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PRESENTATION

Operator

Good morning, and welcome to Canopy Growth's First Quarter Fiscal 2019 Financial Results Conference Call. After markets closed yesterday, August 14, 2018, Canopy Growth issued a news release announcing its financial results for the first quarter ended June 30, 2018. This news release will be available on Canopy Growth's website and filed on SEDAR. On the call this morning, we have Bruce Linton, Canopy Growth's Founder, Chairman and Co-Chief Executive Officer; and Tim Saunders, Canopy Growth's Chief Financial Officer. In addition, Mr. Rob Sands, the CEO of Constellation Brands is joining the call today. (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 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 are filed on SEDAR. Please note that all financial information is provided in Canadian dollars unless otherwise specified. Following the prepared remarks by Mr. Linton, Mr. Sands, and Mr. Saunders, the company will conduct a question-and-answer session during, which questions will be taken from analysts. (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 & Co-CEO*

Good. Thank you. So for everyone on the call, the flow will be, I'm going to say some remarks, Rob will, and then we'll move to the quarter and will cover that off and then we'll go to questions asked, and then we'll cover both. The -- what I would say is a pretty significant and interesting transaction where Constellation is acquiring a boat, another 25% of Canopy for approximately $5 billion. So I'd like to say good morning and welcome to Rob and it's been great. People on this call were recalling October 2017 Constellation that Canopy announced that we're having this investment coming and the relationship was going to begin, and we're going to focus on beverages and brands. And with that announcement, everyone got excited and so did we and then we went off to work and there hasn't been a week go by that people from my company aren't interacting and building and thinking with people from Rob's company. And we've established I think an unbelievably confident, comfortable level of appreciation for how they run as entrepreneurs and how we do. So this a relationship that it has been built and so when the capital comes in, we each know what we're getting and we're looking forward to going faster. So this is really rocket fuel. It does add quite a lot. As we look around the world, we're going to be expanding production, we're going to be doing more research, we're going to develop more intellectual property, we're going to create more leading brands, we're going to have more products. And we're going to be way more global. If you're thinking about this it does establish that Canopy is the cannabis platform for Constellation. And that's a great deal of focus and trust, and we took it seriously as a management team.

Everybody on my team was unbelievably excited to take this next step to the place where we could actually go global and do it with and for Constellation. So their international experience, their brand building, their finance to M&A, they're quite unbelievably capable in those areas and we get to draw on that with much more focus. The investment in our Canadian capacity has been made so I want to be clear, Canopy has the production platform we need to deliver what we want in Canada. We are not going to be acquiring cultivation assets in this country, it's absolutely clear and current plan, and that I want to make it clear, because this is about an international thing. This is about growth around the globe. The board structure will continue to see me as Chairman and a couple of my current board members who our independents on, Constellation is brining a couple of independents and 2 key people from their staff. So anyone who's covered and worked with Constellation would know Bill and Dave as the President and CFO. They have been core to how we've created this arrangement, and how we've worked together. So I welcome them to the board. The hometown Smiths Falls continues to be headquarters and this is more rocket fuel for that town to see the growth and construction we've been doing. The opportunities we see before us, I don't think it's appreciated yet how quickly things are opening up in Europe, Latin America and even likely the U.S. And so we're focused on medicinal as that's the first biggest platform, obviously as medicinal comes to play, some geographies will and are expected to open up and create a bigger platform for consumer products, we're driving all that right now.

So it was our view the time to invest isn't having a 2021 or 2022 plan, it's now, and I would suggest this marks the end of the warm up in our sector where everybody has been sort of getting prepared, it is fully go time and this is a piece of capital structure that I think gives us a huge advantage. So together, I, as a shareholder, strongly support this, and I think there are shareholders as well as we go up to the vote at the end of September, and they recognize, we build this leading company, and we've been recognized at it, now it's time to accelerate. So this is a big term for us. The whole Made in Canada thing now becomes Made in Canada for the globe, and I'd like to ask Rob, if you would provide a few comments before we move through the quarter. Thanks. Here you go, Rob.

Robert S. Sands - *Constellation Brands, Inc. - CEO & Director*

Well, thanks a lot, Bruce, and good morning, everyone. This is extremely exciting time to be part of what could potentially be one of the most significant global growth opportunities for the next decade. We worked closely with Canopy throughout the last year to better understand the cannabis market. This unbelievable opportunity it presents in Canopy's market leading capabilities in the space. Constellations incremental CAD 5 billion, USD 4 billion investment in Canopy growth is the largest investment to date in the cannabis space. The most strategic aspect is that Constellation will be exclusively working with Canopy for the global cannabis opportunity that we believe is opening up much more rapidly than appreciated as Bruce said. We believe that having a single platform to address all markets and formats globally is essential to winning in the space. This investment and alignment represents the next step in the evolution of our business as we solidify our strategic partnership with Canopy. I'd like to take a few minutes to walk you through the strategic rationale and highlights of the Constellation investment, and why we believe the Canopy is the best partner to align with in this cannabis space. Canopy plans to use the proceeds to bolster their global leadership position in the cannabis industry by building or acquiring key assets needed to establish global scale. Strategic priorities beyond Canada include the U.S. and the nearly 30 countries currently pursuing a federally permissible medical cannabis program, intellectual property development across medical and recreational opportunities while also preparing and creating brands and products for the new legal recreational cannabis markets. This transaction supersedes our initial agreement with Canopy to produce a nonalcoholic cannabis-based beverage.

