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9B21B007

CANOPY GROWTH CORPORATION: ACCOUNTING PROBLEMS IN THE CANNABIS INDUSTRY?[[1]](#endnote-1)

Morgan Hart wrote this case under the supervision of Mary Gillett solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In November 2019, John Fowler hung up the phone after listening to a conference call in which the management of Canopy Growth Corporation (Canopy) was reporting the company’s financial results for the second quarter ending September 30, 2019. Fowler was the founder and principal of Blaise Ventures (Blaise), a full-service consulting firm dedicated to clients in the cannabis industry. He often attended conference calls held by major companies in the industry that reported financial results. Fowler felt that it helped him monitor the issues that were having an impact on his clients and the broader market. In the past, Fowler had found that staying abreast of these issues was critical to providing high-quality advice to his clients. He had learned a great deal from hearing about and understanding the challenges and successes experienced by other companies across the industry.

Cannabis companies faced a wide array of complex financial reporting issues. Fowler felt that being able to understand these issues and explain them to his clients was critical for Blaise’s success. Armed with Canopy’s second quarter financial statements (see Exhibit 1) and selected financial statement note disclosures (see Exhibit 2), Fowler set out to analyze the issues that were present in the company’s most recent results.

THE CANNABIS INDUSTRY

Overview

On October 17, 2018, the *Cannabis Act* came into effect in Canada, making sales of recreational cannabis legal by licensed entities.[[2]](#endnote-2) Around the time of legalization, the cannabis industry was among the highest-profile markets in the country. Within one year following legalization of recreational cannabis in Canada, the market had grown considerably. Retailers of legal cannabis established more than 400 brick-and-mortar stores and registered CA$908 million[[3]](#endnote-3) in online and retail store sales.[[4]](#endnote-4)

In its third-quarter 2019 National Cannabis Survey, Statistics Canada reported that nearly 5.2 million Canadians (17 per cent of Canadians aged 15 and older) had used cannabis in the previous three months.[[5]](#endnote-5) Further growth in the market was widely expected by many observers. A report based on research conducted in 2018 (before the date of legalization) estimated that the total legal recreational cannabis market in Canada would grow to between $1.81 billion and $4.34 billion in legal annual sales. Canada’s medical cannabis market was predicted to provide an additional $0.77 billion to $1.79 billion in annual sales.[[6]](#endnote-6)

Recreational Market and Distribution

The *Cannabis Act* provided provincial, territorial, and municipal governments with the authority to prescribe regulations regarding retail and distribution of recreational cannabis. As such, the distribution model for recreational cannabis differed from province to province. Some provinces had government-run retailers, others had government-licensed retailers, and some had a combination of the two models.[[7]](#endnote-7) Cannabis producers typically separated recreational sales into two segments: business-to-business, which represented sales of products to other licensed cannabis companies or to consumers via provincial, territorial, and municipal government intermediaries; and business-to-consumer, which represented sales directly to end consumers, where legally permissible.

Based on his previous experience, Fowler knew that business-to-business sales in the cannabis industry had some unique issues. Government-owned retailers and distributors, such as the Ontario Cannabis Store, accounted for the vast majority of revenues. Monopolies formed by government entities commanded significant bargaining power and ensured that their supply agreements with cannabis producers reflected this imbalance. Notably, Fowler knew that government-owned distributors typically reserved the right to return any unsold inventory to cannabis producers at any time for a full refund, even if the products were completely free of any issues or defects.

Medical Market and Distribution

Although sometimes controversial, the use of cannabis was promoted for its medical benefits by many medical professionals and patients around the world. The most common use for medical cannabis was for pain control. In particular, cannabis appeared to be helpful in easing the pain of multiple sclerosis and nerve pain in general. Additionally, it appeared to be helpful in managing nausea, weight loss, and certain gastro-intestinal ailments such as irritable bowel syndrome and Crohn’s disease.[[8]](#endnote-8)

Medical cannabis had been legal in Canada since 2001, when the Federal Marihuana Medical Access Regulations[[9]](#endnote-9) were passed to allow Canadians access to medical marijuana.[[10]](#endnote-10) Sales of medical cannabis were primarily pursued via the business-to-consumer model.[[11]](#endnote-11) Fowler was aware that the medical side of the business was stable but comparatively small. Still, he considered it an important component of the overall company.

Products and Cannabis 2.0

The October 2018 *Cannabis Act* had legalized the sale of combustible cannabis, oils, plants, and seeds in Canada. This first round of legislation was sometimes referred to as “Cannabis 1.0.” A second round of legislation was introduced one year later, on October 17, 2019, which was sometimes referred to as “Cannabis 2.0.” This second law legalized the sale of edibles containing cannabis and cannabis concentrates for recreational use.[[12]](#endnote-12) These new products were expected to have a significant impact on the recreational cannabis industry. The Canadian market for edibles and alternative cannabis products was expected to reach an annual value of $2.7 billion.[[13]](#endnote-13)

Agricultural Risks

There were several inherent risks in growing cannabis, which was an agricultural product. Potential difficulties could have an adverse impact on both the quality and quantity of harvested crops. The various production risks included insect damage, plant disease, labour shortage, adverse weather conditions, significant meteorological events, and excess residue from pesticides, fungicides, and herbicides. These agricultural production risks were particularly acute in cannabis. The end product was subject to the same microbial, heavy metal, and pesticide contamination specifications as herbal medicines.

Global and US Opportunity

By 2019, only a few countries around the world had legalized the sale of recreational cannabis at the federal level. Canada was the only Group of Seven (G7) and Group of Twenty (G20) nation to pass such federal legislation.[[14]](#endnote-14) As a result, Canadian cannabis producers were provided with first-mover advantage to supply and serve many international markets. They could also establish a global leadership role in the industry, at a time when many jurisdictions were considering legalizing cannabis.[[15]](#endnote-15) Many prominent Canadian producers had already invested in countries with strong medicinal markets, including Australia, Israel, and Germany. Many of them had also set their sights on other international locations.[[16]](#endnote-16)

The world’s largest economy, the United States, had significantly more conservative cannabis laws than Canada. At the federal level, the United States considered cannabis an illegal substance.[[17]](#endnote-17) However, by October 2019, the District of Columbia and 11 US states had legalized small amounts of cannabis for adult recreational use.[[18]](#endnote-18) As Fowler was aware, the relationship between state and federal laws in the United States was extremely complex. One major complication US cannabis companies faced was that securities and banking laws in the United States remained under federal jurisdiction. Therefore, even though a particular state had legalized the sale of recreational cannabis, US-based producers were unable to access financing from federally regulated banks and capital markets. This issue led to significant operational challenges, costly inefficiencies, and reduced options for raising capital.

While legally complex, Fowler knew that another complication of the current US environment, in which only selected states allowed the sale of cannabis, affected cannabis producers who operated in two or more states (referred to as “multi-state operators”). Essentially, these companies had to run a stand-alone business in each state, which made scaling their businesses and expanding into new markets extremely expensive. Canadian cannabis companies were closely monitoring the progress of cannabis legalization in the United States. If the federal US government were to legalize the sale of recreational cannabis throughout the entire country, it would represent an enormous market opportunity for established producers.

