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PRESENTATION

Operator

Good morning, and welcome to Canopy Growth's Fourth Quarter and Fiscal Year 2018 Financial Results Conference Call.

Earlier this morning, Canopy Growth issued a news release announcing its financial results for the fourth quarter and fiscal year ended March 31, 2018. This news release will be available on Canopy Growth's website and filed on SEDAR. On the call this morning, we have a Bruce Linton, Canopy Growth's Chairman and Chief Executive Officer; and Tim Saunders, Canopy Growth's Chief Financial Officer. (Operator Instructions)

Certain matters discussed in today's conference call or answers that may be given to questions could constitute forward-looking statements. Actual results could differ materially from those anticipated. Risk factors that could affect the results are detailed in the company's annual information form and other public filings that are made available on SEDAR.

During this conference call, Canopy Growth will refer to supplemental non-GAAP measure adjusted EBITDA. These measures do not have any standardized meaning prescribed by IFRS. Adjusted EBITDA is defined in the press release issued earlier today as well as in this period's Management's Discussion and Analysis document that will be filed on SEDAR after financial markets close today.

Please note that all financial information is provided in Canadian dollars unless otherwise specified. Following prepared remarks by Mr. Linton and Mr. Saunders, the company will conduct a question-and-answer session, during which, questions will be taken from analysts and investors. (Operator Instructions)

I would now like to turn the meeting over to Bruce Linton. Mr. Linton, please go ahead.

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Great. Thank you. Well, I'd like to start the call off by reminding everybody of the business win. And I know that the headlines continuously talk about the party is going to commence in Canada on October 17, which for my American friends is a week after our Thanksgiving, and I think will be the new Thanksgiving in Canada. But really, what Canopy is, is we're a global medical cannabis company.

And I highlight that in that -- in this last quarter, nearly 10% of our sales came from Germany. And if you asked where are we not easing up on our push for medical patients, we've been moving along with some in Canada. We're up to about 82,000 medical patients. It's the rest of the world. And I think it's important to understand that 120% increase in sales is just the beginning of the beginning of the beginning in a place like Germany.

And when we announced a couple of weeks ago our no objection letter to commencing a Phase IIb primary insomnia in human trial, that's the first of many that we have on a schedule. And we had an announcement of our intent to acquire back Canopy Health Innovations and bring the intellectual property in line with the manufacturing capability.

What we didn't put out at that time is, over the last couple of quarters, we have spent many millions of dollars on the design, preparation and construction commencement of a very, what I will call, high-intensity GMP-1 pharma manufacturing platform in Smiths Falls that adds a huge amount, several hundred thousand square feet of pharma production capabilities in Smiths Falls. Now the good news is you can use that same platform to produce vapes, which will be in the market in 2019 for Canada's rec market, but you have to put the time and the money and the focus to meet these pharma standards.

So when we talk about being in 5 continents, it's 5 continents for medical cannabis. And there's going to be quite a bit of a discussion over the efforts we've taken to be ramped and ready to completely execute and deliver on the Canadian market. That will be exciting, but really, the opportunity for continued growth at the rate which you guys have become accustomed to for us is absolutely succeeding on executing in Canada against medical and rec but doing it in a way that it becomes extensible globally.

And I focus on that because you can't read a newspaper in Canada without at least 5 headlines about the party about to come. The big sub-story is that with -- with that, I'll get into the fact. 36 million people certainly can lead to hundreds of millions of people because if that insomnia study works as we think it will here. That's an indication that goes around the globe, and there are several indications behind that, that we're well-structured to go after.

So C-45 is passed, June 4th -- 19th's over. We no longer speak of the Senate with excitement as we once did prior to the passing. What do we have to do as a company? Well, I would expect over the next month to begin seeing our first specific orders having to fill and having a fairly active time between now and October 17 selling the national channel.

We've been selected by every province that's made an announced decision, and we're very comfortable that we're doing well with all those provinces that have not made announced decisions to be part of the supply chain. And that Canopy would basically be a national brand, represented in every public-, private-type store across the country and into the territories.

So that really comes down to the question which is, when we fill the channel, when will we need to refill the channel? And that could be 5 hours, 5 days, 5 weeks, you'll decide. We have a model, which means refill and refill and refill. And so the depth of our platform inventory abilities is really going to be reflected in how rapidly can we refill, how frequently can we refill and what does that turn into total value.

On this call, you'd appreciate the fact that we have been somewhat confident that we have a supply chain that works and product that's there. And so when provinces and territories seek the lowest priced supplier, they don't get a response from us. And when they want to give long-duration, low-price contracts, we're not there.

What we are is a solid supplier at a very solid and comfortable price point. The results in a couple of year tie up. And by the time we have the channel active for 2 years, the format of what we sell will not be a discussion of grams. It will entirely be a discussion of milligrams.

And Tim will get into this a little bit later, but I don't think you care what the vegetative weight of a plant is versus how many active ingredients are in there so that we can create outcomes. And so that channel will be in milligrams channel, and I suspect that would be the entire discussion we're having about a year from now.

So we've got our system together. Our inventory, we'll discuss. Our operation capabilities, many will come to see. Our IT systems, the only disappointment I have when I take people on a tour is you can't see the block plain. And so from day 1, IT has probably been our most substantial differentiator. I suspect we're the company that's had a CIO for the longest and that we've been talking about third-generation things like what we're doing for our financial control systems and ERP. So I think it really is a company that can actually scale with all the provincial and global requirements.

We've had a good fortune to have the opportunity to train many of the trainers for provincial sales teams. So principally out of the East Coast, our system has been welcomed, which is about how do you create a well-educated, knowledgeable person to deal with customers, who may or not ever purchase or recently purchased cannabis, and how do you turn all of our medical data into a pace-based online training system. That's the sort of transformation that Canopy's done, and it's been well-received in the channel.

When we get into our financials, you'll see that we've been very active putting in place programs that increment our band so that people who will have experienced us as recently as last weekend with the Pride Parade at a level -- in Toronto, at a level of visibility, a method of presentation that just takes it up a notch.

Whether you were observing the (inaudible) or seeing our signage in key locations electronically, Tweed's becoming a ever more textured brand that reaches into more audiences, and I think it's going to result in market share. For when you walk into a store, it will be visible. And you're going to ask the clerk there, can I get the one which transform to chocolate factory, the one which Snoop sponsored, the one which I've read about in the financial papers, the one which was supporting pride, the one which had designs in a visible way, here, here and here. And so the effect is, I think, we're going to expect to see first-time buyers to repeat buyers that really strongly favor who we are.

When we're dealing with the provinces, no one has yet asked us about dank kush. They want to talk about bill of materials. They want to talk about SKUs. They want to talk about price structures that represent the different packaging across smaller SKUs into larger SKUs and how we balance that. And so I think we've become the company for all of the provinces that they look to as -- I guess many in the sector have the rational, clear voice on how to exit prohibition and enter a proper structure. And I think that's going to work very well for shareholders because the channel trusts us. And I think we're going to continue to build the trust equation by delivering the product. The product is going to convert to new products.

And as recently, this week, we've had excellent working relationship meetings with Constellation. And when it came to the subsequent event of our convertible debenture, which got us about 60 new international institutional investors, we've really only had a very small portion that we allocated to Canada. Constellation was a very significant part of that transaction, both on how it was structured and their financial participation, which really does speak to the fact that when we work together, which is a daily occasion, we think we're going to achieve things that aren't equal.