Now going forward, Constellation will support Canopy's full suite of products that are currently available and assist as they develop new offerings across various product formats and through all new and existing channels. This partnership is a powerful combination of Constellation's expert capabilities in M&A, marketing, brand building and large-scale production and Canopy is entrepreneurial approach, a best-in-class knowledge and expertise within the emerging cannabis market. So as the leader in the total beverage alcohol space, we look forward to reaping the benefits of our cannabis investment, which we see as the incremental to our core beer, wine and spirits portfolio. Bruce and the Canopy team has built a phenomenal business, and I'm very excited about the excellent prospects for this business as the global cannabis space emerges.

So with that said, I'd like to now turn the call back over to Bruce so that Bruce can proceed with the view of Canopy's quarterly results. Thank you, everybody. Bruce?

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

Great. Thanks, Rob. And why -- I suspect we'll get a chance to answer a few questions on that. So let's move to the quarter. It was a good quarter. We continue to lead the medical cannabis market in Canada and around the world. We add about $25 million in revenue, that's about 63% up year-on-year. Price per gram moved up and that reflects increased sales to Germany and change of format. So Germany was about $3 million in revenue this quarter, we don't count the German patients in our patient count at 85,000 patients, I think Canada only. We were busy, we got the Spectrum soft gels and this will be important. The mode of educating doctors is going to be very much about how you move them along so that they are educated in the application of which strengths and types of cannabis are suitable. The soft gel became color-coated so that if we do our sleep trial, which we announced the Phase IIb sleep trial, if we find that the combination of delivery mechanisms and, say, Spectrum blue gets a positive response on sleep, as we migrate people through that, they're going to find that their sleep tool is Spectrum blue. That doesn't talk about cannabis, it talks about a product. And if you can start to make claims about a product, the format of the product can shift from a gel cap to an inhalation device to whatever, and people, we think, will become very comfortable with the name, the brand, and the Spectrum positioning and it doesn't then link back to any specific strain. So those are kind of migratory path items, but they're important and they have been laid down. We've been busy in Canada and Europe. We've got Spectrum Cannabis operations now in 11 countries, 5 continents. We got the acquisition in Columbia, Lesotho and Czech Republic. We got medical research rolled back up, Canopy Health is now holding on subsidiary. In subsequent event, we talked about and announced our first Canadian approved veterinarian trial, which is looking at anxiety in mammals, and how we could possibly relieve or remedy that with cannabis. This is going to be another big category, and we think we're quite well positioned and ahead on that. Globally, when we look at the access patients are having. In January, if I did this call, and I tried to tell you that there's a probability that the U.K. would be talking about cannabis and the possible normalization in governance of it that looks a bit more like they're calling in Canada and a little bit less like North Korea, you would just thought I, maybe, was bonkers. Here we are today and cannabis and the regulatory structure for it is on the agenda in the U.K. We're seeing it everywhere. So this is kind of a big change. CBD is what we're focused on with animals. But CBD every day is moving to a progression where it's going to become part of the normal course available ingredient set, which means it is going to become really productized, and I'll call it either proven by test or proven by brand and it's not going to be ingredient that matters, it's going to be how you put that ingredient on the shelf or to the patient, and I think we're doing a very good job in getting in front of that. We have -- seeking out provisional patents, they range from areas from insomnia to fibromyalgia pain, [campaigning] animals, we think we're doing a very good and rigorous and active job on an intellectual property definition, and as we look for the protection. With what we've got in Canada, it gives us, the patients and the platform so we can actually do the medical tests and whether or not it's looking at anything from, how does it reflect on your sleep condition to what's the bio availability of a format of delivery. Those are the sorts of things that we can prove out in Canada and take globally. And so with the investment we recovered a bit earlier, you can start to see where it doesn't take too long to contemplate globally, maybe there's a number of pieces we could pick up so you have a bucket that could be called M&A. The expected production and delivery in most of the countries is being sent out in the rec, so you can see where you could build out in a few countries. And in this quarter, I think Tim will cover it off, but we have about $1.4 billion of tangible assets, real things on our balance sheet net of cash. And that's for Canada and a little bit started elsewhere. So you can see where construction could use that up and the yield that comes off those assets, we're just going to start seeing as we enter into the later part of this year. So just over 2 months away from opening up for wreck. I think you'll be happy to see where we are with inventory, biological assets, and we're quite happy with where we landed with all the provinces that have announced the supply agreements. You haven't seen yet an announcement from Ontario, but you have seen an announcement that we think is very positive, which means we could expect to have stores in the province. So we'll go from the cede to the storefront and then we will be educate and bring patients onboard -- customers on board so we can actually make sure that -- their loyalty to the brand relates to the quality of the experience of the purchase, which includes how the people are trained and selected. And so we're pretty excited about Ontario. I know that if your objective is to hold the stock for a day that may -- might have been a bump in the road announcement, but if you're looking at this over the next 6, 12 and 24 months, I think that model is going to work way better for the province of Ontario and for Canopy specifically.

We'll let Tim get into some of the details on the numbers, but I did like how the inventory levels moved up. Patient levels moved up. We have not been pushing to have the patient levels move up. They are selecting because we do a great job, and we will support those patients as we go forward . So our base number is 85,000 patients as we turn the corner into adult access, and we've committed to those 85,000 patients, they will get supply and support before anyone else. So I think from a business level it's a nice piece of steady business, and our supply agreements on top of that are about 67,000 kilograms across 7 provinces in 1 territory. And (inaudible) that we're the only one selected across that platform. And if you work it backwards, I think if you take the total amounts that have been announced, that's somewhere north of 35% of the total amounts inventory that will be brought into the different provinces so I think that should reflect quite well in our shelf space and a possibility of creating the first dominant national brand that goes direct.