Consolidation and Acquisitions

Leading up to the legalization of cannabis in Canada, the industry had been highly fragmented. Market fragmentation was augmented by a desire to realize economies of scale, expand customer bases, secure new brands and products, enter new markets, and acquire distribution channels. Together, these factors allowed cannabis companies with large cash balances and access to cheap capital to go on buying sprees. Before long, the industry became consolidated, driven primarily by a small number of well-capitalized cannabis producers.[[19]](#endnote-19)

In late 2018, shortly after the first round of legislation was passed, valuations of Canadian cannabis companies were extremely volatile, strongly affected by industry hype related to the recent legalization. This volatility made it extremely difficult for acquiring companies to determine appropriate valuations of potential targets. The pricing of many acquisitions was driven primarily by the timing of the deal, with valuations across the industry peaking around the time of legalization. Another factor was the prospect of Canadian cannabis producers being in position for the potential future “global domination” of the industry. Canopy’s share price, much like other competitors in the industry, fluctuated wildly during this period (see Exhibit 3).

Accounting in the Cannabis Industry

Numerous companies across the industry had gone public and were listed on the Toronto Stock Exchange, which required them to prepare quarterly and annual financial statements in accordance with International Financial Reporting Standards. Fowler realized that many cannabis producers across the industry faced similar financial accounting challenges and summarized the relevant financial accounting guidance on these specific issues. For his notes, he consulted the Chartered Professional Accountants of *Canada’s CPA Canada Handbook* (see Exhibit 4).

Fowler found that cannabis producers were required to comply with what seemed a highly unusual International Accounting Standard (IAS) for their business: “IAS 41—Agriculture.” At its most simplified interpretation, this standard required cannabis producers to record revenue as they grew their crops, rather than during the sale of their products. There were other accounting issues, but Fowler decided he had to fully investigate this particular reporting requirement and its related risks and implications.

Another financial reporting complication that many companies in the cannabis industry encountered was the use of derivative financial instruments, which were accounted for in the accounting standard “IAS 39—Financial Instruments: Recognition and Measurement.” Derivatives were commonly used to provide investors flexibility when considering investing in cannabis companies. Common examples in the derivatives sector included warrants and options. A warrant provided the investor the right to buy or sell a security at a certain price before expiration.[[20]](#endnote-20) A call option allowed the investor the right to buy a stock, bond, commodity, or other instrument at a previously-specified price within a specific time period.[[21]](#endnote-21) Fowler, who found “IAS 39—Financial Instruments: Recognition and Measurement” extremely specialized, often referred clients to an investment consultant to resolve their questions about derivative financial instruments.

COMPANY PROFILE

Overview and History

Canopy was a world-leading, diversified cannabis and hemp company headquartered in Smiths Falls, Ontario. The company was listed on the Toronto Stock Exchange under the symbol “WEED” and on the Nasdaq Stock Market under the symbol “CGC.” Canopy was founded in 2010, under the name MABH Ontario Inc. and was later renamed Tweed Marijuana Inc.[[22]](#endnote-22) The company received its licence to sell medical cannabis to patients on January 27, 2014.[[23]](#endnote-23) As the company’s medical cannabis business grew, the name was changed yet again to Canopy Growth Corporation. However, the former name Tweed was retained for one of Canopy’s main brands.[[24]](#endnote-24)

Shortly after the *Cannabis Act* came into effect in Canada in October 2018, Canopy opened various retail stores for the sale of cannabis for recreational use across the country. By the next year, the company was describing itself as a “world-leading diversified cannabis company offering distinct brands and curated cannabis in dried flower, oil and softgel formats in Canada pursuant to the Cannabis Act, and around the world pursuant to applicable international and domestic legislation and permits.”[[25]](#endnote-25) In August 2018, the leading US alcoholic beverage company Constellation Brands Inc. had invested $5 billion in Canopy in exchange for approximately 38 per cent immediate ownership and additional warrants exercisable over the next three years.[[26]](#endnote-26)

Products and Brands

Canopy sold a wide range of products under a diverse platform of brands. The company’s product portfolio included dried cannabis, pre-rolls, edibles, cannabis-infused beverages, cannabis oils, and softgels. Canopy was able to sell many of its products across both the recreational and medical channels by adjusting the product’s branding, based on the sales channel being targeted (see Exhibit 5).

Canopy in 2019

Throughout 2019, the company’s efforts were concentrated on establishing Canopy as the global leader in cannabis and hemp-based products. Toward that goal, the company invested heavily in various aspects of its business and continued to diversify geographically, targeting the European medical cannabis market under its Spectrum Therapeutics brand.[[27]](#endnote-27)

In April 2019, the company entered into an agreement with Acreage Holdings, a multi-state cannabis operator in the United States. The agreement provided Canopy with a call option (included under “Other financial assets” on the company’s Statement of Financial Position) and a requirement to acquire the shares of Acreage Holdings if the United States passed a federal law allowing the general cultivation, distribution, and possession of cannabis in that country in exchange for $395 million. Canopy’s management felt that this transaction would accelerate its pathway into the lucrative US cannabis market, once it became legally permissible.[[28]](#endnote-28)

Canopy also continued to invest heavily in Canada, developing products in preparation for Cannabis 2.0, the second round of Canadian legislation. In October 2019, the company purchased a majority interest in BioSteel Sports Nutrition Inc., a Canadian company that produced nutritional products for fitness and athletic consumers.[[29]](#endnote-29) Anticipating a substantial increase in demand, Canopy invested in the growth of its Canadian production capacity. Much of Canopy’s growth and expansion was based on acquisition during its most recent fiscal years (see Exhibit 6).

FINANCIAL RESULTS

Overview

Fowler started analyzing Canopy’s financials for the second quarter ending September 30, 2019, which he was finding extremely complex. On his first review, he noted that the company appeared to have a relatively strong balance sheet and liquidity position, with over $3.5 billion in current assets, compared to just $425 million in current liabilities. However, this solid financial position had not yet translated into strong operating results. The company recorded a loss of over $1.6 billion in the first two quarters of fiscal 2020. Fowler wanted to go beyond a high-level assessment of the company’s financial strength. His goal was to dig further into the key accounts that were driving the company’s financial position and profitability. He had to ensure that he truly understood the accounting methodology and associated implications behind the company’s key accounts.

Statement of Operations

Fowler first turned to Canopy’s Statement of Operations (commonly known as the Income Statement). He was most curious about the revenue and cost of sales accounts. Over the years, realizing that the accounting methodology for these accounts was unique to the agricultural industry, Fowler had made some notes on key features of this methodology (see Exhibit 4). At first glance, the various cost of sales accounts seemed to make it difficult to understand the Income Statement and determine how profitable the company’s operations actually were. He wanted to fully understand the general sense of these accounts, which followed a standard presentation across the industry.