So we look quite forward to what we need to deliver for the 17th of October. We look even more forward to what we get to bring to the market in the next wave of products, and I think what you're going to see with our patents pending, patents to be filed, races to be run and clinical trials to be executed, softgels turning into a variety of medical products that the medical portion we speak of over the next 2 and 3 years is as big or much bigger than the recreational portion. So I hope everyone can keep a balanced view that the world is here for Canada, and we're leading Canada in terms of how we approach the medical market.

So with that background, I'm going to ask Tim if he could dig into some of the numbers.

Tim Saunders - *Canopy Growth Corporation - Executive VP & CFO*

Thank you, Bruce, and good morning, everyone. To begin my remarks, I'd like to briefly comment on a change that we're making to the metrics that we're reporting with our fourth quarter financial results. And building on what Bruce touched on, the company will no longer report on the weighted average cost per gram metric, previously described as a non-GAAP measure.

And there's 3 reasons for this. First, as Bruce talked about, the gram is really a measurement of the weight of the plant only. And Management believes that cannabis is evolving into a disruptive ingredient, and it's going to be more meaningful in the future to consider milligrams of THC or CBD cannabinoids as representing ingredients to new evolving product formats as they are introduced beyond the traditional cannabis flower, including oils and capsules.

Second, management believes other key performance indicators will evolve as the legal recreational and retail markets take hold in Canada. And lastly, there's simply no industry standard for cost per gram components or classification to draw a meaningful comparison.

So now I'm going to proceed to cover the fourth quarter and fiscal year results. Revenue for the fourth quarter was $22.8 million, representing a sequential quarter-over-quarter increase of 5% and a 56% increase over the quarter last year. Included in revenue for the fourth quarter was $2.3 million in sales generated by our German subsidiary, Spectrum Cannabis. And in the 3 months ended March, oils, including softgel caps, accounted for $4.8 million and $3.2 million, respectively, or 23% of product revenue in each quarter.

Revenue in the fiscal year ended was $77.9 million, representing a 95% increase over the same period last year, wherein revenues were $39.9 million. In the year ended, oils including softgel caps, accounted for $14.5 million and $4.72 million, respectively.

The total quantity of cannabis sold during the quarter ended March was 2,528 kilograms and kilogram equivalents at an average price of $8.43 per gram, up from 1,740 kilograms and kilogram equivalents at an average price of $8.03 in the same quarter last year. The higher average price is due primarily to the change in product mix and increasing sales in Germany by wholly-owned subsidiary, Spectrum Cannabis. The average price per gram sold in Germany was $13.35 per gram.

In the year ended, we sold 8,708 kilograms and kilogram equivalents at an average price of $8.24 per gram compared to 5,139 kilograms at an average price of $7.40 per gram in the same period last year.

Now we continue to invest significant effort, capital and resources and activities and programs to ready the company to participate in and lead the Canadian recreational cannabis market. These investments cover the company's entire business operations, including production, fulfillment, marketing, sales and G&A.

With the passing of Bill C-45 in June and the rollout of the recreational market on October 2018, management believes that prudent investments be made in the fourth quarter and to date by the company will foster strong demand for the company's products in the Canadian recreational cannabis market and prepare the company to supply very large quantities of cannabis and generate significantly greater revenues beginning, we believe, in the second quarter of fiscal 2019. All this to say that the spending profile represents getting ready for the coming recreational market and expanding international opportunities rather than just the existing domestic medical market that is around today.

So beginning in the third quarter and fourth quarter of fiscal 2018, we began implementing a series of changes to cannabis operations, primarily at our facility at Smiths Falls to better prepare the company to become a trusted supplier to Canadian recreational market. These changes included the re-purposing of 4 of the 24 flower rooms to provide additional mother and clone rooms for the purpose of cultivating 200,000 clones that help plant over the 1.7 million square feet of greenhouses in British Colombia and Québec in the fourth quarter of 2018 and in the first quarter of this year.

The re-purposing of an additional 3 flower rooms was made to build a large footprint pre-pack room that will help the company ready a significant amount of product for shipment to provincial and territorial agencies beginning in the second quarter, again, we believe, this year. So these operational changes, which decreased the amount of cannabis that the company harvested, down to about 40% relative to the third quarter, combined with higher overheads in the fourth quarter fiscal 2008 (sic) [2018], led to decreased gross margins in the fourth quarter this year.

The cost of sales includes the impact of cash operating costs of subsidiaries not yet cultivating or selling cannabis, such as BC Tweed and Vert Mirabel and higher overheads incurred while preparing operations, such as in pre-pack for the expected legalization later this year. Excluding the cost associated with cultivate -- non-cultivating subsidiaries and these additional overheads totaling $5.9 million, the gross margin before the fair value impacts in cost of sales in the fourth quarter would have been $14.4 million or 63% of sales.

The fourth quarter for gross margin that would include in the cost of operating these non-cultivating subsidiaries and before the fair value effects of IFRS would have been 37% of sales as compared to 62% of sales last year. So these are timing as we get ready for the recreational market.

The fiscal year ended March gross margin before the fair value effects of IFRS accounting for biological assets and inventory was $40.2 million or 52% of sales as compared to $24.6 million or 62% of sales last year. The lower gross margin for the year was primarily due to the impact of cash operating costs of these subsidiaries that are not yet cultivating or selling cannabis. Excluding the cost associated with these non-cultivating subsidiaries totaling $11.4 million, the gross margin before the fair value impacts in cost of sales would have been 66% of sales.

Next, turning to, for a moment, to operating expenses in the fourth quarter. The company continues to invest also in the development of marketing and branding programs, the development of new permitted product SKUs, the development of recreational product positioning and presentation, building the company's business-to-business sales functions both through online and bricks-and-mortar and the development of cannabis retail and education programs, all are geared up for the coming rec market.

Our significant investment in sales and marketing activities are consistent with the company's view that strong brand recognition is essential to the company's successful ongoing customers acquisition strategy and capturing market share. These costs represent a strategic investment, which we believe will have a future benefit in customer acquisition and retention. Further, we make these investments to aggressively seek new domestic and international business opportunities to build for the future. As a result, these investments have significantly increased operating expenses over prior periods.

Sales and marketing expenses for the quarter ended were $14.8 million or 65% of revenue in the -- for the reasons just outlined. And in comparison, sales and marketing expenses for the same quarter last -- or sorry, same quarter last year was $4.1 million or 28% of revenue. Sales and marketing expenses for the year were $38.2 million or 49% of revenue. And compared to last year, it was just $13 million or 32% (sic) [33%] of revenue.

Since March 31, 2017, the number of patients have grown from over 55,000 to over 74,000 at March 31, and Bruce just mentioned that there are 82,000 today. The outreach program is targeted towards ensuring that health care practitioners understand how they can incorporate medical cannabis into their practices.

For G&A for the quarter ended, it was $16.9 million or 74% of revenue compared to $5.9 million or 40% of sales in comparison to last year. G&A for the year was $43.8 million and 56% of revenue. Compared to last year, G&A was $16.9 million or 42% of revenue in the prior year.

Similar to the reasons for investments made in sales and marketing, G&A has also grown to scale with expectations to support domestic and international growth. The G&A expenses included higher legal and professional service fees related to investments in governance, expanded operations and supporting business development as well as significantly expanding the company's information technology capability.

