

2018/19

# LETTER TO SHAREHOLDERS

BACKED BY

**RIV**

CANOPY  
RIVERS



# COMPANY HIGHLIGHTS

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~1500

OPPORTUNITIES  
EVALUATED



18

INVESTMENTS  
MADE



15

PORTFOLIO COMPANIES IN  
COLLABORATION TOGETHER



+5X

IMPLIED HISTORICAL RETURN ON  
INVESTED CAPITAL<sup>1</sup>



+\$80MM

CASH AVAILABLE FOR FUTURE  
INVESTMENTS<sup>2</sup>

**Note:** All dollar (\$) amounts in this letter are in Canadian currency unless otherwise stated. Please refer to page 12 for the disclaimer around forward-looking statements.

<sup>1</sup>Based on most recently published average analyst NAV (adjusted for capitalized G&A expenses and cash on hand).

<sup>2</sup>Approximately \$60 million unencumbered and available for new investments.

# LETTER TO SHAREHOLDERS

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*At Canopy Rivers, we are committed to making the cannabis industry stronger, faster, better, and smarter by accelerating the success of the companies we invest in. As a venture capital firm specializing in cannabis, we are looking for the next wave of disruptors that will change the industry as we know it. We are in the unique position of attracting a truly global collection of investor and entrepreneur communities. When we bring people, capital, and ideas together, we raise the potential of the global cannabis industry. We are building the cannabis industry of tomorrow, today.*

When Canopy Rivers was founded in 2017, the model was simple: accumulate cash and put it into opportunities; find like-minded operators looking to grow their cannabis businesses; and collaborate with Canopy Growth while we do it. While this is still true today, we have also made some important changes. We have strengthened and expanded our corporate principles, refined our investment and operating strategy by following examples set by the world's leading venture capital funds in other industries, and focused on decreasing risk and accelerating the path to unlocking value for our shareholders. And we have barely scratched the surface. If we compare the cannabis industry to a baseball game, we are, at best, still early in the second inning – there is a lot of game left to play.

In the following pages, we will share with you:

- our unique value proposition;
- our thesis-driven investment strategy;
- some noteworthy transactions;
- financial highlights for FY2019;
- our growth plan; and
- the people who drive us forward.

By reading this letter, we hope that you will achieve an understanding of our strategy and our goals, and a clear view of where we succeeded and where we need to improve as we continue to build a transformational and enduring business.

## INDUSTRY NOISE

October 17, 2018, marked a historic day in Canada – full federal legalization of adult-use cannabis. It was a momentous step for the cannabis industry in Canada, and a

turning point for the global cannabis industry. It marked the emergence of a new global industry, which we believe is a once-in-a-lifetime opportunity – for medical patients, for social activists, for investors, for everyone. But the roll-out was never going to be perfectly smooth, for a few reasons:

- **The stigma is still very real.** Nearly a century of prohibition and continued illegality in most jurisdictions globally means that a stigma around cannabis still exists. This will take time to go away.
- **The black market persists.** Estimates show that the black market continues to capture a significant percentage of cannabis activity across jurisdictions where it is legal. High prices, taxes, and limited access to products have done little to shut out illegal operators.
- **Fragmentation around legalization in the U.S. creates barriers.** The U.S. market remains fragmented and is plagued by legal complexities. We believe this patchwork regulatory system prevents businesses from investing in a market-efficient manner, and legal concerns have caused the capital to remain on the sidelines.
- **Growing pains are inevitable.** As with any new industry, cannabis companies have grappled with rapid growth and, along with that, the scramble for top tier talent. Negative headlines still garner much more attention than positive ones, and there have been plenty of the former.

There is still a lot of noise, but we try not to let it distract us. We are not investing in the cannabis industry of today – we are investing in the cannabis industry of tomorrow.

## OUR DISTINCT BUSINESS MODEL

The cannabis industry moves at light speed. Public sentiment is shifting to favour legalization in countries all over the world. Governments across the globe are considering (and in many cases actively implementing) measures to end cannabis prohibition. On the back of these efforts, regulators are rushing to create safety and quality standards. Cannabis is expected to be a multi-billion-dollar industry, and we are seeing that opportunity rapidly materialize. The specific numbers may differ, but nearly every estimate we have seen of the sector's potential size has the same conclusion – there will be significant growth. And with large incumbent players from the pharmaceutical, tobacco, and alcohol industries jumping in, that growth shows no signs of slowing down.