In the company’s Management’s Discussion and Analysis (MD&A) released along with the quarterly results, Canopy’s management discussed at length several issues that Fowler expected would have an impact on the revenue and cost of sales accounts. Fowler noted the following comments from the MD&A for the second quarter of 2020:

. . . . the risk of over-supply of certain oil and softgel formats existed in certain markets due, in part, to underdeveloped retail markets in several provinces. . . . Based on this assessment, we have determined returns and pricing adjustments related primarily related to the risk of over-supply of certain oil and softgel products in the amount of $32,727,[[30]](#endnote-30) and this amount has been reflected in revenue.[[31]](#endnote-31)

The MD&A went on to include the following additional statements in the discussion:

We have assessed current and forecasted “sell-in” rates of certain oils and softgel products and concluded a risk exists that a portion of our inventory of certain recreational oil and softgel products may not be sold within a reasonable timeframe. [[32]](#endnote-32)

The MD&A further explained that while the product will continue to be stored and is well within its expiry date, the company felt it was prudent to record a charge of $17,000 in conjunction with its evaluation of the estimated on-hand provincial and territorial inventory levels.[[33]](#endnote-33)

Fowler wanted to be sure he fully understood this discussion. Why would each set of circumstances require adjustments to the financial statements? What impact did each adjustment have on profitability? The adjustment to on-hand oil and softgel products of $17,000 was part of broader adjustments to excess and obsolete inventory of $38,594 that had been made in the first six months of fiscal 2020. Fowler noted that the $40,727 revenue adjustment carried with it an associated margin impact of $9,157.[[34]](#endnote-34)

Although the above issues on the Statement of Operations were Fowler’s primary concern, he wondered if there were other accounts on the Statement of Operations that he should focus on. For example, he noted a massive amount ($1.2 billion) for “Loss on extinguishment of warrants” and over $160 million in share-based compensation expense. He wondered what these large amounts were related to. Fowler made a note to ask his investment consultant for more information about the warrant item in particular.

Statement of Financial Position

Fowler then turned his attention to Canopy’s Statement of Financial Position (commonly known as the Balance Sheet). There were no obvious issues in the statement, although the inventory and biological assets accounts would factor into the issues he had previously identified. He did notice, however, several significant asset accounts that he was somewhat less familiar with, including “Investments in equity method investees,” “Intangible assets,” and “Goodwill.”

On the liabilities side of the statement, he noted a significant amount for “Share repurchase credit liability,” which he understood to be related to the investment in Canopy by Constellation Brands Inc. Fowler expected that this item might be difficult to fully understand, but he planned to investigate further. He had to at least understand its impact, if any, on Canopy’s income for the year.

Fowler also noticed that Canopy had completed something called the “Acreage Transaction” in April 2019 that was not readily apparent on the statement. He was curious about this item and hoped to understand the transaction more fully. He did notice that some disclosure related to this transaction had been provided (see Exhibit 2). He also noticed that this amount was included on the Statement of Financial Position under other financial assets, but that it had been written down by $235 million by September 30, 2019 to $160 million which he thought was odd and required some explanation.

Statement of Cash Flows

Finally, Fowler glanced at Canopy’s Statement of Cash Flows and was immediately struck by all of the negative numbers in the six months ended September 30, 2019. However, he wanted to better understand the significant decrease in cash shown on the Statement of Financial Position, and he knew that he should use the Statement of Cash Flows to do so.

CONCLUSION

As Fowler started to review Canopy’s financial statements in more detail, he realized it was important that he fully understand all of the items he had identified. He had a feeling that these issues were going to be a common occurrence in financial results across the cannabis industry for years to come.

EXHIBIT 1: CANOPY GROWTH CORPORATION FINANCIAL STATEMENTS

(in CA$ THOUSANDS)

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**Unaudited**

|  |  |  |  |  | **September 30,** | March 31, |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  | Notes |  | **2019** | 2019 |
|  |  |  |  |  |  |  |
| **Assets** | |  |  |  |  |  |
| Current assets | |  |  |  |  |  |
|  | Cash and cash equivalents |  | 3 |  | **$1,102,464** | $2,480,830 |
|  | Marketable securities |  | 4 |  | **1,633,692** | 2,034,133 |
|  | Amounts receivable |  | 5 |  | **107,487** | 106,974 |
|  | Biological assets |  | 6 |  | **110,347** | 78,975 |
|  | Inventory |  | 7 |  | **461,757** | 262,105 |
|  | Prepaid expenses and other current assets |  | 8 |  | **152,761** | 107,123 |
|  |  |  |  |  | **3,568,508** | 5,070,140 |
|  |  |  |  |  |  |  |
| Investments in equity method investees | |  | 9 |  | **113,046** | 112,385 |
| Other financial assets | |  | 10 |  | **449,028** | 363,427 |
| Property, plant and equipment | |  | 11 |  | **1,633,303** | 1,096,340 |
| Intangible assets | |  | 12 |  | **514,033** | 519,556 |
| Goodwill | |  | 12 |  | **1,912,484** | 1,544,055 |
| Other long-term assets | |  |  |  | **34,781** | 25,902 |
|  |  |  |  |  |  |  |
|  |  |  |  |  | **$8,225,183** | $8,731,805 |
|  |  |  |  |  |  |  |
| **Liabilities** | |  |  |  |  |  |
| Current liabilities | |  |  |  |  |  |
|  | Accounts payable and accrued liabilities |  | 13 |  | **286,862** | 226,533 |
|  | Current portion of long-term debt |  | 14 |  | **14,115** | 103,716 |
|  | Other current liabilities |  | 15 |  | **124,853** | 81,414 |
|  |  |  |  |  | **425,830** | 411,663 |
|  |  |  |  |  |  |  |
| Long-term debt | |  | 14 |  | **590,373** | 842,259 |
| Deferred tax liability | |  | 22 |  | **91,026** | 96,031 |
| Share repurchase credit liability | |  | 25 |  | **1,288,079** | 0 |
| Other long-term liabilities | |  | 15 |  | **207,183** | 140,404 |
|  |  |  |  |  |  |  |
|  |  |  |  |  | **2,602,491** | 1,490,357 |
|  |  |  |  |  |  |  |
| **Shareholders' equity** | |  |  |  |  |  |
|  | Share capital |  | 16 |  | **6,331,325** | 6,026,618 |
|  | Other reserves |  |  |  | **2,756,749** | 1,673,472 |
|  | Accumulated other comprehensive income |  |  |  | **(29,064)** | 28,630 |
|  | Deficit |  |  |  | **(3,707,022)** | (777,087) |
|  |  |  |  |  |  |  |
| Equity attributable to Canopy Growth Corporation | |  |  |  | **5,351,988** | 6,951,633 |
|  | Non-controlling interest |  | 18 |  | **270,704** | 289,815 |
| Total equity | |  |  |  | **5,622,692** | 7,241,448 |
|  |  |  |  |  |  |  |
|  |  |  |  |  | **$8,225,183** | $8,731,805 |

EXHIBIT 1 (continued)

**FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2019 AND 2018**

| **Unaudited** | |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  | Three months ended | | Six months ended | |
|  |  |  | **September 30,** | September 30, | **September 30,** | September 30, |
|  |  | Notes | **2019** | 2018 | **2019** | 2018 |
|  |  |  |  |  |  |  |
| Revenue | | 19 | **$85,621** | $23,327 | **$189,012** | $49,243 |
| Excise taxes | | 19 | **9,008** | - | **21,917** | - |
|  |  |  |  |  |  |  |
| **Net Revenue** | | 19 | **76,613** | 23,327 | **167,095** | 49,243 |
|  |  |  |  |  |  |  |
| Inventory production costs expensed to cost of sales | |  | **86,321** | 15,624 | **159,503** | 29,029 |
|  |  |  |  |  |  |  |
| Gross margin before the undernoted | |  | **(9,708)** | 7,703 | **7,592** | 20,214 |
|  |  |  |  |  |  |  |
| Fair value changes in biological assets included in inventory sold and other charges | | 7 | **69,089** | 51,496 | **115,219** | 77,884 |
| Unrealized gain on changes in fair value of biological assets | | 6 | **(82,320)** | (10,944) | **(221,339)** | (68,233) |
|  |  |  |  |  |  |  |
| **Gross margin** | |  | **3,523** | (32,849) | **113,712** | 10,563 |
|  |  |  |  |  |  |  |
| Sales and marketing | |  | **60,483** | 40,182 | **109,710** | 58,875 |
| Research and development | |  | **11,922** | 1,944 | **20,396** | 2,700 |
| General and administration | |  | **87,861** | 37,101 | **150,132** | 56,689 |
| Acquisition-related costs | |  | **2,562** | 3,202 | **15,744** | 5,086 |
| Share-based compensation expense | | 16,17 | **83,767** | 45,025 | **160,848** | 68,097 |
| Share-based compensation expense related to acquisition milestones | | 16(c) | **9,114** | 50,730 | **19,395** | 57,825 |
| Depreciation and amortization | |  | **13,644** | 3,595 | **26,423** | 6,625 |
|  |  |  |  |  |  |  |
| Operating expenses | |  | **269,353** | 181,779 | **502,648** | 255,897 |
|  |  |  |  |  |  |  |
| Loss from operations | |  | **(265,830)** | (214,628) | **(388,936)** | (245,334) |
|  |  |  |  |  |  |  |
| Loss on extinguishment of warrants | | 25 | **-** | - | **(1,176,350)** | - |
| Other income (expense), net | | 21 | **(109,283)** | (115,702) | **(76,662)** | (178,697) |
| **Total other income (expense), net** | |  | **(109,283)** | (115,702) | **(1,253,012)** | (178,697) |
|  |  |  |  |  |  |  |
| Loss before income taxes | |  | **(375,113)** | (330,330) | **(1,641,948)** | (424,031) |
|  |  |  |  |  |  |  |
| Income tax recovery (expense) | | 22 | **493** | (284) | **(13,840)** | 2,439 |
| Net Loss | |  | **(374,620)** | (330,614) | **(1,655,788)** | (421,592) |

EXHIBIT 1 (continued)

| CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS | | |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2019 AND 2018** | | |  |  |  |  |  |
| UNAUDITED | | |  |  |  |  |  |
|  |  |  |  | Notes |  | **September 30, 2019** | September 30, 2018 |
|  |  |  |  |  |  |  |  |
| Net inflow (outflow) of cash related to the following activities: | | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **Operating** | | |  |  |  |  |  |
|  | Net loss | |  |  |  | **(1,655,788)** | (421,592) |
|  | Adjustments for: | |  |  |  |  |  |
|  |  | Depreciation of property, plant, and equipment |  | 11 |  | **35,309** | 10,446 |
|  |  | Amortization of intangible assets |  | 12 |  | **15,955** | 5,236 |
|  |  | Share of loss on equity investments |  | 9 |  | **4,004** | 6,932 |
|  |  | Fair value changes in biological assets included |  |  |  |  |  |
|  |  | in inventory sold and other charges |  |  |  | **115,219** | 77,884 |
|  |  | Unrealized gain on changes in fair value of |  |  |  |  |  |
|  |  | biological assets |  |  |  | **(221,339)** | (68,233) |
|  |  | Share based-compensation |  | 16,17 |  | **180,243** | 130,596 |
|  |  | Other assets |  |  |  | **(23)** | (18,810) |
|  |  | Loss on extinguishment of warrants |  |  |  | **1,176,350** | - |
|  |  | Other income and expense |  |  |  | **104,909** | 171,109 |
|  |  | Income tax (recovery) expense |  |  |  | **13,840** | (2,439) |
|  |  | Non-cash foreign currency |  |  |  | **(1,463)** | (410) |
|  |  | Changes in non-cash working capital items |  | 23 |  | **(126,551)** | (88,855) |
|  |  |  |  |  |  |  |  |
| **Net cash used in operating activities** | | |  |  |  | **(359,335)** | (198,136) |
|  |  |  |  |  |  |  |  |
| **Investing** | | |  |  |  |  |  |
|  | Purchases and deposits of property, plant, and equipment | |  |  |  | **(440,150)** | (293,179) |
|  | Purchases of intangible assets | |  |  |  | **(3,614)** | (6,340) |
|  | Redemption (purchase) of marketable securities, net | |  |  |  | **388,027** | (2,829) |
|  | Investments in equity method investees | |  | 9 |  | **(4,719)** | (42,439) |
|  | Investments in other financial assets | |  |  |  | **(36,423)** | (29,695) |
|  | Premium paid for Acreage Call Option | |  | 25 |  | **(395,190)** | - |
|  | Net cash outflow on acquisition of non-controlling interests | |  |  |  | **-** | (1,999) |
|  | Net cash outflow on acquisition of subsidiaries | |  | 24 |  | **(421,952)** | 427 |
|  | Change in acquisition related liabilities | |  | 15 |  | **(21,447)** | - |
|  |  |  |  |  |  |  |  |
| **Net cash used in investing activities** | | |  |  |  | **(935,468)** | (376,054) |

**exhibit 1 (continued)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Financing** | | |  |  |  |  |  |
|  | Payment of share issue costs | |  |  |  | **(129)** | (6,819) |
|  | Proceeds from issuance of shares by Canopy Rivers | |  |  |  | **156** | 91,218 |
|  | Proceeds from exercise of stock options | |  | 16 |  | **36,023** | 13,626 |
|  | Proceeds from exercise of warrants | |  | 16 |  | **446** | 133 |
|  | Issuance of long-term debt | |  | 14 |  | **5,278** | 600,000 |
|  | Payment of long-term debt issue costs | |  | 14 |  | **-** | (16,380) |
|  | Payment of interest on long-term debt | |  |  |  | **(12,750)** | - |
|  | Repayment of long-term debt | |  | 14 |  | **(104,282)** | (747) |
|  |  |  |  |  |  |  |  |
| **Net cash (used in) provided by financing activities** | | |  |  |  | **(75,258)** | 681,031 |
|  |  |  |  |  |  |  |  |
| Effect of exchange rate changes on cash and cash equivalents | | |  |  |  | **(8,305)** | - |
|  |  |  |  |  |  |  |  |
| Net cash (outflow) inflow | | |  |  |  | **(1,378,366)** | 106,841 |
| Cash and cash equivalents, beginning of period | | |  |  |  | **2,480,830** | 322,560 |
|  |  |  |  |  |  |  |  |
| **Cash and cash equivalents, end of period** | | |  |  |  | **1,102,464** | 429,401 |

Source: Canopy Growth Corporation, *Condensed Interim Consolidated Financial Statements (Unaudited) for the Three and Six Months Ended September 30, 2019 and 2018 (in Canadian Dollars)*, 1–5, accessed July 25, 2020, www.canopygrowth.com/wp-content/uploads/2020/06/Q2-FY2020-Financial-Statements-Final.pdf.