G&A expenses also reflect the growth of staff levels and talent mix, necessary use of consultants and advisory services while expanding and commercializing the company's operations and facility costs across 7 provinces, compliance costs associated with meeting Health Canada requirements as well as other public company compliance related to expenses and fees.

Overall, the increase in G&A reflects the company's growth of 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.

The noncash stock comp is $20.2 million in the quarter, and this amount included the contingent acquisition-related payments that are based on future milestones and are also treated as noncash stock-based compensation. That amounted to $8.2 million in the quarter. Other noncash expenses include depreciation and amortization amounting to $5 million in the 3-month period.

Now I'll comment on the adjusted EBITDA in a moment, which removes the noncash impacts and excludes acquisition-related expenses. But first, I'll comment on the reported operating loss and net loss for the quarter. In summarizing the fourth quarter of fiscal 2018, we recorded an operating loss of $51 million.

But I should point out that, that includes some large items. One of which is we previously announced write-down of product rights associated with Bedrocan of $28 million, after the recent settlement agreement that was announced in June, and the $21 million in expense related to the fair value increase on the BC Tweed and Vert Mirabel put options. So I just wanted to point that out. Together, that's $49 million, in addition to the $20 million of noncash stock comp as well in the quarter.

After income tax expense, the company reported a net loss of $54.4 million and a net loss attributable to the shareholders of Canopy Growth of $61.5 million or $0.31 per share. That compares to a net loss of $12 million last year and a net loss attributable to shareholders of Canopy Growth of also $12 million and $0.08 per share last year.

In the year ended, we recorded an operating loss from operations of $82.3 million before expenses mentioned just now. And after income tax recovery and other income-related items related to fair value changes and investments, the company reported net loss of $54.1 million and a net loss attributable to Canopy's shareholders of $70.4 million and the net loss attributable to shareholders of Canopy Growth of $0.40 per share. And these, again, were inclusive of the $28 million product write-down related to Bedrocan and the expense on the fair value change in the BC Tweed and Vert Mirabel put options of $21 million. And together, also $51.2 million in stock compensation-related expenses.

Moving on, I'll talk to -- about adjusted EBITDA, a non-GAAP measure. Just to remind everybody, adjusted EBITDA is defined as earnings from operations as reported before interest, tax and adjusted for moving other noncash items, including stock-based comp, depreciation and the noncash effects of accounting for biological assets and inventories and further adjusted to remove acquisition-related expenses. We report adjusted EBITDA believing it is a useful financial metric that will help investors assess the operating performance of our business before the impact of investment, acquisitions, income taxes and noncash fair value measurements.

Adjusted EBITDA in the fourth quarter of 2018 amounted to a loss of $22.9 million compared to an adjusted EBIT -- EBITDA loss of just $100,000 lower in the same quarter last year. For the year ended, adjusted EBITDA amounted to a loss of $41.2 million and compared to a loss of $4.7 million in the same period last year.

We believe our deliberate and ongoing investment in building the company's production platform, brands, international reach, partnerships and operations, which directly impacted our adjusted EBITDA during the period, is necessary to strengthen the company's global leadership position heading into next year while completing -- while still competing in the medical market today that will exist through this quarter and in partly into -- through September 30 this year before recreational access is effective in October.

Now turning our attention to balance sheet and cash flows. At year-end, the company's cash, comprised of cash and cash equivalents, totaled $322.6 million, up from $101.8 million last year. And the increase in the end of fiscal 2017 was mainly due to the cash received from 2 private placements in Canopy Rivers' private placements totaling $57 million and $25 million raised in the private placement of common shares issued in July 2017 under Canopy Growth; and the investment of approximately $245 million by Constellation Brands in November and about the yield of approximately $200 million gross proceeds in February of this year; and the exercise of options and warrants totaling $11.8 million, offset by cash used to fund the operations of $90.5 million; investments in facility expansion totaling $212.8 million; and investments made directly or indirectly through Canopy Rivers, amounting to $46.6 million.

Investments in facility enhancements were primarily improvements at facilities in Smiths Falls at both locations of the lower mainland in British Colombia, which is BC Tweed, Niagara-on-the-Lake, Ontario; Fredericton, New Brunswick; and Mirabel, Québec. Investments also include significant upgrades and new systems in information technology as we scale up.

Since year-end and on June 22, we closed the convertible note financing for gross proceeds of $600 million, which is well-oversubscribed and included the participation by an affiliate, Constellation Brands, and was otherwise comprised of mostly U.S. and European institutional investors, as Bruce just outlined.

The inventory at year-end amounted to $101.6 million, up from $46 million last year. And at March 31, biological assets amounted to $16.3 million, up from $14.7 million last year. Together, inventory and biological assets totaled $117.9 million, up from 60 -- just under $61 million last year. Inventories are continuing to be scaled to meet management's expectations of market demands, including the legalized recreational market for all the provinces that begin to stock up for the October 2018 launch.

At March 31, the inventory quantities amounted to 15,726 kilograms of dried cannabis. Of this amount, 29 -- or just under 3,000 kilograms was finished goods available for sale. 3,500 or just under 3,500 kilograms of product in the process of testing and awaiting release for sale and 9,264 kilograms of extract-grade cannabis held for conversion to oils and capsules.

In comparison, last year, we had 8,360 kilograms of dried cannabis in inventory, which is comprised of 377 kilograms of finished goods, 3,173 kilograms of product waiting for release to sale and 4,810 kilograms of extract-grade cannabis for conversion to oils and gel caps.

And at the year-end, we also had 6,969 liters of cannabis oil ranging from concentrated resins or refined oil to oil in its finished state and available for sale, up from 1,799 liters last year in the same categories. We also had 356 kilograms of capsules on hand at year-end.

So this concludes my review of the financials for the fourth quarter and year-end March 2018. And I'll turn the call back to Bruce for some closing remarks.

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Great. Thanks, Tim. So I think everybody on the call will have some questions, and we'd like to answer them. The perspective we take is we are cleaned up and ahead on our medical brand, so you write down that piece. And we are loaded up on the right people in the right places, and it's go time. So please ask away with the questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question comes from the line of Tamy Chen with BMO Capital Markets.

Tamy Chen - *BMO Capital Markets Equity Research - Equity Research Associate*

Bruce and Tim, I had a couple of questions. Firstly is, I was wondering if could you provide an update on the larger production facility, so that's the 2 greenhouses in British Colombia and also Mirabel? Just when you expect it to reach full production ramp, when first harvest is expected, those sort of milestones. Could you talk a bit about that?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Sure. So I'd like to recognize Tamy from BMO as a long-time listener, first-time caller. And I appreciate your question. So we had a number of the analysts on a tour of -- for the sake of (inaudible) being on the call, there are 3 geographic locations we're discussing: Aldergrove, Delta and Mirabel. In Aldergrove, we have about 1.3 million square feet of production. It will be the primary mothering area, and we're waiting for approval on that specific part. We have 4 sections of greenhouse for the 1.3 million square feet. When we have the tour, 1 section was filled. That section has subsequently been harvested and propagated, cuttings have been moved in the other sections. We have areas for processing and storing, which are either licensed or in a licensing process so that we can move everything through Delta, which is the 1.7 million square feet. Delta has had plants propagated to it. First harvest had not occurred there, but it's not too far into the future. Again, we've been licensed to grow, and we have certain steps now that Health Canada has anticipated the license for the processing. The final place where we moved the baby plants to, so you'll recall there was 3 occasions in which we moved the plants, is Mirabel. Mirabel has a total of about 700,000 square feet of greenhouse. And we have in the first area, the first crop growing, which is now probably, I'll give you a rough estimate of 4, 5 weeks out from a harvest, again, propagating off the plants that we had sent there so that we both get a harvest and a bunch of more babies. So what that means is that all of our platforms is actually loaded up and have the inventory and the diverse assets necessary to keep cranking through, which is why in the last quarter or 2, we had to focus on producing a few hundred thousand propagated cuttings and delivering them versus a few extra kilograms of finished goods. And so in all of those locations, we've been very positively surprised with the growing's process for first grow, but it's because we've grown in green ever since 2014 and took a lot of that with us.