And we shipped approximately 8,700 kilograms last year. We expect -- the round we did of a convertible venture was quite a meaningful transaction and that was in June, and here we are in August with this one. Our stores in construction seem to be on schedule, so we're looking at construction on sites in Newfoundland, Manitoba and Saskatchewan. We're still waiting what the buildout would look like in Alberta. But I can confirm we have, I think, a very competent structure where really all of the [mill] works that are off-site and the installation process goes rapidly so we feel comfortable for the stores that we have been awarded on October 17. They look great, be open and be pretty busy. I think we've done a good job in terms of our technologies. We've been rolling out an upgrade on our ERP. We have our direct sales force across the country and they have both been educated and have the necessary tools in their hands to actually make sure that we have the best sales force. And that will be key for the stores that we don't own.

And in the acquisition category, there is announcement of Hiku Brands. Hiku is both location brands and I think a great team. So that transaction is set to go to vote at the end of this month. And we like what they can bring to our crew.

And then finally, we have been quite busy on spending. So you see the spend line, that Tim talks about has been about finishing up everything from greenhouses to extractors to warehouses that are secured platforms that can ship in excess of $1 billion to that kind of a platform, on an automated labeling and packing system. So we're -- we've made the investments to be ready. We're looking forward to the 17th, and we're starting to feel the province is coming through with the orders. So we expect to have quite a busy time starting in late August or September as far as shipments go.

So with that, I'll hand it over to Tim to get into the details of the quarter. Tim?

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

Thank you, Bruce, and also thank you, Rob. And good morning, everybody. I'll proceed now with a review of the first quarter ended June 30. Revenue for the first quarter was $25.9 million, representing a sequential quarter-over-quarter increase of 14%, and 63% increase over the quarter, same quarter last year. Included revenue, as Bruce mentioned, revenues in Germany totaled $3.4 million to our German subsidiary, Spectrum Cannabis GmbH.

Oils including soft gel capsules accounted for $5.2 million, and $1.1 million, respectively for this quarter and the same quarter last year or 26% and 19% of productivity revenue respectively. The total quantity of cannabis sold during the quarter was 2,695 kilograms, and kilogram equivalents at an average price of $8.94 per gram, up from 1,830 kilograms and kilogram equivalents at an average price of $7.96 in the same quarter last year.

Our average price, as Bruce mentioned, was principally due to increasing sales in Germany as well as the product mix with oils and gel caps accounting for increasing proportions. The average sale price per gram sold in Germany was $13.62 per gram. As Bruce just mentioned, today we just stand over 2 months away from the opening of the rec market, an event that we've all been preparing for and investing in for the last 2 years. We've invested and continue to invest significant effort, capital and resources in activities and programs to ready the company to participate in and lead the Canadian recreational cannabis market. [These] investors continue to cover the company's entire business operations including production, fulfillment, marketing, sales and G&A.

In the first quarter ended, June 30, the company harvested 9,685 kilograms with over 2.4 million square feet of area in BC Tweed, greenhouses, licensed and planted early in the first quarter of fiscal 2019, and with over 1.5 million square feet of greenhouses in -- along with Mirabel and Québec, in Niagara-on-the-Lake. We expect to be licensed shortly. We expect the amount of cannabis harvested to increase significantly in the coming quarters.

The cost of sales including the impact of cash operating costs of subsidiaries is not yet fully cultivating or selling cannabis including partially licensed greenhouses operated by BC Tweed and Vert Mirabel, and higher overheads incurred while preparing operations for the expected legalization, excluding these costs associated with non-cultivating assets. These additional overheads totaled $5.4 million, the gross margin therefore before the fair value impacts in cost of sales in the first quarter would have been $16.5 million or 64% of sales. The first quarter gross margin including the cost of operating these non-cultivating subsidiaries and as such, but before the fair value effects of the IFRS accounting for biological assets and inventory was $11.1 million or 43% of sales, as compared to $8.7 million or 55% of sales in the same quarter last year.

Now turning for a moment to operating expenses in this quarter. As been highlighted, the company continues to make significant investments across all areas of our business to strengthen the company's leadership position in Canadian and global medical cannabis markets as well as in preparation to lead the cannabis market that is to open in -- on October 17. As a result, these investments have significantly increased operating expenses over prior periods essentially spending for a rec market to come in the quarter while it's still medical.

Sales and marketing expenses include increasing staffing levels and marketing sales functions including retail, needed to service the coming regulator recreational and international markets, costs associated with the development of branding, marketing and education campaigns, the development of new permitted product SKUs, the development of recreational product packaging, the development of cannabis retail and education programs as well as costs associated with the company’s medical outreach program and the growing customer care center, which interfaces directly with those customers.

Sales and marketing expenses for the quarter ended was $17.3 million or 67% of revenue, in comparison sales and marketing expenses for the quarter last year was $6.4 million or 40% of revenue.

G&A expenses for the quarter were $19.6 million or 76% of revenue compared to $7.5 million or 47% of sales in comparison last year. Similar to the reasons for investments made in sales and marketing. G&A has also grown to scale our infrastructure, governance and capabilities with expectations to support domestic and international growth.