EXHIBIT 2: SELECT CANOPY FINANCIAL STATEMENT NOTE DISCLOSURES

(in CA$ THOUSANDS)

6. BIOLOGICAL ASSETS

The Company’s biological assets consist of seeds and cannabis plants. The continuity of biological assets for the six months ended September 30, 2019 and the year ended March 31, 2019 is as follows:

|  |  |  | **September 30,** | March 31, |
| --- | --- | --- | --- | --- |
|  |  |  | **2019** | 2019 |
|  |  |  |  |  |
| Balance, beginning of period | |  | **$78,975** | $16,348 |
| Acquisition of biological assets due to the | |  |  |  |
|  | acquisition of consolidated entities |  | **-** | 184 |
| Unrealized gain on changes in fair value | |  |  |  |
|  | of biological assets |  | **221,339** | 167,550 |
| Increase in biological assets due to | |  |  |  |
|  | capitalized costs |  | **125,319** | 92,733 |
| Net write-off of biological assets | |  | **(13,934)** | (21,618) |
| Transferred to inventory upon harvest | |  | **(301,352)** | (176,222) |
|  |  |  |  |  |
| Balance, end of period | |  | **$110,347** | **$78,975** |

Biological assets are valued in accordance with IAS 41, Agriculture, based on a market approach where fair value at the point of harvest is estimated based on selling prices less costs to sell at harvest. The Company’s biological assets are primarily cannabis plants, and because there is no actively traded commodity market for plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based on unobservable market data (Level 3).

For in-process biological assets, the fair value at point of harvest is adjusted based on the stage of growth. Stage of growth is determined by reference to costs incurred to date as a percentage of total expected costs from inception to harvest. As at September 30, 2019, the average stage of growth for the biological assets was 39%, compared to an average stage of growth of 42% as at March 31, 2019.

EXHIBIT 2 (Continued)

7. INVENTORY

Inventory is comprised of the following items:

|  |  | **September 30,** | March 31, |
| --- | --- | --- | --- |
|  |  | **2019** | 2019 |
|  |  |  |  |
| Finished goods | | **$131,474** | $49,507 |
| Work-in-process | | **280,093** | 165,462 |
| Supplies and consumables | | **50,190** | 47,136 |
|  |  |  |  |
| Total Inventory | | **$461,757** | $262,105 |

Inventory expensed during the three and six months ended September 30, 2019 was $123,247 and $219,643, respectively (three and six months ended September 30, 2018—$57,846 and $90,090, respectively). Included in inventory for the three and six months ended September 30, 2019 is an excess and obsolete inventory provision of $38,594, and other inventory charges of $48,030 and $66,832, respectively. Included in other inventory charges for the three and six months ended September 30, 2019 is $41,027 and $56,947, respectively, of net realizable value adjustments; $21,594 and $21,594 respectively, of the fair value component of the excess and obsolete inventory provision; $2,187 and $5,069, respectively, of net write-offs of biological assets; and ($16,778) and ($16,778), respectively, of the fair value component of potential inventory returns.

The fair value changes in biological assets included in inventory sold for the three and six months ended September 30, 2019 are $21,059 and $48,387, respectively.

9. INVESTMENTS IN EQUITY METHOD INVESTEES

The following table outlines changes in the investments in associates that are accounted for using the equity method. In accordance with IAS 28, Investments in Associates and Joint Ventures, the Company has elected to account for its investments one quarter in arrears. Accordingly, certain of the figures in the following table, including the Company’s share of the investee’s net income (loss), are based on values at June 30, 2019 with adjustments for any significant transactions.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Entity** | | **Instrument** | **Participating Share** | **Balance at Mar 31, 2019** | **Additions** | **Share of net loss** | **Exchange Differences** | **Balance at Sep 30, 2019** |
|  |  |  |  |  |  |  |  |  |
| PharmHouse | | Shares | 49.0% | 39,278 | - | (695) | - | **38,583** |
| Agripharm | | Shares | 40.0% | 36,127 | - | (1,593) | - | **34,534** |
| Beckley Canopy Therapeutics | | Shares | 42.2% | 11,653 | - | (385) | - | **11,268** |
| CanpaR | | Shares | 49.1% | 18,062 | - | (259) | - | **17,803** |
| Other | | Shares | 18.2% to 66.7% | 7,265 | 4,719 | (1,072) | (54) | **10,858** |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  | 112,385 | 4,719 | (4,004) | (54) | **113,046** |

EXHIBIT 2 (Continued)

12. INTANGIBLE ASSETS AND GOODWILL

The Company’s intangible assets are comprised of the following:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  | **September 30,** | March 31, |
|  |  |  | **2019** | 2019 |
|  |  |  |  |  |
| Health Canada licenses | |  | **$64,600** | $64,600 |
| Acquired brands | |  | **63,534** | 64,374 |
| Licensed brands | |  | **68,432** | 57,802 |
| Distribution channel | |  | **42,446** | 42,400 |
| Operating licenses | |  | **150,853** | 152,402 |
| Intellectual property | |  | **151,634** | 153,797 |
| Software and domain names | |  | **13,282** | 9,701 |
| Intangibles in process | |  | **4,637** | 4,122 |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  | **559,418** | 549,198 |
| Less: accumulated amortization | |  | **(45,385)** | (29,642) |
| Net book value | |  | **$514,033** | $519,556 |

The net change in goodwill is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Goodwill |  |  |  |
| As at March 31, 2019 |  |  | $1,544,055 |
| Additions from acquisitions of subsidiaries |  |  | 388,586 |
| Exchange differences |  |  | (20,157) |
| **As at September 30, 2019** |  |  | **$1,912,484** |

16. SHARE CAPITAL – CANOPY GROWTH

The following is a summary of the outstanding stock options as at September 30, 2019:

|  |  |  | **Options Outstanding** | |  | **Options Exercisable** | |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |
|  | **Range of Exercise Prices** |  | **Outstanding at Sep 30, 2019** | **Weighted Average Remaining Life (years)** |  | **Exercisable at Sep 30, 2019** | **Weighted Average Remaining Life (years)** |
|  |  |  |  |  |  |  |  |
|  | $1.32 - $27.94 |  | 6,155,483 | 3.56 |  | 2,888,874 | 3.30 |
|  | $27.95 - $35.00 |  | 3,666,663 | 4.78 |  | 609,686 | 4.41 |
|  | $35.01 - $38.88 |  | 7,815,201 | 5.29 |  | 500,000 | 5.23 |
|  | $38.89 - $42.84 |  | 6,267,481 | 4.89 |  | 1,439,214 | 4.56 |
|  | $42.85 - $67.64 |  | 9,008,146 | 5.42 |  | 853,363 | 4.99 |
|  |  |  |  |  |  |  |  |
|  |  |  | 32,912,974 | 4.87 |  | 6,291,137 | 4.08 |