Tamy Chen - *BMO Capital Markets Equity Research - Equity Research Associate*

Okay. And next is, are you able to give an update on the Ontario product call? And also in terms of timing, when you expect first shipments to both Ontario and also to Québec?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Sure. So we'll leave it to the provinces to disclose as they wish. I will confirm that they have made decisions in terms of allocations of categories of products and SKUs, and that there are sort of good, better, best. And that we're comfortable on the good, better, best blended basis, that the price point works quite well for us. And what we believe will be our allocated shelf space work quite well for us in Ontario. Exactly when they take shipment, we had a crew of the warehouse people from one of the provinces you mentioned in to see us and work through things through different warehouse crews as recently as last Friday. And so it's the logistics teams that are trying to get their arms around it, but it's not far away in terms of being sort of arms around that process.

Tamy Chen - *BMO Capital Markets Equity Research - Equity Research Associate*

Okay. And just last one from me is more on Germany. So I think the volumes that have been shipped so far to Germany by Canopy has been relatively modest, and I'm just wondering why that is. And also I know you've generated the $2.2 million of sales this quarter, and I'm just wondering what your outlook is. Do you expect that volumes should ramp up in terms of the amount that will be exported to Germany going forward?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Well, I think they'll ramp up and then ramp down. And so what we've been doing is, to be quite frank, about a year ago, the rate at which we start moving was more quickly than we expected. This quarter, as we went through it, we were kind of on pace for the quantity we want each week and month, so we can go around to the, call it, thousand-ish pharmacies that have distributed our product. What we have been doing is a lot of education that reaches out to physicians and pharmacists as to what we're out -- about and even probably more interaction with the regulators so that we can review and present different product formats. We are optimistic that the RFP, which was held back by, I will suggest, probably people who weren't in the cohort moving forward. There's probably an opportunity where there's going to be a cannabis production as an active discussion in Germany. And our experience has been -- I think we've met about 20 countries that wish to produce cannabis, and we're still looking for the one, which says they exclusively want to import it forever. And so I think Germany's a pretty fast-growth market, and it will be the market I would keep an eye on over the next 12 months in Europe for sure.

Tamy Chen - *BMO Capital Markets Equity Research - Equity Research Associate*

Okay. And sorry, that brings to my other question, just one last one is I think for Denmark, you're establishing a facility there. So when do you expect that, that will be up and running and could then export to the rest of Europe rather than from Canada?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Yes. So days and weeks jump together. But in the last several days, we did an announcement to describe some happy little plants residing in Denmark. And so that would mean that the facility has actually been transformed into a state where it can be ready to go, and the plants are there. Whether or not we export to other parts of Europe, or we're active in that country only is going to be a function of the regulation, but the plants there are ready to go.

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Operator

Your next question comes from the line of Vivien Azer with Cowen and Company.

Vivien Nicole Azer - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

So you guys clearly have your own model for market development, and I'm sure you're going to keep that close to your vest. But I am interested in understanding how you guys are thinking about the transition of the illicit market in terms of percentages, if you can offer that, or like kind of any context? Because that seems to be the biggest swing factor as I think about market development in particular, given the waves of product availability that we're going to see, in particular, as it relates to novel form factors.

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Yes. So I don't think enough discussion we've had around C-45 and some of the steps that enable and define what is a criminal enterprise and the quantities of cannabis that you could have. And so for example, if you had 30 or more grams of cannabis and you were looking to sell that to youth, that becomes a specific and very punitive activity and if you have more than 30 grams and you're seeking to sell it to a nonuse. And so I would like and I anticipate those measures, coupled with the taxation benefits of the state (inaudible) for the sales through their stores. And I mean like, now, our provinces and the Fed actually care. And to some extent, even the local police care because of the cascade of the tax dollars. I think we're going to see this very similar to the transition from distills and illegal distilled spirits to a controlled delivery chain. And that'll be in the first 9 to 10 months. What I think is going to be the bigger driver is when we get to the new form factors in midpoint 2019 because those are going to be either directly competitive with more of the illicit higher market called vapes or novel and new and the basis upon which people just enter the market. So I think you're going to see a more rapid transition than most people have been predicting, personally. So call it, 50% of it at risk for the illicit market in year 1, more in the year 2, and a great deal of people who are not currently acquiring cannabis through that supply chain will say, now that the government sanction has this next door, they're going to buy. So those 2 factors combined, I think, create a very substantial 9-month market that we've got to supply to.

Vivien Nicole Azer - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Very helpful. My next question is on the outlook for your cost structure and profitability. So last quarter, you noted that as you transition to commercial availability of adult use, you would expect to generate a profit. But Tim, you called out the evolving cost structure, in particular, as it relates to international versus domestic. So I was just hoping to hear an update about how you're thinking about your cost allocation and whether profitability is still a reality, given the international opportunities that continue to manifest.

Tim Saunders - *Canopy Growth Corporation - Executive VP & CFO*

Yes. No. I think it's certainly consistent with what we've talked about before that profitability is really close at hand. We expect, as provinces start to take product staged for the October launch, we'll see an improved profitability in the second quarter. We're not there yet, but I expect by the third quarter of calendar -- end of the calendar year, I would expect we'll be making profits. The spending that we're doing today, you measure that against revenues, which is a medical market that's why it's not so relevant, but that spending today is really to build for that rec market coming up. So I think the margin contribution, the EBITDA contribution will be in the positive range by the end of the calendar year.

Vivien Nicole Azer - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Very helpful. My last question is on longer-term international opportunities. It just seems like, obviously, Canada -- Germany, excuse me, is a big one. But it seems like in the press, medical cannabis in Europe continues to gain momentum. So Bruce, I was just hoping to hear where your like hierarchy is in terms of other opportunities in Europe.

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Yes. Well, so Europe is -- you're right. It's a daily thing. When you have NHS in England actually getting into the debate about cannabis and the house having that discussion and I noted in the land, we weren't on -- in the land yet. That means if the U.K. is on, everybody is on. And I want to say that Germany is leading the way, but we have this asset in the Czech Republic, which we just had to move some more cannabis over to from Germany. Denmark is moving, which means I think you're going to see first clinical trials in places like Sweden. I don't expect that Greece and Spain are on the sidelines in any slow-moving way for very long. Italy now has the government and can make final decisions on how they're going to implement what they're doing. So we're seeing every place pop up, and that catches the interest. But just look a little bit down in South, the Caribbean. I get a daily update on who's wanting to move. You may start seeing things like Granada, Antigua, not just Jamaica. Every region is pulling through, and Lat Am is the same. So we have a single focus here in Canada, which has -- executes against this opportunity. I would suggest to you that the risk on that is limited for us. We've been focused. And we're doing a great job on that. The risk for this company is to miss any of the key title wave components that are coming, which are all medical. And so our big extra focus is on all that. And I don't think I spend more than 20% to 30% of my time on what we have to do in Canada because we have the core team. The balance is all the international.