Now turning my attention to other expenses and net income. Include in other expenses, this is below the loss from operations, you'll note, we had a $60.4 million expense for the quarter ended June 30, and that was comprised of a noncash fair value loss of $19.3 million principally related to the change in fair value of the TerrAscend warrant and a noncash fair value loss on the AusCann options. Both the warrants and options were initially recognized at fair value and are subsequently remeasured to their fair value at the end of each reporting period. Other expenses also include $16 million related to the convertible debt issue cost, which arose at the end of the quarter. In addition, fair value changed on the BC Tweed and Vert Mirabel put liabilities combined to a loss of $18.1 million. Of note, due to the full acquisition of BC Tweed in July, the BC Tweed put liability, which had a fair value of $72.6 million on the balance sheet, at the end of June will be extinguished in this quarter and will result in a gain in the second quarter coming.

All totaled to $60.4 million in other expenses described here really accounted for $0.30 of the reported $0.40 loss per basic and diluted share in the quarter, and that compares to $9.2 million or $0.06 per basic share diluted quarter in the same period last year.

Net loss in the quarter, after taxes and other expenses as just described drove reported net loss of $90.8 million or $0.40 per share as I just said.

Adjusted EBITDA as defined in the press release and MD&A, in the first quarter amounted to a loss of $22.5 million, which is about $0.11 impact and that compares to an adjusted EBITDA loss of $3.9 million 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 really necessary to strengthen the company's global leadership position heading into next year. While at the same time, competing in the medical market that will exist through this quarter as well.

Now turning our attention to the balance sheet and cash flows. At June 30, the company's cash comprised of cash and cash equivalents totaled $657.9 million, up from $322.6 million at the end of March 31. The increase in the end of fiscal year was mainly due to the net proceeds from the issuance of long-term debt or convertible debt of approximately $584 million offset -- mostly offset by the investments in facility expansion that was described in this call, which totaled $153.7 million since last year and other cash applied to funding operations and infrastructure. Investments in facility enhancements were primarily improvements of facilities in both locations, the lower mainland BC Tweed as well as Niagara-on-the-Lake expanding the footprint there and also transformation in Smiths Falls, Ontario. And at the same time doing build outs in Fredericton, New Brunswick and also Mirabel, Québec. Investments also include information technology upgrades, as Bruce described, and applying and introducing new systems as we scale up. Also as Bruce talked about, inventory on June 30 amounted to $118.2 million, up from $101 million at the end of March, but the end of June, biological assets had grown to $52.8 million up from $16.3 million at the end of March. Together, inventory and biological assets totaled $171 million, up from $118 million at the end of March. Inventories are continuing to be scaled to meet our expectation of market demands, including the legalized rec market as the province has begin to stock up for the October 17 launch. At June 30, inventory quantities amounted to 19,721 kilograms of dry cannabis. Of this amount, 2,594 kilograms of finished goods available for sale, 6,576 kilogram of product was in process of testing and awaiting release for sale and there was 10,551 kilograms of cannabis held for conversion to oils and capsules. In comparison to March, we had 15,726 kilograms of dry cannabis, which was in inventory and was comprised of [2,982] kilograms of finished goods, 3,480 kilograms of product waiting approvals, and [9,264] kilograms of cannabis being held for conversion. Also June 30, we had a total of 14,895 liters of cannabis oil ranging from concentrated resins or refined oil to oil in it's finished state and available for sale. That's up from 6,969 liters at the end of March, also ranging -- having same composition. We also had 1,055 kilograms of capsules on hand at June 30, and that's up from 356 grams of capsules that we had on hand at March.

Management continues to believe that significant demand will develop for cannabis oil and in particular soft gels in this rec market. As such, the company continues to increase inventories of extract grade dry cannabis held for conversion and increases -- and it will increase the quantity of cannabis oil and soft gel capsule we have on hand.

So that concludes my review of the financials for the first quarter and I'll turn the call back to Bruce.

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

Great. Good job on the quarter, Tim and his team, all of that coupled with New York Stock Exchange has made for an active quarter for finance team, and I appreciate the work.

So with that, I'll open it up to questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

And I should clarify that I, and Tim will be taking questions. Rob has already provided his input, and so I thank him for that.

Operator

And your first question today comes from the line of Tamy Chen with BMO Capital Markets.

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

I had a couple of questions on the Constellation announcement. Firstly is, and you're getting a big inflow of capital about the $5 billion, which is quite substantial. So could you discuss a bit more about how you're thinking about where and how you intend to deploy that?

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

Sure. So we're not putting hard guidelines on it, but when we look at our current target acquisition list, it exceeds $1 billion for international and I'll call it non-cultivation assets. We know that, that list will grow. We're getting ready for other markets to open up so we want to have a little cash on the balance sheet for things like America, if it comes around. We also know that based on what's happening in Germany and number of other places, the RFPs are coming back out and the build programs are substantial, and I mentioned earlier, if you look at our assets in Canada, it's about $1.4 billion of real assets to serve this country. We see what we have to put together from Germany to Chile, Australia to some of the activities we're supporting in other European areas. We used quite a lot of that up. And then we'll have a much bigger asset base to have a much larger yield on. So I think, you'll like what you see as far as our targets that we hit, as far as acquisitions over the next 6 and 12 months, assume we close on some of those, I think -- I'll say that makes quite a lot of sense.

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

Okay, got it. The second question is, has Constellation secured any rights to participate in future on equity financings of yours so that they can stay above the 50% on a fully diluted basis state?