While the Internet boom brought forth the likes of Google, Facebook, and Netflix, the cannabis revolution will unleash a new wave of innovators and disruptors. Our role is to provide capital and operational expertise to these vanguards, helping them grow and reach their full potential. Our sights are set on realizing that potential with a monetization event of our own, through an exit (i.e. via sale or go-public transaction) and/or free cash flow generation.

Waiting for that potential to materialize is not something you will find us doing. Our in-house team of portfolio-focused industry experts, the Impact Team, are actively involved in accelerating the operational success of every one of our portfolio companies. *On day one we make an investment, on day two we are creating value.* Through our expertise, we actively identify areas of collaboration or synergy within our portfolio to maximize value and minimize risk. We work to connect the companies we invest in with one another and with Canopy Growth. The Impact Team is behind many of the commercial relationships and transactions that bring value to each of our portfolio companies.

## EXECUTING OUR INVESTMENT THESIS

In Canada and the U.S., many cannabis companies are forced to be vertically integrated from seed-to-sale. Barring a few exceptions, we do not believe that this has worked particularly well. Some companies are great cultivators, but suboptimal brand builders. Others have launched great products, but need to bring in quality cannabis-derived ingredients. Naturally, as the industry continues to mature and the cannabis value chain divides into further segments, we think companies will begin to horizontally integrate, meaning that they will *specialize* in one or two things, while outsourcing the rest of the value chain to other companies.

We have seen this play out in the digital technology industry (and many other industries as well). Back in the early days of the Internet, companies needed to build everything internally, from server infrastructure to e-commerce. Now, we see increased specialization, with tech giants such as Amazon, Shopify, and PayPal taking a customer-centric approach in their operations and outsourcing the rest.

Simply put, aside from a limited number of very large players, we believe that the cannabis industry will reward companies that are laser focused on what they do best. For example, a vaporizer brand will build its consumer roster through its technology and branding, leaving the inputs (i.e. cultivation, extraction, etc.) and outputs (i.e. distribution, retail, etc.) to other players.

Similar to Silicon Valley venture capital firms, we take a rigorously thesis-driven approach to investing. We segment the cannabis value chain into its 13 component parts (cultivation, extraction, brands, retail, etc.). We then further break it down into 97 subsegments, which will include more niche areas, such as biosynthetic cannabinoids, portable vaporizers, and artificial intelligence platforms. For each value chain segment and sub-segment, we further apply a ten-criteria analysis, looking at characteristics such as barriers to entry, exit potential, and synergies across the portfolio. Through this exercise, we get to 15-20 unique ideas that we use to develop our investment theses. It is a complicated process, but it works.

Our deal pipeline is strong. We have seen more than 1,500 pitches since our company was founded. Understanding the power of data, we have built an internal-only private company data set that provides us with unique insights. We use this data to understand

which segments are hot, which products and services are selling, which companies are surpassing targets, and their valuations. We use this information to help us efficiently allocate capital to each piece of the cannabis value chain.

## OUR DIVERSIFIED PORTFOLIO

Our portfolio is currently made up of 18 investments that span the cannabis value chain – it includes companies specializing in cultivation, CBD extraction, plant sciences, pharmaceutical formulation, data and analytics, brands, retail, and media. While our portfolio companies continue to operate autonomously, we see ourselves as facilitators of their sustained success. We are promoting a robust ecosystem where complimentary cannabis companies work together to drive the industry forward. *Their individual success is our collective success.*

We have put an emphasis on diversification – not only in the types of businesses we invest in, but also the structures we use to deploy capital. Our portfolio consists of royalty stream arrangements, convertible debentures, preferred equity arrangements, and common equity (including options and warrants). Taken together, these tailored investment structures are designed to deliver stable and predictable cash flow, as well as significant upside potential, for Canopy Rivers and our shareholders. We believe this diversification gives us a leading edge over many other public cannabis companies.

From an investment perspective, our portfolio is divided into three segments: joint ventures, royalty investments, and other venture investments. We value each of these segments in different ways. This can cause confusion for investors because our financial statements do not read like those belonging to a typical cannabis operating company (we will get into our financials a bit more below).