Operator

Your next question comes from the line of Martin Landry with GMP Securities.

Martin Landry - *GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst*

Bruce and Tim, my first question is actually on the quarterly results. If we exclude your international revenues, your domestic revenue appeared to be going down sequentially versus Q3. Is that the case? And if it is the case, why would that be?

Tim Saunders - *Canopy Growth Corporation - Executive VP & CFO*

Well, I would say, we're flattish, if anything. And nothing in particular if that would cause any conclusion on why it was flat.

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

We haven't, Martin, and I think I stated last quarter, we have not been pushing to acquire medical patients. They have gone up. We have not been pushing the medical file as hard in Canada, because we want to have actually the ability to fulfill our commitment, which is if you're a medical patient on July 1, you are guaranteed to have products through us first, as well as all these provincial contracts. So I think on July 1, we have about 82,000 medical patients. That is a great number, but what we're really focused on is balancing where we're shipping our inventory and the domestic market has been great, but we really haven't, for the last 2 quarters, pushed hard on the total potential of it. And it's just a function of balancing where we're going to put everything.

Martin Landry - *GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst*

Okay, but your patient count has gone up, like your sales have stayed stable. Is that correct?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Yes. What you'll find is increasingly, patients are -- this is about 2 years ago. There was a question or thought, do patients have more than 1 license producer from which they get product? I think increasingly, you are finding that patients are having some diversity. I wouldn't say all of them, but I think there's enough for them that it's becoming a bit more of a thought process for them, but for sure, it's just been a sort of an idle or slow push along as far as increasing the sales for medical.

Martin Landry - *GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst*

And you plan to open a retail cannabis stores in several provinces. I'm wondering if you can give us more details as to the number of stores you expect to open up, let's say, by year-end and then by '19. And also, would there be any start-up cost associated with these stores?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Let's focus for October 17. We have Newfoundland, where we're looking at 6. We have Manitoba and Saskatchewan, where it's, call it, 5 and 6 each. And then have the potential at least for one of the other provinces right away to have a store at the point of production. We've locked up the locations in real estate for the most part on those, so there's a small part on that. None of them are construction jobs, what they are is installation jobs. So we have created our mock store, everything from the counter to the flooring to the cases. And what is, is a program now to simply almost like opening a Starbucks, where you drop in the interior to a well-measured space. So all of the mill work has been figured out where it's coming from and costed. So there will be a cost per square foot. We're squeezing that down a little bit. We have our views and have brought on some Canadian well-known retail people to advise us on where we can squeeze a little bit here and there, but there will for sure be setup cost and retail or maybe call them 2,000 to 4,000 square-foot locations, but they're a couple of hundred bucks or more per square foot to get them set up.

Martin Landry - *GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst*

Okay. So 18 stores by October 17. Is that correct?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

I would say that is the absolute minimum currently, yes. Because Alberta is still in the process of awarding. We are an active participant and on shortlist in Alberta and BC may or may not have some for us. So I would say that's the minimum, and it's what's announced.

Martin Landry - *GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst*

Okay. And then just switching gears a little bit, to go medical a little bit. You said that you've written -- you've received a written notice from Health Canada to proceed with the Phase IIb trial on insomnia. Can you give us some color on timing of that trial? And also associated cost of that trial?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Sure. So timing is expected to start this summer. Usually, when you're doing trials, if you're doing like an orphan drug, finding suitable candidates for the trials' a big headache, finding adult males who can't sleep properly isn't as difficult. We have the location locked down. We have the protocol and program so we will expect to start this summer. And these are the sorts of things in your Phase IIb. If it goes the way you want, you can think about making claims before the year is out and then going to 3. If it doesn't work, then it didn't work. But it's, call it less than 200 patients. What you're providing is a placebo and/or cannabis, and you're doing this on a 1-night basis. So really, it's a few hundred dollars per patient. It is not an extraordinary costed program now that we're into IIb.

Martin Landry - *GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst*

Okay. Okay. And the last question for me. I guess, while you're not disclosing your production cost per gram anymore, it makes our life a little bit harder, but I'm wondering if you can disclose your current production cost per milligram as you intend to do on a go-forward basis.

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

So I know Tim is putting the systems on this, and there were a couple of factors at play on how we do this. I want to make sure that our disclosure, if we continue on one path of disclosure, is it going to be relevant or are we going to have a look at it and change. So we thought it's better to stop this and switch the corner now. You have been to our greenhouse platforms. You can imagine that our cost per gram of growing this is dropping. So it is not a function of, is it costing more to grow and have the higher proportion of greenhouse in a bigger platform indoor? It's really just a timing thing. Tim, I don't know if you want to talk about whether or not we -- what our goals are as far as the disclosure in the next quarter.

Tim Saunders - *Canopy Growth Corporation - Executive VP & CFO*

So yes. No, we're still turning our attention to doing analysis and also looking at what changes we might need to make in terms of the data structure to capture what we need. But we do think that, that will be a more relevant measure in the future. There may be other things too, even just beyond the cost part, but even on the revenue line where as you look at detail and the like. So we're looking at not just that area, but looking at a number of KPIs that we think will be helpful and meaningful in the measurement of our performance. So basically, we still have some work to do, but we do think this is the right direction to go in.

Martin Landry - *GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst*

Okay. And if we look at your production cost for whatever way you want to look at them sequentially, have they gone down in Q4 versus Q3?

Tim Saunders - *Canopy Growth Corporation - Executive VP & CFO*

So I think there are some anomalies that we've sort of identified, we consider that BC Tweed and Vert Mirabel. Between the 2 of them, 3.7 million square feet that we've been readying. So you've got idle cost there that kind of impacted the quarter. I think I identified that about $5.9 million for that quarter alone, more than double that for the year. So those are anomalies that kind of increased the cost. But if we kind of core that out, the -- you are seeing into sequential [growth] in terms of the efficiencies and the operating cost.

Operator

Your next question comes from the line of Jason Zandberg with PI Financial.

Jason Zandberg - *PI Financial Corp., Research Division - Special Situations Analyst*

I just want to find out whether you can provide any sort of framework or magnitude of what your initial deliveries for this rec market will look like and when that's expected to happen. And you may not be able to get into specifics, but even like if it's a quarter of your annual commitment to the provinces on day 1 or what's some sort of (inaudible)

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

So we're working through that, but I think it's much more than a quarter, right? Remember, this is a national supply chain with 0 inventory and they want the source to look full and proper when they open. They want to be able to take in certain provinces the ability that also supports this is online transactions, so it's not just what you see. It's going to be what they sell through the platform. So I would -- if I were modeling and I would go with a more aggressive number than the quarter you described and then the real question in your model is the reorder and which province is first. Because some provinces have a higher committed per capita sum than others. So if you look at Newfoundland where it's an 8,000 kilograms, that's different than the portion that we've maybe got in other provinces. But I think that channel is going to soap up quite a lot more than a quarter. And I don't know that the boundary on the commitment is the number at all that's been put out there, because if they reorder and others do not have the inventory and the capability to deliver, that's what we've been preparing for. So I hope I'm giving you sufficient input. So that you're actually making a model that says, this is starting in about August, maybe end of July and going full blast.