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

Right. So assuming the exercise, the current warrants, which will get them to about 16.4%. This transition takes them up over 38%, and the way it's structured is that there is an additional 2 piece of an instrument. There is a second warrant that would move them to approximately 50% and that's priced in the press release and then there is a final, I'll call it, (inaudible) future unstated price, additional 5%. Through the process, we've built a mechanism so that as we make further acquisitions, there's an opportunity for quarterly top up so that they can retain their, then current, percentage, and I would call it almost sort of a normal course right to maintain and not be diluted and that it can [exhort] in there.

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

Okay, got it. And lastly, if cannabis is completely legalized at all levels of the U.S. government, could you talk a little bit about how you would approach that market? Both the medical and the recreational [sides].

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

Sure. So there's a bunch of scenarios under which that might happen. It could be, as you described, it could be state by state. What's going to happen, I think, however, is that if you have intellectual property in clinical trials and results that show medical efficacy, you're going to be able to take those through, specially the intellectual property protection does as we do, which is, it starts with the U.S. first filing. Though you have a suite of products that need production assets and the whole supply chain. What we've learned in Canada is how to do scale. And so I think what you'd find is, if California become a federally permissible place, you kind of need essentially 1 Canopy asset group from everything we've got, dropped into their to produce all the products that we'd want to take the market. There will be some markets where there are brands that we would perhaps buy, but they really aren't scale production assets so we will create those, and I think, we have an accelerating advantage in the event that occurred. And that would then take us into everything that's strength of ours and Constellation, which is if you have legal, medical and legal rec, part of the chain as a product, well part of it is delivery system that support infrastructure, the sales reps and all of the things that make you successful in a [CTG]and then the second part is, we think that our medical approach, and we've expanded our team to include internationally capable and recognized pharma leaders who are joining us. That team, I believe, is going to do a very good job in creating everything from NHP products, natural health products right through the finished Rx trials and those are going to be designed and delivered so that they aren't just for Canada or just for Germany, and I think it will give us a material advantage into that segment so we feel good about the cash coming in because there's a lot more work right now than we had capital and capacity, this accelerates it. We also get to draw down on resources at Constellation. So part of the structure of this deal is that anything that they have that we need we have a service's arrangement where we will try to orderly access and use so that we can accelerate with them as part of our team. And so that is, I think, going to be quite a good bit of leverage.

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*

Just wondering to follow-up a little bit on the capital deployment. It was helpful to give us a little bit your acquisition pipeline, but wondering how long do you think it could take you to deploy that $5 billion of cash inflow? And maybe if we look at the next 12 months, and under your ideal scenario, how much capital would you have deployed?

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

A different (inaudible). Ontario, how many stores might we get, how many have you built out? As we stack our medical trials and we start rolling those out and I think that once you have stabilized ingredients, the ability to deliver and design many more trials accelerates, so we've got both animal first one out and human first one out. I don't think it'll be a big gap to have [multiple abilities] line up behind it. So we we're not pacing it out, but I suspect as eyes watch us each quarter, you will see strategic investments that often acquisitions or buildout, we'll we use cash now, not dilutive shares. In our quarterly calls, we will check against what did we get done and I think you will find that list moves very quickly. We have been on the M&A and buildout review looking at assets around the globe for about a year and with Constellation's team to assist us in executing some of these M&A transactions because Rob and his team have been clear, this is where they are placing their bet, they are not now looking at any other M&A even in their sector for some time so that team comes to us. So I don't want to give you it'll be this much by Tuesday, but I suspect we will move quite quickly and we have done to date, Tim might be able to remember the exact number, but I think we're on acquisition #9 inside of Canopy already so we're pretty confident at that.

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

Okay, and is the ultimate goal for Constellation to take control of Canopy in time?

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

I can't speak to their ultimate goal, but I suspect if we do what we're going to do which is build a global platform that generates massive amounts of EBITDA over the next few years, that is a pretty amazing company that everybody would think is a good one to own.

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

And then just to switch back on the Canadian market and what's coming up with the recreational...

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

And sorry about that, to be clear, the way we've structured this, right? They are buying about 25% for about $5 billion right now and I as a shareholder like the [race ahead] because to your earlier question, what this is about now is about how much can we build, how can great can it be and what does that to the value of the company because the alignment we have with Constellation is on winning and that should work pretty well for the small shareholders including me, in terms of what this looks like for the next tranches.

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

Okay. And then just to switch to the Canadian market, the domestic and recreational market. I think you've won supply agreements for up to 67 tons over the next year and that excludes Ontario if I understand correctly. And right now, I think you have around 20 tons of dried cannabis in place. Do you have enough inventory to fulfill the first shipments from the provinces? Or you're going to need to bridge some of that?

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

So Tim can talk about there's more converting inventory and what we have as a product mix. Really, the question is going to come down to, I think we have enough subject to what do they order, right? So part of the reason we have kept a single shipping center is how to manage inventory and how to ship it out, but the pipeline is empty. What proportion of the product are they going to want in bulk, in dried cannabis, containerized, rolled cannabis, gel caps or oils, and so really it's going to be a continuous shifting of orders, inventory and matching it and we're already starting to see some of the provinces putting up their first indication of what they want. I will tell you it's probably going to drain everything, but I think we'll be able to balance it and then the real question is when do they reorder and how much do they reorder? But we're juggling that now. We only have 2 provinces that have sort of started to give us a positive indication of when they want order and what quantities and we're working through that.

Operator

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

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

Bruce, you gave a bit of an overview of sort of what the long-term vision is for that company. And obviously, focusing on the large opportunity in medical. Can you just give us some more color around reconciling the medical opportunity in the international markets that Canopy has in front of it versus Constellation being involved in beer, wines spirits and having a number of established brands there. What's bridging the GAAP between that medical opportunity and more of the consumer focus in Constellation?