EXHIBIT 2 (Continued)

In determining the amount of share-based compensation related to options issued during the period, the Company used the Black-Scholes option pricing model to establish the fair value of options granted during the six months ended September 30, 2019 and 2018 on their measurement date by applying the following assumptions:

|  | **September 30, 2019** | September 30, 2018 |
| --- | --- | --- |
| Risk-free interest rate | **1.44%** | 2.18% |
| Expected life of options (years) | **3 – 5** | 2 – 5 |
| Expected annualized volatility | **72%** | 76% |
| Expected forfeiture rate | **11%** | 11% |
| Expected dividend yield | **Nil** | Nil |
| Black-Scholes value of each option | **$22.57** | $29.13 |

Volatility was estimated using the historical volatility of the Company. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate was based on the zero coupon Canada government bonds with a remaining term equal to the expected life of the options.

19. REVENUE

Revenues are disaggregated as follows:

|  |  |  | **Three months ended** | |  | **Six months ended** | |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **September 30,** | September 30, |  | **September 30,** | September 30, |
|  |  |  | **2019** | 2018 |  | **2019** | 2018 |
|  |  |  |  |  |  |  |  |
| Recreational revenue | |  |  |  |  |  |  |
|  | Business to business |  | **$49,404** | $ - |  | **$107,829** | $ - |
|  | Business to consumer |  | **13,100** | - |  | **23,738** | - |
|  | Other revenue adjustments |  | **(32,727)** | - |  | **(40,727)** | - |
| Medical revenue | |  |  |  |  |  |  |
|  | Canadian |  | **14,149** | 19,903 |  | **27,200** | 41,267 |
|  | International |  | **18,090** | 2,222 |  | **28,586** | 5,592 |
| Other revenue | |  | **23,605** | 1,202 |  | **42,386** | 2,384 |
|  |  |  |  |  |  |  |  |
| Gross revenue | |  | **85,621** | 23,327 |  | **189,012** | 49,243 |
|  | Excise taxes |  | **9,008** | - |  | **21917** | - |
|  |  |  |  |  |  |  |  |
| Net revenue | |  | **$76,613** | $23,327 |  | **$167,095** | $49,243 |

The Company records an allowance for estimated returns and price adjustments to ensure that recognized revenue reflects the consideration that the Company expects to receive. The allowance is based on historical experience and Management’s expectation of future returns and price adjustments. Net revenue reflects actual returns and the allowance for estimated returns and price adjustments in the amounts of $32,727 and $40,727 for the three and six months ended September 30, 2019, respectively; the liability for estimated returns and price adjustments was $37,790.

EXHIBIT 2 (Continued)

25. ACREAGE TRANSACTIONS

(a) Acreage Call Option

On June 27, 2019 (the “Effective Date”) Canopy Growth and Acreage Holdings Inc. (“Acreage”) completed a Plan of Arrangement (the “Arrangement”). Pursuant to the terms of the Arrangement, shareholders of Acreage Shares and holders of certain securities convertible into Acreage shares as of June 26, 2019 received an immediate aggregate total payment of US$300 million ($395,190) in exchange for granting Canopy Growth an option (the “Call Option”) to acquire 100% of the shares of Acreage, with a requirement to do so at such time as the occurrence or waiver of changes in United States federal law to permit the general cultivation, distribution, and possession of marijuana or to remove the regulation of such activities from the federal laws of the United States (the “Acreage Triggering Event”). If the Acreage Triggering Event is not satisfied by December 27, 2026, the Arrangement will terminate.

(b) Amendment to the Constellation Investor Rights Agreement and warrants

On November 1, 2018 Canopy Growth issued 104,500,000 common shares from treasury and two tranches of warrants to a subsidiary of Constellation Brands, Inc. (“Constellation”) in exchange for proceeds of $5.072 billion and entered into an Amended and Restated Investor Rights Agreement. The first tranche warrants (“Tranche A Warrants”) allowed Constellation to acquire 88.5 million additional shares of Canopy Growth for a fixed price of $50.40 per share. The second tranche warrants (“Final Warrants”) allowed for the purchase of 51.3 million additional shares at a price equal to the 5-day volume-weighted average price immediately prior to exercise. The Final Warrants could only be exercised if the Tranche A Warrants had been exercised in full. Both the Tranche A Warrants and the Final Warrants expire on November 1, 2021. Canopy Growth accounted for the Tranche A Warrants as equity instruments with a value of $1,505,351 and the Final Warrants as derivative liabilities with a nominal value.

On June 27, 2019 Constellation and Canopy Growth entered into the Second Amended and Restated Investor Rights Agreement and Consent Agreement. In contemplation of these agreements, Canopy Growth also amended the terms of the Tranche A Warrants and Final Warrants as follows:

* Extended the term of the Tranche A Warrants to November 1, 2023 and the term of the Final Warrants to November 1, 2026
* The Final Warrants were also replaced by two tranches of warrants (the “Tranche B Warrants” and “Tranche C Warrants”) with different terms:
  + Tranche B Warrants allow Constellation to acquire 38.5 million shares of Canopy Growth at a fixed price of $76.68 per share.
  + Tranche C Warrants allow Constellation to acquire 12.8 million shares of Canopy Growth at a price equal to the 5-day-volume weighted average price immediately prior to exercise.
* In connection with the Tranche B Warrants and the Tranche C Warrants, Canopy Growth will provide Constellation with a share repurchase credit of up to $1.583 billion on the aggregate exercise price of the Tranche B Warrants and Tranche C Warrants in the event that Canopy Growth does not repurchase the lesser of (i) 27,378,866 common shares, and (ii) common shares with a value of $1.583 billion, during the period commencing on June 27, 2019 and ending on the date that is 24 months after the date that Constellation exercises all of the Tranche A Warrants.

The modifications to the Tranche A Warrants did not change their classification and they continue to be recorded at their initial carrying value, as equity instruments, under IAS 32, *Financial Instruments: Presentation* (“IAS 32”). The extension of the term of the Tranche A Warrants resulted in additional value being attributed to those warrants. On June 27, 2019 the fair value of the Tranche A Warrants was estimated to be $2,585,961 using a Black Scholes model and assuming a volatility of 67.69%.