Jason Zandberg - *PI Financial Corp., Research Division - Special Situations Analyst*

Okay. No, that's helpful. And in terms of all of the production facilities, what's your expectation to have -- your remaining facilities that still need to be licensed for point of sale, does that -- do you expect that to be a very near-term event or what's your expectations in terms of everything you add and to have sales license?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

We do. Sales license is the final license, but processing licenses, storage licenses, there's a couple incremental corners of greenhouses on sites that we need to get turned up. So they're all at locations which have all been improved for security and now it's the incremental pieces, which is historically with Health Canada. The challenge of getting the site approved, and then the incremental piece is following normal course, we think that's the case going to be here as well. So remember, we have 3 sites that are a total of about 3.7 million square feet that have plants on them. Another question is, will you get the right to harvest those plants, store those plants as harvested and sell them? Kind of feels like a pretty strong likelihood.

Operator

And your next question comes from the line of Neil Maruoka with Canaccord Genuity.

Neil Maruoka - *Canaccord Genuity Limited, Research Division - Analyts*

I have a question on oils and extracts. So they're flat at about 23% year-over-year, which I'm going to guess is probably around the industry average despite the introduction of soft gels. But this is going to be very important in driving pricing and combating commoditization as per our discussions, Bruce, and I know per your changes in your cash cost disclosures. How do you see the medical market evolving in terms of derivative products over the next little while, possibly driven by your clinical trials? And how do you see the regulations around derivative products evolve for the recreational market over the next, let's call it, 18 months?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Yes. So we're working with Germany on the ability to put Spectrum gel caps and/or oils in bulk format into the German market, the German market is all dried cannabis, 0 oils right now. So I would say, as a first part of your calculation, I don't know that there's a -- other than the gumminess, there's not a big difference between an edible and a gel cap. So I think as people look at this, the difference is that it's made by a professional organization, a GMP-1, and you're getting identical milligrams for milliliter. And I think the Canadian market will recognize that in not a terribly long time for rec, which will be a differentiation. Our Phase IIb trial involves nothing that is smokable or a dried cannabis product, but entirely gel and different concoction. So I think you're going to see that format evolve. In fact, goes the way it should, and we hope you start thinking about DINs and you start thinking about NHP certification, all that's on gel. And then, in Q3 2019, it's no longer a discussion of that, it's a discussion of concentrates, vaporization or vape pens beverages. And so I think you're bang on, it's going to be entirely a game going forward of brands, protected intellectual property, those trials and formats of consistency. And so part of the reason to move to milligrams, everything I just described there does not talk about the bulk weight of a plant, it talks about the milligrams of active ingredients. So that's what we've prepared for.

Neil Maruoka - *Canaccord Genuity Limited, Research Division - Analyts*

Right. And do you see a high concentration of oils, sort of, vaping coming to the rec market well ahead of regulations around edibles and/or infused beverages? And can you describe where your capacity or processing in extracting is going over the last, sort of, while? I know that, I saw your facility in BC and you're building that out quite quickly.

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Yes. So we have site construction and design for more incremental extraction through diverse methods on BC sites, so it's close to production of the raw material. We have expanded the capacity in Smiths Falls, and people who have been on these calls for 2 years will recall that the provisioning of that and the use of cash to buy it and the cost of getting it up, while now we run that thing 5 days a week, 24 hours a day. If we wish and can go to 6 days a week, 24 hours a day. The building that were midway through construction in Smiths Falls is 2 stories. So I'll call it 150,000 square-foot floor place, 300,000 square feet of GMP-1 pharma production, which will be what you want to have if you're going to make concentrates. And those concentrates then can go to either medical or rec. It's not that you want a dirty building for your rec and a perfect building for your medical. This is not the platform for that. It's all the same. And so I think we're on track to be very ready for all of the formats in 2019. And that's a thing of having worked at for 2 or 3 years and been the first sort of real producer of oils on GMP-1 platforms.

Neil Maruoka - *Canaccord Genuity Limited, Research Division - Analyts*

It's great. Just to circle back in that one question I had, do you see a high concentration of sort of vapes coming in well ahead of the regulations for edible?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

I don't and it's not I don't think it's wishful thinking. Who are the bosses of every province? We could have been under the Department of Finance, Ministry of Health, we're under the liquor authorities. And if you think about liquor authorities in Canada, they sell beverages that are shelf-stable. They do not sell anything that's edible, nor do they sell anything that's inhalable. So I think they're going to have a voice, and I think that platform is going to welcome something that's similar or aligned with their current comfort zone. And I also think we're able to show that we have a product that matches everything you would expect from a regulator for confirmation of safety that doesn't involve inhalation. So I think they'll come on a stream together and I think that the concentrated vapes will actually become a big part of the medical platform, because it's been absent for too long. So it's going to be a double win.

Operator

Your next question comes from the line of Graeme Kreindler with Eight Capital.

Graeme Kreindler - *Eight Capital, Research Division - Research Analyst*

First question is that, on the press release you mentioned, Mark taking on the Co-CEO role, and Bruce, you mentioned earlier about spending 20% to 30% of your time on Canada. So I was just looking to get some more color on the split of responsibilities and what that Co-CEO role looks like moving forward?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Good. Thank you. So Mark has been with me from almost the very, very beginning. And so Mark is, think of him as looking after the, for sure, Canada and the execution and implementation of strategy. And where I focus on is what's next, how we are funding it and what's the sort of the market twist on it? So that's why I'm typically interfacing the capital markets and like yesterday meeting with the Prime Minister of our country. That's the division. And so think of me as the money and markets, and Mark as the owner of the execution. And functionally, that's how it's been operating for probably 2 years. And I wanted to make sure that Mark was recognized for his responsibility and for those of you who know me on the call, frankly, I'm not too big on titles. I think everybody understands what we do, what Mark and I have been doing and I wanted to recognize him, because he's still one of these people who's actually under 40, and I think it's important that at that stage in your career, you actually have the right title for what you do.

Graeme Kreindler - *Eight Capital, Research Division - Research Analyst*

Okay. My next question is, talking about the international markets and you mentioned a number of countries that sounds compelling or they're on the bubble. In terms of what Canopy is going to be looking to do, I think about it in terms of where on the value chain. When you're pursuing opportunities, would you be more interested on the cultivation side of things? Or maybe is it more on the distribution side of things? How do you approach new markets in terms of what to actually deploy capital into?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Yes. So zero interest in sharing margins, which means we have to go into the country. We don't go into the country unless we can see a way that the return on invested capital happens over a short time horizon on domestic sales only. So if you'd say, domestic and export in order to become profitable, no thanks. We're not aligned with many of the distributor options that are offered on a daily basis where they wish to take an undue proportion of margin, cut us off from the direct interface to the clients and leave us as a subordinated pharmer. That's not our business. What we do is we go into a country, we focus on the key thought leaders and we make sure that we win and we get the vertical stack, and the vertical stack is every license necessary to produce the cannabis, extract the cannabis and deliver the goods that will result. I hope from like the Phase II trials that we're actually selling finished pharmaceutical products in a place versus ingredients for someone else. And that's just the way it is with us. We're not isolating and I don't think there's a demand that we will isolate down to a single role, at least, for the next 3 to 5 years.

Graeme Kreindler - *Eight Capital, Research Division - Research Analyst*

So when you discuss that vertical stack then, is it -- is there a lot of onus on Canopy to sort of present that idea to countries, because they can't imagine a lot of them will be thinking about it in that context.