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

Sure. So the people and (inaudible), the way the platform gets built is that it focuses on a patient. No country that I'm -- of a material nature is going to necessarily open up and say we don't have any medical program, but we're going to have a cannabis party. So I think what you have to look at is the medical becomes the operational platform that creates the assets that can create the ingredients to create medical outcomes, but then they can quickly increment to CPG. And CPG turns those ingredients into bands, formats and outcomes that people want so that they have better occasions. And so I think.

(technical difficulty)

[Read] through that those are some interesting names to be associated with us in the cannabis space.

Operator

Your next question comes from the line of [Darren Mosenian] with Morgan Stanley.

Unidentified Analyst

So first, the total addressable market opportunity you mentioned in the slide deck of $200 billion by 2032 or I guess greater than $200 billion. That was very helpful, but I was hoping for a little more detail as you think about the size of the addressable market over the next 5 or 10 years. Said another way, how quickly do you think that addressable market ramps up towards that $200-plus billion goal in 2032 as you look out over the next 5 to 10 years here.

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

Sure. So what is that market made up of? Right now, that number is a proxy for switching people from an illegal purchase program to a legal purchase program. And I'm not sure that number is a very accurate proxy for the disruptive nature of what could be created in terms of true finished products that are unique in different -- in medical and rec so I think the number could in fact be quite a lot bigger than that. The rate of ramp, let's just use Germany. This quarter, if we look back 4, 5 quarters ago, there was 0 happening in Germany. This quarter, we did, what, Tim, about $3 million.

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

$3.4 million.

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

$3.4 million. And this is where the government largely is the party paying for the cannabis (inaudible). That rate of growth as we get more formats and more responses and indications sort of claims, I think increasingly ramps up. And so I would be surprised if the rate at which this is changing 3, almost 4 years ago there about 4 or 3 countries trying to figure out how to regulate this at a federal level, there's about 29 now. So if those continue on a path of growth that if you look at Canada, we have gone from 30,000 patients in an old scheme, maybe 35,000 to maybe 350,000 or 400,000 medical patients in a period of about 4 years and we are about to add, you pick a number. We've got 35 million Canadians, are we going to have 5 million who are interested in rec, 2 million, 8 million, I'm not sure what the number is. I think people are going to have build models, and the models should be driven on which countries are going to move to a medical, who will pay, and when will Canopy have medical claim products that we can file under Pharma insurance? And then, with those countries, which ones are likely to have an electoral event that allows them to move to managing a recreational market? And I believe it's a lot closer in a lot of countries that people think because this is going to pointed to at Canada. It's going to be today evolving success here and so I take the market rate of growth and probably bring that number way back very soon but that's up to you to create a model. We just have an outside data of what is it, 2032, pretty far out.

Unidentified Analyst

Right, that's very helpful. And then as you think about your positioning in the industry. Obviously there's a lot of capital coming into the space a lot of competition. Help give us some background on why this partnership is potentially the leading player in the space as we look out over the next 20 years or so. And how your sort of positioned versus that competitive set and maybe what some of the unique capabilities are on your end?

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

We're at this now. We will be on a call in a year, 18 months and when you say the competitive set, it won't be any of the cannabis names that are started up in Canada. It will be big Pharma. It will be other packaged beverage, it could be -- a day doesn't go by that somebody doesn't send me an article that the Wrigley family are looking at this, everybody is looking at this. So I think when you talk about competitors and why we are doing this now, we have a great position and a great start. This is about accelerating and getting way further out there before those other big names are in. Getting our products, staking our claims having the leverage that we have now and moving up, so I bet the competitive set in [ATUs] are big known names and they have to get in the space because this is the most disruptive rapid growth opportunity for EBITDA that any of them are looking at. So it's going to get big, and they're going to get good, and we're going to be way ahead.

Operator

Your next question comes from the line of Matt Bottomley with Canaccord Genuity.

Matt Bottomley - *Canaccord Genuity Limited, Research Division - Analyst*

Congrats on the announcement. Don't want to beat a dead horse here, but just a couple more questions on the potential deployment of capital here in the near term. So Bruce, where do see the -- maybe when you line up what Constellation brings versus what you've been able to achieve in the Canadian market. What are some of the holes for lack of a better word, even with respect to those 2 parties that you might need to go and acquire assets to fill. Is it more on the medical technology side? Is it more on boots on the ground getting licenses in various countries? Just any more color on where you think you need to go and increase your exposure?

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

Yes, so depending on the country, and what you have for the (inaudible), it could be things as simple as we're not interested in sharing our margin with a Pharma play. We will probably find a little down-on-their-luck biotech company that could do a lot of that lifting for us. So that could be a nice fit. In certain geographies, it's starting with base real estate and moving up through stack, we'll move up through a lot more quickly with what we have to put in. We have beverages in a great quarter. And multiple geographies in the same set of products, which teach the same time lines.

(technical difficulty)

This is where it goes and so in Canada, we're looking at bottling lines and in other countries we're looking at greenhouses. And I think when you're

(technical difficulty)

Matt Bottomley - *Canaccord Genuity Limited, Research Division - Analyst*

There's no plan day by day, so how much is Canopy, I guess, investing in terms of its time and follow these markets

(technical difficulty)

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

That has a very

(technical difficulty)

Matt Bottomley - *Canaccord Genuity Limited, Research Division - Analyst*

And one last quick question, if you don't mind, on moving away from this deal specifically. Just curious on your key takeaways from the Ontario's press conference the other night with respect to retail. I'm still trying to juggle in my mind how much of this is going to be open to the LPs versus maybe more traditional retail like grocery stores or pharmacies or even some of these illegal dispensaries that they stop doing -- if they stop immediately dispensing. Is it all up in the air right now or do you have a more concrete view as to how much the Canopy's of the world are going to get involved in retail in Ontario?

