House of Commons passed the proposed Cannabis Act, and on December 20, 2017, the Prime Minister communicated that the Canadian Federal Government intends to legalize cannabis in the summer of 2018. The proposed Cannabis Act is currently before the Senate. It is unknown whether the Cannabis Act will be passed. Several recommendations from the Task Force reflected in the Cannabis Act including, but not limited to, permitting home cultivation, potentially easing barriers to entry into the Canadian recreational cannabis market and restrictions on advertising and branding, could materially and adversely affect the business, financial condition and results of operations of the Company;
- The proposed Cannabis Act is not yet in force, and the regulations to the Cannabis Act have not yet been published. There can be no assurance that the legalization of recreational cannabis by the Canadian Federal Government will occur on the terms in the proposed Cannabis Act or at all, and the legislative framework pertaining to the Canadian recreational cannabis market is uncertain;
- The governments of British Columbia, Alberta, Manitoba, Ontario, Québec and New Brunswick have also made varying announcements on the proposed regulatory regimes for the distribution and sale of cannabis for recreational purposes. There is no guarantee that provincial legislation regulating the distribution and sale of cannabis for recreational purposes will be enacted according to the terms announced by such provinces, or at all, or that any such legislation, if enacted, will create the growth opportunities that the Corporation currently anticipates;

- The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment;
- Third parties with which the Company does business may perceive that they are exposed to reputational risk because of the Company's medical cannabis business activities;
- The operation of the Company can be impacted by adverse changes or developments affecting the facilities of the Company's wholly-owned subsidiaries;
- The Company's ability to recruit and retain management, skilled labour and suppliers is crucial to the Company's success;
- The Company's growth strategy contemplates outfitting its facilities with additional production resources. A variety of factors could cause these activities to not be achieved on time, on budget, or at all. As a result, there is a risk that the Company may not have product or sufficient product available to meet the anticipated demand or to meet future demand when it arises;
- The Company and its wholly-owned subsidiaries have limited operating histories;
- Even if its financial resources are sufficient to fund its current operations, there is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company may require additional financing and there can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company;
- There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company;
- The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical cannabis market or any product, or consistent with earlier publicity;
- The Company and its wholly-owned subsidiaries face an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury;
- The products of the Company's wholly-owned subsidiaries could be subject to the recall or return of their products for a variety of reasons. If a product recall or return should happen, the Company could be required to incur unexpected expenses and divert management attention and could see harm caused to its image and product sales decline. In addition, as result of the product recall or return, the Company and its wholly-owned subsidiaries could face increase operational scrutiny by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses;
- The introduction of home and designated growing may have a negative impact on the Company's sales and infringe on the Company's market;
- Greater access to medical cannabis, through home and designated growing and illegal dispensaries, may decrease the number of patients registering with the Company and may cause registered patients to leave the Company and grow for themselves;

- Home and designated growing may increase access to cannabis in the illegal market, potentially impacting the public’s perception of the Company, and the cannabis industry as a whole;
- Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of the Company;
- The Company is largely reliant on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the medical cannabis industry in Canada. A failure in the demand for its products to materialize because of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company;
- The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls;
- The Company may engage in acquisitions or other strategic transactions or make investments that could result in significant changes or management disruption;
- The Company could fail to integrate acquired companies into the business of the Company;
- Completed acquisitions, strategic transaction or investments could fail to increase shareholder value;
- Certain of the Directors and Officers of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies;
- The Company may become party to litigation, mediation and/or arbitration from time to time in the ordinary course of business which could adversely affect its business;
- The market price for the common shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company’s control;
- There can be no assurance that an active and liquid market for the common shares will be maintained and an investor may find it difficult to resell any securities of the Company;
- Prior to the start of trading on March 20, 2017, the Company was the first cannabis company to be added to the health care section of the S&P/TSX Composite Index. In order to be added to the Composite Index, the Company had to meet certain market capitalization, liquidity, and domicile requirements. Big institutional investors and index funds use the Composite Index to guide buying decisions, which could influence the trading price of the Company’s shares;
- October 16, 2017, the TSX provided clarity regarding the Requirements to applicants and TSX-listed issuers with business activities in the cannabis sector. In TSX Staff Notice 2017-0009, the TSX notes that issuers with ongoing business activities that violate U.S. federal law regarding cannabis are not in compliance with the Requirements. These business activities may include (i) direct or indirect ownership of, or investment in, entities engaging in activities related to the cultivation, distribution or possession of cannabis in the U.S., (ii) commercial interests or arrangements with such entities, (iii) providing services or products specifically targeted to such entities, or (iv) commercial interests or arrangements with entities engaging in providing services or products to U.S. cannabis companies. The TSX reminded issuers that, among other things, should the TSX find that a listed issuer is engaging in activities contrary to the Requirements, the TSX has the discretion to initiate a delisting review. If the TSX were to initiate a delisting review in respect of the Company, there could be an adverse effect on the trading price of the Company’s shares;