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

What I think you'll find is that every country that's thinking about it is largely copying Canada and then having their own accent. And so the effect is that if you actually wish to extinguish the illicit market and actually have a delivery of uniform product that your health department can say and meet some medical standard, they quickly get there. Will they, over time, change it? Are there pressures? There's a lot more pharmaceutical lobbying pressure, I think, in Europe than there is in America. So you have to play around things, but that's stack coupled with the fact like, yesterday in my meeting with the Prime Minister of our country and a couple of the ministers, I believe on at least 7 occasions, I tried to bring up the New York Stock Exchange. I tried to bring up the last round of financing, because what they need to understand is they get comfortable with the vertical stack. Now are you a company that can execute against it? And so the trappings of some of these activities really, I think, are as important as the storyline of what we've done in Canada.

Graeme Kreindler - *Eight Capital, Research Division - Research Analyst*

Okay, understood. Last question for me, just around the inventories. This quarter, you had about 16,000 kilos. I know that's dried cannabis only. Looking at last quarter, if I'm correct here, it was about 17,000 kilos of dried cannabis. So just looking to get some detail on what the ramp for inventory will be looking like ahead of October 17, and that also ties in a bit to how you're going to be going cost reporting, but just to get a sense of what can actually be deployed to market.

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Yes. So Tim touched on the fill in the blanks a little bit. But remember, what we did is we made, as we often do, a calculation that says we think will be right in 3 quarters. And to be right in 3 quarters, we had to shut down the production of cannabis for much of our Smiths Falls facility, not much of a good chunk, so that it could be turn to a mother and propagation process. And recently, a couple of the rooms' taken off or a few taken off-line so they can become part of our prepacking process for the inventory that we expect to boom, because all of those babies were shipped to 3 different sites and 2 different provinces so that they can produce multiples of what we were to receive from those rooms if we just kept them in production, because you had a few hundred thousand babies that propagate hundreds of thousands of additional babies, that wave of product starts hitting now. And when it starts hitting, it becomes inventory that is ready for the purpose of the fall. And so that's what we did. It's not just about building a building. You have to actually run the building, which means you have to plan on all these steps and you literally need to be doing this 9 months in advance of having the inventory you want in the locations and quantity you want. So we feel really good about the decision, I'm sure the headline will say, you produced less this quarter, and we'll keep that article so that we can give it to somebody in Q3 and Q4 of the calendar year and say, and this is why. So we can dominate a new market.

Operator

Your next question comes from the line of Rahul Sarugaser with Paradigm Capital.

Rahul Sarugaser - *Paradigm Capital Inc., Research Division - Analyst of Healthcare and Biotechnology*

First, I wanted to applaud you on the accounting change towards milligrams of APIs, because the cannabis plant really is more of a liability. Mark also really hope the industry will take this more aggressive approach.

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Thank you. We've been sickened to talking about the weight of it. If it was a dandelion, it still weighs a gram but does this have any active ingredients. It's the most nonsensical measure in the world, except it came from a history.

Rahul Sarugaser - *Paradigm Capital Inc., Research Division - Analyst of Healthcare and Biotechnology*

And yet again, you've shown your leadership. So that's my question, you marked that the global medical market is really far larger than the adult use of recreational market. So could you please provide along with context a comment on how it affects your future strategy, particularly with respect to product clinical trials?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Sure. There's 3 things that happen. First, every country has to resolve what it's going to do for a patient before it can use that platform to create a party. So you know there's not going to be a country which jumps immediately to a full-blown come and have rec access, so you have to be for that step. Second thing we divided along the line is socialized medicine versus nonsocialized medicine. So if you go to Germany and your doctor recommends this, there's a 75%, sort of, current coverage rate of the cannabis cost, which means that the market drivers are much more rapid than they were in Canada, where you could actually make the decision to take what pharmaceutical products may be supplied, have no direct cost or sell for limited versus cannabis, which for the most part, has had a direct cost to the individual who's making the choice to be a patient of cannabis. The final part is, over time, they're going to turn that ingredient into something which is subordinated and if we don't have medical outcomes, we're going to be a pharmer. And the medical outcomes are what are going to turn this into where we'll be happy if the price goes down because there are actual margin on the value of what we sell goes up, because it's just an input and there are other ingredients active with it. So the long game is you have to be really happy, if today the federal government says, well, you can do some outdoor grow in a couple of years because the assets that we've created already have basically a 1-year return on invested capital-ish. And we're looking at this as an ingredient. And so that's what the medical program is about, that's what Canopy Health is, that's why Dr. Mark Ware is our Chief Medical Officer now, that's why my biggest opening in an org chart is the head of the division, which is the global medical because we have a lot of researchers working now across humans and animals and I need to lock it altogether.

Rahul Sarugaser - *Paradigm Capital Inc., Research Division - Analyst of Healthcare and Biotechnology*

That's great. And so just more specifically, in terms of the Phase IIb trial on insomnia, will the products be a free constraint of whole flower? And if so, do you think the trial data can be easily market and drive sales with that particular products in the medical use markets in advance of Health Canada or FDA approval?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

So it is a whole flower extract and a controlled mechanism and delivery, and it will be -- I think, the data that comes off of that would be extremely useful, extending down to decreasing THC levels and thinking about NHP approvals and playing this into other foreign markets. So we've designed this where we're thinking about how does it end up having [3] sort of directional values. And you touched on that's but that's what you want to think in average flower, is how do I get leverage out of it?

Operator

Your next question comes from the line of Alan Brochstein with New Cannabis Ventures.

Alan Brochstein

I just had a couple of questions. First of all, on the Constellation relationship and the convertible note deal, I had a couple of questions.. First of all, you said that they kind of had an influence and structure in that deal. I'm just wondering, if you could talk about why you guys chose to do convertible debt deal when it looks like straight debt may be available now and why -- what is Constellation's -- what's driving their interest in this convertible note instead of....

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

So there is and we were offered straight debt, sort of, cap side and maybe a couple of hundred million and it has conditionality. This has no security. So first off, you end up with an unsecured convert at a very nice rate. The intention would be, over time, you do a great job and if we had to pay out and make whole as our option at the end of 3 years, there's no dilution and you'll probably find that an executing business in 3 years has much better debt instruments with fewer GSA coverage items than you need today. We wanted to increase our international visibility. Tim and I have been premarketing our non-roadshow meetings about this for probably a year. Anybody who would meet us as an international institution and we put the book together. I think, we ended up with about 60 international accounts and they represented much of the U.S. and Europe. And so the purpose of this was to get eyes on us in the geography we're going to because I think that these large funds, this is the first entry for almost all of them to the cannabis space and will make a good buyer. Rob and his family, he can tell you exactly what percentage he owns of Constellation, because they are antidilution-focused and they really are and have been helpful in doing this one. So that with their portion being set as a variable, I felt there was a cost of our borrow and then as a variable, there is very a unlikely scenario in which people would try to play around and it showed us too much on this seasoning day. And it turned out to be pretty accurate. But the whole deal came together well. So those are sort of the drivers. We may add some of these debts, but I want revolver's line of credits, I don't want a big debt burden with the GSA.