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

I think everyone is going to be wanting to be in, but that doesn't mean everyone gets in. So the reason we ended up being selective in 3 provinces already is, if you're going to retail or cannabis, do you have an educational training platform? Yes, we do. In fact, ours has been used by other provinces to train their retail staff. Do you have the appropriate controls in educating practices, security-cleared people to manage and handle all the processes around transit of cannabis, et cetera? So I think we're the most well qualified to win, we won't win all of them, but I would suspect that the model they're going to adopt is probably more similar to Alberta, Saskatchewan, Manitoba and Newfoundland than it will be BC, and I like the announcement because what was going to be a problem in Ontario was that there were going to be very few stores and they're going to be a very slow process to have more stores, and the province is very good at inventory management and warehousing and they can make their money there. And the effect that while there may be no stores October 17 this year, but if they wanted 400 stores by October 17 next year, that wouldn't be a particularly big push for the private sector to deliver that even much earlier. And so when the -- all the stores rollout, is when we have the next wave of product rights meaning vapes, probably ingestibles, it can include a beverage, we would expect, and now there will be way more points of sale. And so I was smiling with the announcement occurred because what we're going to have is a great retail platform, us and others, to sell great products, which is what we're creating and I think that that is going to be way more important than having [40 stores for the province]. So it's a little bit of a short-term hit to launch things the way I'd like to see them. And most provinces check if you are a criminal. Every province we have been awarded stores, we've had to give as much as 3 years back-history on our personal incomes and spouses and total assets. I suspect if you're currently breaking the law, the likelihood of meeting the criteria of getting a license is pretty low.

Operator

Your next question comes from the line of Andrea [Tessara] with JP Morgan.

Unidentified Analyst

So Bruce I have 2 questions, please. One is to understand from your prepared remarks, that 100% of the use of proceeds will be international, and also as you mentioned, you don't need more production capacity. But you also mentioned California. Would you make a position in the U.S. given its still federally illegal and I think that would be different from what Constellation had said before.

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

No. So I should be clear. We definitely do not participate in federally illegal markets. I use California as an example of scale, but until it's federally legal, we will not participate in a market. So I should have been more clear, if I wasn't, that has been 100% our platform and has been since day 1.

Unidentified Analyst

And then, one more housekeeping and I'm sorry to because it wasn't clear in the release. So I'm trying to calculate the fully diluted number of shares now as you're getting to -- as you get the warrants that Constellation had, the 18 million shares they had and then you do the math and correct me if I'm wrong, they're getting to about 324.7 million shares now without the new warrants. And then, is it fair to assume, just to the $5 billion divided by this number of shares, you have about, you just got about CAD 15 per share. Is that the way we should think?

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

No.

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

They're incrementing their ownership position from just under 15% to -- by 25 percentage points.

Unidentified Analyst

Yes, so we're getting to, yes -- and so (technical difficulty) to go back with the warrants that they converted before the infusion of that cash. Is that not additional money I'm assuming,.

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

(technical difficulty)

Me or Tim digs up the share count. When I indicated our principal interest is into now our production assets, that doesn't mean that I might not need specifically real estate assets for retail or other things of that nature. So I want to clarify that. On the warrants, they have not yet been exercised. One half of them has an immediate right or access to them. So the $245 million was divided in 2 tranches, one of which was eligible to be exercised this month and one which is accessible in 20 -- early 2019. So Tim can go into the model, but those haven't yet converted, but obviously at $12.97 per unit, they are in the money and would convert.

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

If you're looking at the numbers at the end of June, there are other transactions that have happened since then with the acquisition of the remaining shares of BC Tweed and CHI and the like and when you bake in the all of the [AESOP] stock options on a fully diluted basis before this on a pro forma basis about [268 million] fully-diluted shares outstanding. So you're then [committing] that by the (inaudible) [divided by the 4.5 million] shares from Constellation, which gets to -- that 104 million is the extra 25% that gets them to about [30.1%] at this investment, the [$5 point --] little over $5 billion. And then the warrants, as you said, is incremental money that could be exercised over the next 3 years.

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

And the purchase price on those shares is -- the new shares, the purchase price isn't released, but it was $48.60 per share.

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

Per share, that's correct.

Unidentified Analyst

Per share, so the way we can get the math, simply take 104 million divided by 38%, and then we get into the fully diluted. It was just like, as you were saying, there were so many transactions and I'm assuming that triggered a lot of different options exercises. As you correctly pointed out, we don't know what's your -- it will be helpful to have a fully diluted number of shares in the next few months so that we can kind of calculate money in, money out.

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

That's good advice. We will -- because of the number of transactions we do, and this transaction is -- things get popped up, we will be specific in our go forward quarterlies where we are in terms of total share count and what contributed over the quarter.

Operator

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

Alan Brochstein

Just a couple quick ones.

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

Did we lose Alan?

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

I think we did.