EXHIBIT 2 (Continued)

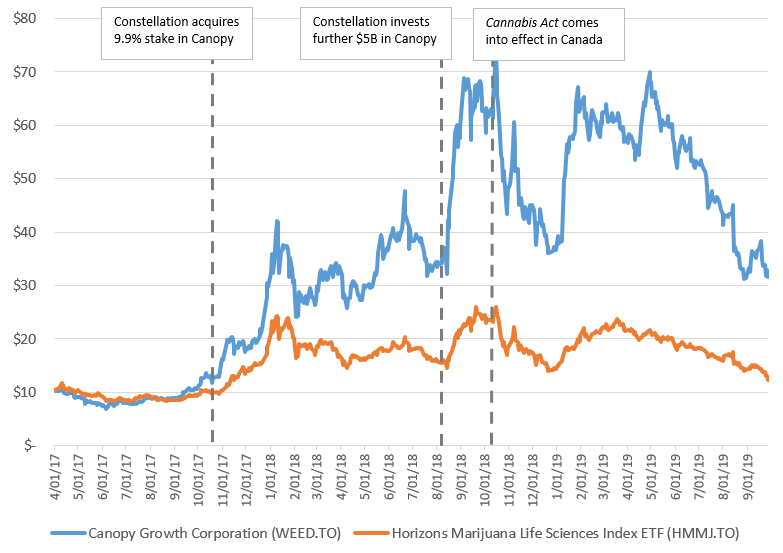
The Tranche B Warrants meet the fixed-for-fixed criterion and, as a result, the Tranche B Warrants are classified as equity instruments in accordance with IAS 32. Since the amendment results in Canopy Growth issuing equity instruments to Constellation to extinguish derivative liabilities, under IFRIC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*, the fair value of an equity instrument is measured and compared to the carrying value of the liability that is extinguished with the difference recognized in net income (loss). On June 27, 2019, the fair value of the Tranche B Warrants was estimated to be $1,176,350 using a Black Scholes model and assuming a volatility of 65.18%, and the Company recorded a loss on extinguishment of the derivative liabilities of $1,176,350 in the consolidated Statements of Operations.

The Tranche C Warrants are accounted for as derivative liabilities. Therefore, 12.8 million of the Final Warrants were derecognized and 12.8 million Tranche C Warrants were recognized as new derivative liabilities. There is no impact to net income (loss) as the fair values of the Final Warrants and Tranche C Warrants are both $nil.

The share repurchase credit feature is a separate financial liability under IAS 32 and was measured on initial recognition at its fair value of $1,274,544. Management has estimated the fair value by discounting the expected cash outflows using a discount rate of 4.08%. As Constellation is the holder of Canopy Growth common shares and the share repurchase credit feature is not a derivative instrument, the effect of the transaction has been recognized directly in Shareholders’ equity. Subsequently, the financial liability is being measured at amortized cost, which was $1,288,079 at September 30, 2019. If the Company revises its estimates of the timing of payments it shall adjust the carrying amount of the financial liability to reflect actual and revised estimated contractual cashflows with the corresponding adjustment being recognized in net income (loss).

Source: Canopy Growth Corporation, *Condensed Interim Consolidated Financial Statements (Unaudited) for the Three and Six Months Ended September 30, 2019 and 2018*, 6–30, accessed July 25, 2020, www.canopygrowth.com/wp-content/uploads/2020/06/Q2-FY2020-Financial-Statements-Final.pdf.

EXHIBIT 3: ILLUSTRATION OF CANOPY AND BROADER INDUSTRY SHARE PRICES



Source: Chart prepared by the case authors with unit price data from “Canopy Growth Corporation (WEED.TO),” Yahoo! Finance, accessed February 25, 2021, https://ca.finance.yahoo.com/quote/WEED.TO/; “Horizons Marijuana Life Sciences Index ETF (HMMJ.TO),” Yahoo! Finance, accessed February 25, 2021, https://ca.finance.yahoo.com/quote/HMMJ.TO/.

EXHIBIT 4: FOWLER’S NOTES from THE *CPA CANADA HANDBOOK*

***Agriculture (IAS 41)***

* **IAS 41.5** – *Biological Asset* – A *Biological Asset* is a living animal or plant
* **IAS 41.5** – *Agricultural Produce –* *Agricultural Produce* is the harvested produce of the entity’s *Biological Assets*
* **IAS 41.8** – *Fair Value –* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date
* **IAS 41.12** – A *Biological Asset* shall be measured on initial recognition and at the end of each reporting period at its *Fair Value* less costs to sell, except for the case where the *Fair Value* cannot be measured reliably
* **IAS 41**.**13** – *Agricultural Produce* harvested from an entity’s *Biological Assets* shall be measured at its *Fair Value* less costs to sell at the point of harvest.
* **IAS 41.26** – A gain or loss arising on initial recognition of a *Biological Asset* at *Fair Value* less costs to sell and from a change in *Fair Value* less costs to sell of a biological asset shall be included in profit or loss for the period in which it arises.

***Investments in Associates and Joint Ventures (IAS 28)***

* **IAS 28.5** – *Significant Influence* – If an entity holds, directly or indirectly (e.g. through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated this is not the case. Conversely, if the entity holds directly or indirectly (e.g. through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated.

exhibit 4 (continued)

* **IAS 28.6** – *Significant influence* – the existence of significant influence by an entity is usually evidenced in one or more of the following ways:
  + (a) representation on the board of directors or equivalent governing body of the investee;
  + (b) participation in policy-making processes, including participation in decisions about dividends or other distributions;
  + (c) material transactions between the entity and its investee;
  + (d) interchange of managerial personnel; or
  + (e) provision of essential technical information
* **IAS 28.10** – *equity method* – under the equity method, on initial recognition the investment in an associate or joint venture is recognized at cost, and the carrying amount is increased or decreased to recognize the investor’s share of the profit or loss of the investee after the date of acquisition. The investor’s share of the investee’s profit or loss is recognized in the investor’s profit or loss. Distributions received from an investee reduce the carrying amount of the investment.

***Impairment of Assets (IAS 36)***

* **IAS 36.6**– *Carrying Amount* – a *Carrying Amount* is the amount at which an asset is recognized after deducing any accumulated depreciation (amortization) and accumulated *Impairment Losses* thereon
* **IAS 36.6** – *Cash-generating Unit* – A *Cash-generating Unit* is the smallest identifiable group of assets that generates cash inflows largely independent of cash inflows from other assets or groups of assets
* **IAS 36.6** – *Impairment Loss* – an *Impairment Loss* is the amount by which the carrying amount of an asset or cash-generating unit exceeds its *Recoverable Amount*.
* **IAS 36**.**6** – *Recoverable Amount* – the *Recoverable Amount* of an asset or cash-generating unit is the higher of its fair value less costs of disposal and its *Value in Use*
* **IAS 36**.**6** – *Value in Use – Value in Use* is the present value of future cash flows expected to be derived from an asset or cash-generating unit.
* **IAS 36.12** – In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

1. There are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.
2. Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
3. Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
4. The carrying amount of the net assets of the entity is more than its market capitalization.
5. Evidence is available of obsolescence or physical damage of an asset
6. Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite
7. Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected

IAS 36.15 – This Standard requires Goodwill to be tested for impairment, at least annually

Source: Adapted by the case authors from the Chartered Professional Accountants of Canada, *CPA Canada Standards and Guidance Collection* (2020), accessed February 25, 2021, www.cpacanada.ca/en/business-and-accounting-resources/cpa-canada-handbook-the-standards-and-guidance-collection/cpa-canada-handbook-accounting.