Alan Brochstein

Okay. And then, my second question is you guys have kind of differentiated yourselves by cutting a lot of supplier agreements, and I don't know all these -- a lot of those unlicensed entities at this point hoping to become licensed. I don't know if they'll all make it or if they'll all scale up as you expect, but do you see this as the larger part of your business in Canada? Will you continue to invest in your own production over time, having deduct straight options?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Once we're done our activities of -- that we described on this call, we have a site we're building, site works are in Newfoundland, once we've done those I have absolutely no incremental sites or production assets in even Canada, is our current plan. It is -- if we want incremental products or if you want to flow repo through, think of us as really having acquisition rights, but it's for that option because it's going to be an ingredient, it's going to be high quality and we're -- our #1 driver is the respective things have to meet more than just the price.

Alan Brochstein

And do you expect as the provinces roll out their distribution and lot of people get squeezed out, similarly, do you expect to see more LPs and LP wannabes come to you?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Well, I think so. Like, if you don't have offtake agreements, these are not 15-minute offtake agreements and many of them have a couple of years of their ability. So if we've got the offtake agreements and we're delivering on other channels and SKUs that we've been committed from those provinces, I suspect what other people are creating is inventory and inventory doesn't have much value if you don't have offtake, so you're probably pretty flexible on how you price it. And so I think the transition from this where we talk about how many grams can you produce and how many square feet. It's all going to be as we hit the calendar Q3 reporting. It's going to be in part of Q2 calendar, it's going to all be -- sorry, calendar Q3, Q4. It's all going to be about revenue, and it's going to be about margin after that and profitability and that's what we've been focused on since the liberals has got elected.

Operator

Your next question comes from the line of [Tam Pitcher], a private investor.

Unidentified Participant

I wanted to thank you both for your leadership and give me an opportunity as a private investor to really see some gains and I'm quite a novice when it comes to this. So I've been really excited and I've been talking to a lot of colleagues and friends. And I am a social worker. So thank you very much. I love your vision and like the previous caller said, your leadership. I'm curious and I can appreciate this call, we've talked a lot about the medical market and where we are going internationally and I really like to talk about being on 5 continents. Love that we're inside of South Africa. I can't imagine how much more opportunity there is there and in Asia. But just to positive and go back to the rec market and looking at branding, I think something that really excited me was the -- when Snoop was at the NBA All-Star Game in Toronto, that kind of got some notoriety and some naysayers in my own family and friends, it was, sort of, Trudeau making announcements, new thing on board, eventually making its way to the Constellation Brand piece, which I get is just super exciting. And I'm just wondering about, I know that Ted Chung is -- done some work with Snoop and through his branding agency and I understand that he has also been consulting. It's his role, how involved because like I said, I'm a novice. So how involved and -- I mean, I'll just pitch my idea. I love the Niagara College piece and I'd love to see a potluck with Snoop, with Martha in a vineyard, in Niagara-on-the-Lake, and I really love to see that kind of thing happen. And are you looking at that kind of things?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Yes. So you've got a pretty good org chart on us. We do a lot of these things. I think when Snoop was brought on, everybody said what a terrible idea. And why would you give this person a chunk of options, which has disclosed which by today's standards, it's 10% of what you get for being a former kid singer to be on a board. It is one of these things that we are doing all of that stuff, and Ted has been an amazing resource. He's a partner at MERRY JANE and part of the organizational group with Snoop. I think you're going to find that as the rules are disclosed today, everything that we can do around them is what we're going to do. And what we're focused on for rec year 1 is having loads of quality products and let the customer choose. Year 2 is having loads of new innovative outcomes, and I think that's going to drive the market more than just having access. And that will mean whether it's a vineyards party in Niagara or a whole bunch of other things that we're working on. The (inaudible) close will become good ideas for others. We're all over it.

Unidentified Participant

Okay. I've got a couple of more ideas, so I mean, I can send them your way.

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Bruce@tweed.com

Unidentified Participant

You bet.

Operator

And your last question comes from the line of Noel Atkinson with Clarus Securities.

Noel John Atkinson - *Clarus Securities Inc., Research Division - VP & Research Analyst of Growth and Innovation*

I just have a couple of quick ones here. So I know you're talking about shifting to the active ingredient discussion rather than kilograms or grams, but could you give us a sense of your current annualized cultivation capacity of dried cannabis? In kilogram terms?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Well, I'll let you guys calculate it. There's a lot of people who put big numbers out. I don't think you've ever seen us press release a forward-looking fact or fictitious number. What I would say is if you look at a greenhouse, the likely output of it is drop a 0 from the number of square feet. And so we're looking to get to sort of a little north of 4 million square feet, and if you're looking at indoor grow, you're going to see probably about a 30% to 50%, maybe a 50% better result in total kilograms. And so we have several hundred thousand square feet of indoor production. And so that's when you're operating it well. Growing cannabis in a greenhouse isn't easy until you've done it for 3 or 4 years and then it becomes reliable. And so that's the sort of -- we give you guidance through lead people up to that curve. Our advantage in the current greenhouse is that we've expanded too, is we've taken the genetics and the processes so all integration strategies of 4 years of practice to them. But that gives you, if we had 6 million square feet, about 70% of it would be in greenhouse and that could kind of drive a number that you could get to for total kilograms.

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Noel John Atkinson - *Clarus Securities Inc., Research Division - VP & Research Analyst of Growth and Innovation*

Okay, great. And then considering that you're now talking about having your Canadian facilities largely in place and just need to be completed. What is your CapEx budget to complete your Canadian production footprint?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Well, production goes all the way to -- we did a meeting this week about how do you put beverages in a package. And I talked about the GMP facility, which will be aligned for medical products and vapes. So you'll see tens of millions spent on that, maybe up to $100 million as we get all of the extraction done. But the heavy lifting of all the production assets, I won't say it's done but majority done, you have to build a building out in Newfoundland. We're really -- I like it, we're on the right side of the bell curve. At least once a week, we review our CapEx spending and the budget related to it. And I'm happy because I am always looking at the bell curve and we're down the tail now.

Noel John Atkinson - *Clarus Securities Inc., Research Division - VP & Research Analyst of Growth and Innovation*

Okay, great. And then just my last one. You mentioned in your remarks that Canopy expects the products in pretty much every store in Canada for the adult use. And could you talk a little bit about what you're doing on the distribution side, the store count management side? Are you going to manage that in-house? Or you'll use Constellation for that?

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

No, we're doing it in-house so we have a sales team, which I will tell you means that there is a variety of liquor, beer and pharma companies who have fewer employees, because we really did want to take those people in. And so we're running our own, each region has a head and their own sales teams to line up with. The answer that we want to get to which is who wants what, when? And it's, in our opinion, less costly to have your own because your growth is going to keep all the margin and be way more intelligent of the data set that you need to make the next products and the influence of cannabis will take them. So it's -- I think it's just -- it's the way we've planned it and we've executed it, and you see that in some of the burn, like, you don't hire those people in August if you want to be successful in October.

Operator

There are no further questions at this time. I'll turn the call back over to Mr. Linton for closing remarks.

Bruce A. Linton - *Canopy Growth Corporation - Co-Founder, Chairman & CEO*

Well, thank you, everyone, and if you need to hear more from me, I'm off to Bloomberg BNN in the next 5 minutes. Thanks. Bye.

Operator

This concludes Canopy Growth's Fourth Quarter and Fiscal Year 2018 Financial Results Conference Call. A replay of this conference call will be available until September 26, 2018, and can be accessed following the instructions provided in the company's press release issued earlier today. Thank you for attending today's call, and enjoy the rest of your day. Goodbye.