This is how we value these segments:

- **For our joint ventures**, we ascribe value through the EBITDA that will be attributed to us through our ownership percentage in that joint venture, beginning in calendar year 2020, when we expect that these joint ventures begin generating revenue;
- **For our royalty investments**, we ascribe value through the recurring cash flow from our royalty streams, which covers a significant portion of our general and administrative expenses each year; and
- **For our venture investments**, value will ultimately be derived from the monetization events we have mentioned above, the timing of which will depend on each investment.

We believe our portfolio, and the unique exposure we provide to specialized private cannabis companies, is where we unlock long-term value for you, our shareholders. *When you invest in Canopy Rivers, you are not making a bet on any one company in the global cannabis industry – you are making a bet on the success of the global cannabis industry as a whole.* And we think that is a good bet to make.

## REFLECTIONS ON THE YEAR

This past fiscal year was punctuated with a number of breakthroughs. Here is a summary of some of these milestones and highlights:

**We co-founded PharmHouse, the cannabis greenhouse of the future.** Establishing one of the world's largest cannabis facilities was a huge accomplishment for us. The PharmHouse joint venture would not be possible without our partners: the principals and operators of North American produce conglomerate Mastronardi Produce. They bring more than 60 years of greenhouse production experience to the table. Their commitment to the joint venture is strong – we have a global non-compete agreement with them that sets PharmHouse up to be the go-to platform when it is time to bring ultramodern cannabis cultivation to international markets. The build-out of PharmHouse's highly automated 1.3 million sq. ft. facility is fully funded and includes syndicated bank debt that we helped negotiate this year – the largest given to a private cannabis company at the time it was signed. In a short 12 months, PharmHouse was able to secure production and supply agreements covering approximately 50% of its expected annual output. With a cultivation licence in hand, the PharmHouse platform is ready to supply low-cost, high-quality cannabis to Canadian markets and beyond.

**We went public during a period of extreme volatility.** Canopy Rivers went public this past year via a reverse takeover transaction (RTO). As an RTO involves a simultaneous acquisition by a capital pool corporation, the go-public process was drawn out over a three-month period, creating a gap between when we raised money in June 2018 and when we went public in September 2018. We reached an intraday high of \$11.82 on our first day of trading – that was more than 200% above the price of our financing in June at a price of \$3.50 per share.

In the time between our raise and our going public, two factors inflated the market price of all cannabis stocks:

- Constellation Brands invested \$5 billion in Canopy Growth, which caused its share price to soar; and
- the meteoric rise in the value of cannabis stocks during the months before legalization – demand was high and, more often than not, supply was low for retail investors.

The cannabis industry has since matured, although volatility still plagues the markets. We have seen investors assign less importance to momentum trading and giving more clout to companies that can execute and deliver solid financial results for shareholders. As we focus on making intelligent investments and communicating our value proposition, we believe we will deliver that long-term value to shareholders.

**We backed TerrAscend's global ambitions.** When TerrAscend approached us in Fall 2018 looking to explore opportunities in the U.S., we could have exited our position to lock in a return that was a 10x multiple of the value of our initial investment. Instead, we restructured it and waived restrictions that once prevented the company from pursuing certain opportunities in the U.S. Why? We strongly believe in their capabilities as an operator. There are a growing number of legal cannabis markets (both recreational and medical) beyond Canada, and we think TerrAscend has the mindset needed to succeed. Now with several U.S.-based acquisitions and a coveted EU GMP certification under its belt, TerrAscend is the first and only cannabis operator with sales in the U.S., Canada, and Europe.

**We invested in data-driven cannabis insights.** Most companies in mature industries already work with retail data providers to understand pricing, promotion, and buying trends across products and segments. And we know that the cannabis industry will be no different in this respect. That is why we invested in Headset – the only real-time business intelligence and analytics software platform for the cannabis industry. Months after our investment was announced, the company formed key partnerships with Nielsen, Deloitte, Cowen, and Marijuana Business Daily, validating our thesis that in the cannabis industry, like other mature industries, data will be king.

**We broke the ice on investments in infused beverages.** CBD is experiencing a surge in popularity around the world, and this past fiscal year we found partners to infuse the cannabinoid into drinks for the mass market. Enter Greenhouse Juice, an established leader in the food and beverage segment with the brand awareness and infrastructure required to bring CBD consumer products to market at scale. CBD will unlock a new stream of revenue for the company and is a natural fit for its existing range of plant-based beverages, which are already sold in hundreds of retail locations. Soon after, we also invested in Herbert, a sister company to Greenhouse Juice, which intends to create THC-infused beverages and edibles. We are excited to help both companies succeed in bringing their products to market.