EXHIBIT 5: CANOPY BRANDS

| **Brand Type** | **Brands** |
| --- | --- |
| Core Brands | * **Tweed** * **Tokyo Smoke** * **VdP** * **Spectrum Therapeutics** * **Twd.** * **Doja** * **Biosteel** * **thisworks** |
| Beverage and Edibles Brands | * **Quatreau** * **Deep Space** * **Bean & Bud** |
| Affiliated Brands | * **Houseplant** * **MoreLife Growth Co.** * **DNA Genetics** * **LBS** * **Green House Seed Co.** |
| Technology Brands | * **Storz & Bickel** |
| Retail Platforms | * **Tweed** * **Tokyo Smoke** |

Source: Canopy Growth Corporation, *Management’s Discussion and Analysis of Financial Condition and Results of Operations for the Year Ended March 31, 2020,* 17–21, June 1, 2020*, a*ccessed July 25, 2020, www.canopygrowth.com/wp-content/uploads/2020/06/Q4-FY2020-MDA-FINAL.pdf.

EXHIBIT 6: RECENT CANOPY Growth Corporation ACQUISITIONS (in CA$ Thousands)

| **Company Acquired** | **Date Acquired** | **Consideration Paid** | **Goodwill Recognized** |
| --- | --- | --- | --- |
| TWP UK Holdings Ltd. (“This Works”) | May 21, 2019 | $71,801 | $66,252 |
| C3 Cannabinoid Compound Company (“C3”) | Apr 30, 2019 | 348,664 | 322,334 |
| **Total Fiscal 2020 year to date** |  | **$420,465** | **$388,586** |
|  |  |  |  |
| Canamo y Fibras Naturales (“Cafina”) | Mar 25, 2019 | $43,940 | $ - |
| Storz & Bickel GmbH (“S&B”) | Dec 6, 2018 | 218,141 | 117,175 |
| Ebbu Inc. (“ebbu”) | Nov 23, 2018 | 366,176 | 327,013 |
| POS Holdings Inc. (“POS”) | Nov 23, 2018 | 128,958 | 93,248 |
| Hiku Brands | Sep 5, 2018 | 600,957 | 539,331 |
| Canopy Health Innovations (“CHI”) | Aug 3, 2018 | 168,915 | 137,445 |
| Spectrum Colombia | Jul 5, 2018 | 46,119 | 14,002 |
| DaddyCann Lesotho PTY Limited (“DCL”) | May 30, 2018 | 27,302 | 2,716 |
| Other | Various | 1,568 | 1,538 |
| **Total Fiscal 2019** |  | **$1,602,076** | **$1,232,468** |
|  |  |  |  |
| Les Serres Vert Cannabis Inc. (“Vert Mirabel”) | Dec 18, 2017 | $ - | $5,625 |
| Tweed JA Limited | Sep 6, 2017 | 3,769 | 1,835 |
| Tweed Grasslands Cannabis Inc. | May 1, 2017 | 30,927 | 29,736 |
| Other | Various | 5,244 | 1,562 |
| **Total Fiscal 2018** |  | **$39,940** | **$38,758** |
| **Grand Total** |  | **$2,062,481** | **$1,659,812** |
|  |  |  |  |

Source: Chart prepared by case authors with information from Canopy Growth Corporation, *Consolidated Financial Statements for the Years Ended March 31, 2020, 2019 and 2018*, accessed February 25, 2021, www.canopygrowth.com/wp-content/uploads/2020/07/Canopy-Growth-Corporation\_Q4\_FY\_2017\_Financial-Statements-Amended\_Final.pdf; Canopy Growth Corporation, *Amended and Restated Consolidated Financial Statements for the Years Ended March 31, 2017 and 2016*, November 13, 2017, accessed February 25, 2021, www.canopygrowth.com/wp-content/uploads/2020/07/Canopy-Growth-Corporation\_Q4\_FY\_2017\_Financial-Statements-Amended\_Final.pdf.

Endnotes

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Canopy Growth Corporation or any of its employees. [↑](#endnote-ref-1)
2. Canopy Growth Corporation, *Management’s Discussion and Analysis of Financial Condition and Results of Operations for the Year Ended March 31, 2020,* 6, June 1, 2020*, a*ccessed July 25, 2020, www.canopygrowth.com/wp-content/uploads/2020/06/Q4-FY2020-MDA-FINAL.pdf. [↑](#endnote-ref-2)
3. All currency amounts are in CA$ unless otherwise specified. [↑](#endnote-ref-3)
4. “The Retail Cannabis Market in Canada: A Portrait of the First Year,” Statistics Canada, December 12, 2019, accessed July 19, 2020, www150.statcan.gc.ca/n1/pub/11-621-m/11-621-m2019005-eng.htm. [↑](#endnote-ref-4)
5. “National Cannabis Survey, Third Quarter 2019,” Statistics Canada, October 30, 2019, accessed July 19, 2020, www150.statcan.gc.ca/n1/daily-quotidien/191030/dq191030a-eng.htm. [↑](#endnote-ref-5)
6. Deloitte, *A Society in Transition, an Industry Ready to Bloom—2018 Cannabis Report*, 5, accessed July 24, 2020, https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/consulting/ca-cannabis-2018-report-en.PDF. [↑](#endnote-ref-6)
7. Canopy Growth Corporation, op. cit., 19. [↑](#endnote-ref-7)
8. Peter Grinspoon, “Medical Marijuana,” Harvard Health Publishing: Harvard Medical School, April 10, 2020, accessed July 25, 2020, www.health.harvard.edu/blog/medical-marijuana-2018011513085. [↑](#endnote-ref-8)
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13. Ibid., 4. [↑](#endnote-ref-13)
14. Selena Ross, “All Eyes on Canada as First G7 Nation Prepares to Make Marijuana Legal,” *Guardian*, June 7, 2018, accessed July 25, 2020, www.theguardian.com/world/2018/jun/06/all-eyes-on-canada-as-first-g7-nation-prepares-to-make-marijuana-legal. [↑](#endnote-ref-14)
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16. Ibid. [↑](#endnote-ref-16)
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18. Ibid. [↑](#endnote-ref-18)
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24. Ibid. [↑](#endnote-ref-24)
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27. Canopy Growth Corporation, op. cit., 10. [↑](#endnote-ref-27)
28. Ibid. [↑](#endnote-ref-28)
29. Canopy Growth Corporation, op. cit., 11. [↑](#endnote-ref-29)
30. The total of this revenue adjustment was $40,727 for the six months ended September 30, 2019. [↑](#endnote-ref-30)
31. Canopy Growth Corporation, op. cit., 7. [↑](#endnote-ref-31)
32. Ibid., 7–8. [↑](#endnote-ref-32)
33. Ibid. 29. [↑](#endnote-ref-33)
34. Ibid., 7. [↑](#endnote-ref-34)