- The Company does not anticipate paying any dividends on the common shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings;
- The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land; the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety;
- The Company has, and will have, certain business arrangements with third parties, the breakdown/loss of which could impact its operations;
- On October 30, 2017, The Company announced that it entered into a strategic relationship with an affiliate of Constellation. The Company and the affiliate of Constellation entered into an Investor Rights Agreement pursuant to which the Company granted registration rights to the affiliate of Constellation and certain pre-emptive rights whereby, subject to certain exceptions, the affiliate of Constellation may maintain its pro rata ownership in the Company or cause the Company to take steps to assist it in selling some or all of the Common Shares it holds. In addition, in connection with the Constellation transaction, the Company is subject to a number of restrictions on activities that the Company cannot undertake without consent of the Constellation affiliate. These restrictions limit the Company's ability to conduct certain business, and it is possible that such restrictions could significantly adversely affect the business, financial condition and results of operations of the Company;
- An affiliate of Constellation owns a substantial number of the outstanding common shares of the Company (on a fully diluted basis) and, through its pre-emptive rights, has the ability to maintain its ownership level. As such, this shareholder is in a position to exercise significant influence over matters requiring shareholder approval, including the election of directors and the determination of significant corporate actions. As well, this shareholder could delay or prevent a change in control of the Company that could otherwise be beneficial to the Company's shareholders;
- The Company currently has, and may in the future enter into further, strategic alliances with third parties that it believes will complement or augment its existing business. The Company's ability to complete strategic alliances is dependent upon, and may be limited by, the availability of suitable candidates and capital. In addition, strategic alliances could present unforeseen integration obstacles or costs, may not enhance the Company's business, and may involve risks that could adversely affect the Company, including significant amounts of management time that may be diverted from operations to pursue and complete such transactions or maintain such strategic alliances. Future strategic alliances could result in the incurrence of additional debt, costs and contingent liabilities, and there can be no assurance that future strategic alliances will achieve, or that the Company's existing strategic alliances will continue to achieve, the expected benefits to the Company's business or that the Company will be able to consummate future strategic alliances on satisfactory terms, or at all. Any of the foregoing risks and uncertainties could have a material adverse effect on the Company's business, financial condition and results of operations;

- The Company's expansion into jurisdictions outside of Canada is subject to risks. In addition, in jurisdictions outside of Canada, there can be no assurance that any market for the Company's products will develop. The Company may face new or unexpected risks or significantly increase its exposure to one or more existing risk factors, including economic instability, changes in laws and regulations, and the effects of competition. These factors may limit the Company's ability to successfully expand its operations into such jurisdictions and may have a material adverse effect on the Company's business, financial condition and results of operations;
- The Company's operations in emerging markets are subject to political and other risks associated with operating in a foreign jurisdiction;
- The Company continues to monitor developments and policies in the emerging markets in which it operates and assess the impact thereof to its operations; however, such developments cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability;
- Corruption and fraud in certain emerging markets relating to ownership of real property may adversely affect the Company's business;
- Inflation in emerging markets, along with governmental measures to combat inflation, may have a significant negative effect on local economies and also on the Company's financial condition and results of operations;
- The Company's operations may be impaired as a result of restrictions on the acquisition or use of properties by foreign investors or local companies under foreign control;
- The legal and regulatory requirements in the foreign countries in which the Company operates with respect to the cultivation and sale of marijuana, banking system and controls, as well as local business culture and practices are different from those in Canada. The officers and directors of the Company must rely, to a great extent, on the Company's local legal counsel and local consultants retained by the Company in order to keep abreast of material legal, regulatory and governmental developments as they pertain to and affect the Company's business operations, and to assist the Company with its governmental relations. The Company must rely, to some extent, on those members of management and the Company's board of directors who have previous experience working and conducting business in these countries, if any, in order to enhance its understanding of and appreciation for the local business culture and practices. The Company also relies on the advice of local experts and professionals in connection with current and new regulations that develop in respect of the cultivation and sale of marijuana as well as in respect of banking, financing, labour, litigation and tax matters in these jurisdictions. Any developments or changes in such legal, regulatory or governmental requirements or in local business practices are beyond the control of the Company. The impact of any such changes may adversely affect the business of the Company;
- The Company may expand into other geographic areas, which could increase the Corporation's operational, regulatory and other risks; and
- The Company may be responsible for corruption and anti-bribery law violations.