Operator

Your next question comes from the line

(technical difficulty)

Unidentified Analyst

Players are not going to be the players

(technical difficulty)

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

And everything was about cost (technical difficulty) active ingredients could be some of the [Audio Gap]currently produce. What we will make (technical difficulty) our value and what I think our specialization is going to (technical difficulty) medical and

(technical difficulty)

Price program in $7, $8, $10, I have no idea. But when we hear saturated price, we start to see cost per gram going well below $1 for production in a highly secured platform, so I think the saturation thing is more about the ingredient than it the finished good and we're actively moving way up from the ingredient.

Unidentified Analyst

Okay, and then just relative to Canada, I think I heard you say you didn't need production assets, which sounds like grow greenhouse type assets, but I also heard you say you do need potentially bottling assets and things like that. So I just wanted to kind of parse that out, there will be incremental delivery methods that don't exist today, can we assume?

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

Yes, so we have about 6 million square feet of planned or completed production assets, about 70% of that in greenhouses and 30% are indoor, think of large factories. The greenhouse platforms that get used in Canada are -- can be quite substantial so we have set in the West Coast that one grouping of greenhouses is about 1.7 million square feet. The other is about 1.3 million square feet. Our smallest greenhouse array is about 7,000 square feet. So that's kind of the scale of that sort of production. What we're talking about are much smaller square footage assets that are in the business of converting the output of those large platforms of production that I described earlier and those can be quite costly platforms when the GMP Pharma 1 type platforms, they're costly per square foot, but you use far, far fewer square feet.

Operator

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

Alan Brochstein

Sorry about that, guys. I thought I'd give it another try. I don't even know if you heard the last one.

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

We did not.

Alan Brochstein

So Bruce, you have been pretty pessimistic about the timing of legalization in the United States. And I know this deal is about more than U.S., but that's obviously a key part of Constellation's interest. Have you changed your own views at all? I know things change quickly?

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

My views are evolving and I think more that we have interacted with different regulators, I could see state-by-state happening much sooner than later. I'm not sure that you're going to see a national platform, but I could see some state-by-state structures that would make it federally legal if it was legal in the state. And so best to be very prepared so our laydown plan is have all of the working cases together and be ready to go when it's legal and bring scale and bring products.

Alan Brochstein

Got it. And then I've got this question a lot. I'd think you guys have publically addressed it, but shareholders just approved the potential stock split, and I was just wondering what that's all about?

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

Optionality. So I was thinking at that time that we had the right to do up to 3x split. That is parked, but it was one of the things that I prefer to have the optionality because it was a special shareholders meeting, which was also to enable us to increase the [AESOP] pool. So I did that and we have in our pocket, those things don't really stale date for at least a year.

Alan Brochstein

Okay. And then the next one is just kind of more about the near-term on the financials, Tim? Obviously, and thanks for breaking out as you guys have been doing for the extra costs to build outside of Canada as well as the always confusing biological asset stuff. Going forward, are the operating losses, excluding those other factors outside of these 2 I mentioned, do you expect them to be continue to trend higher, Tim?

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

I think you're going to see certainly domestically as we started to get recreational orders in the provinces the revenues numbers going to go up and cover so that will reduce the losses (technical difficulty) expected as we've indicated previously (inaudible)

(technical difficulty)

Medical revenues. So you should see that [all come down.]

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

Why don't we take one more question, if there is one.

(technical difficulty)

with Evercore ISI.

Unidentified Analyst

You were very clear that you don't want to participate in any federally illegal markets, I get that. On the other hand, California is arguably the largest market right now. You want first mover advantage. Heineken has found a way that they believe that they are comfortable in terms of participating in that market through Lagunitas. Can you tell us a little bit why you are uncomfortable finding some sort of legal or corporate mechanism to participate in California and why -- and how you're thinking about this?

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

So we are not really keen to divulge exactly where we are going but for sure, we will do every that is fully federally lawful to be available in a market. And we think there are mechanisms of action that we can take that we're working through. There will be nothing federally illegal in what we do. I'm not sure we've looked at all the actions of others and I think some of them have crossed the line, but I think that it may become federally legal sooner than people think and we will be more ready than probably is understood at this time. So I know I'm being general, but part of the reason we do these calls is so that people who are in the sector can understand what we're doing and then they try to follow us, which hasn't been a good practice is the past, and we're going to little bit more coy on this one.

Unidentified Analyst

Got it. And obviously you're looking at California very closely. You understand what's going on there. Do you think that the California regulatory framework is the one that's most likely to be adopted in other states? And how would you assess how things have developed in California year-to-date?

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

Yes, so I'm not an expert on California but we do find it quite interesting when he observe things like when you really do apply a controlled system what happens to the total number of distribution points, what happens to the quality of the product and the failure rate of testing of product that was permissible before. So I think you start to see a much more effective control system. We hope that the level of controls is high and gets higher everywhere, because the client is not going to be satisfied if the quality of the product is inconsistent, if it has pesticides or sprays, if it's faiselling. And you're seeing in California, we have seen that there has become a shortage in a sense of credit because of active testing that's insisting on the quality or standard that is permissible. I hope that standard is what they do across the U.S. and it wouldn't hurt. If it was little higher because of the chain of custody on product is key to actually squeezing out the illicit market and there is bit more that could be done I think in more states regulations on that.

Unidentified Analyst

Well congratulations, you've got a terrific partner in Constellation. Very eager to see how these things well.

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

Thank you, and you're right, I suspect after this call we can get back to work with Constellation and that's kind of why the cash came in because we worked very well together. So thanks to everyone for the call and look forward to during this call.

Operator

This concludes Canopy Growth's First Quarter of Fiscal Quarter 2019 financial results Conference Call. A replay of this call will be available until [November 13, 2018] and can be accessed by 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.