## FINANCIAL HIGHLIGHTS

Our objective is to create value for our shareholders. That value creation can come in any number of forms: above-market yields from our royalty and debt positions; dividends or other distributions from our equity investments; or monetization events from our portfolio companies, hopefully for significant gains. The proposition is simple: take a dollar of capital, invest in a disruptive company, unleash our experts and domain expertise, and turn that dollar into something worth multiples of it.

Despite the simplicity of that business model, our financial statements are a little more complicated. Given the various company types, ownership levels, investment structures, and governance rights in our portfolio, the accounting treatments of our investments can be varied and complex. Some investments may be recorded at cost and adjusted each quarter for our share of the profit or loss; some may be held at close



to cost until an exit; and some are re-valued each quarter based on third-party inputs. As a result, our financial statements can be difficult to understand.

During the year, we saw a lot of movement in profitability quarter to quarter. Our net income and other comprehensive income were primarily affected by swings in share prices for the public companies we had invested in, which swings can be particularly drastic in the cannabis industry. This volatility was exacerbated by a unique, one-time accounting write-down in Q3 when we retained our position in TerrAscend while they build their U.S. business. A snapshot of the variability is provided below:

(CAD, in millions)	Operating income	G&A expenses	SBC expense (non-cash item)	Net income	Other comprehensive income	Total comprehensive income
Q1 2019	0.7	0.6	6.8	(6.6)	(2.4)	(9.0)
Q2 2019	23.3	1.0	8.0	10.9	26.6	37.5
Q3 2019	8.4	1.4	5.2	1.4	(80.9)	(79.5)
Q4 2019	6.1	3.0	4.5	(1.8)	22.4	20.6
<b>Total - FY 2019</b>	<b>38.5</b>	<b>6.0</b>	<b>24.5</b>	<b>3.9</b>	<b>(34.3)</b>	<b>(30.4)</b>

As the public markets for the cannabis sector stabilize going forward, and as our earnings become more influenced by our share of the earnings of our joint venture investments, we expect the variability in our quarterly reporting to subside and give way to a more predictable growth profile. This will provide a better sense of how we are doing as a company. Admittedly, given it is still early days in the sector and for many of our portfolio companies, this will not happen overnight. A lot of work goes into turning one dollar into multiple dollars, and we are busy putting in that work. Our ongoing commitment is to continue to drive profitable revenue generation at our portfolio companies and look for those monetization opportunities when it makes sense to do so.

## OUR GROWTH PLAN

The cannabis industry is blossoming as producers, manufacturers, and companies across the value chain embrace opportunities in both the recreational and medical markets. Disruption in the sector is a question of when, not if, as existing companies grow and industry-adjacent players get set to enter the space. For consumers across the use spectrum – recreational, health and wellness, and medical – cannabis is a potentially disruptive ingredient that we expect will create new markets.

Over the next year, we plan to capitalize on cannabis' disruptive nature by being lifecycle investors, targeting the deployment of capital across multiple stages of a company's life.

Our investment criteria include three key characteristics:

1. **Finding exceptional entrepreneurs**, that understand both the potential of the plant and the behaviour around their company's customer base.
2. **Product-market fit**, demonstrated by traction in the market and/or intellectual property that creates barriers to entry.
3. **Market dynamics**, including verticals that have sizable addressable markets, profitability, and the ability to scale globally.

Our Impact Team will continue to deliver on the value-added component of working with us, by fostering partnerships across the portfolio, including support surrounding plant science, genetics, cultivation, extraction, marketing, distribution, and technology. Specifically, over the next 12 months, the Impact Team plans to focus on:

1. **Commercialization**, through our network to help portfolio companies with regulatory guidance, capital build-out, branding, distribution, and other important operational areas.
2. **Collaboration**, between like-minded companies inside and outside of our ecosystem, to help our portfolio companies scale and focus on what they are best at.
3. **Monetization**, by helping companies find ways to build revenue and cash flow, guiding them towards an eventual exit or other monetization event.

The challenges that continue to face our industry can create obstacles for our development. However, we are building a business that looks beyond the short-term volatility. We aim to do this by:

1. **Promoting de-stigmatization**, by continuing to share our collective knowledge.
2. **Investing in the disruptors and the innovators**, that will bring products and services to market and create superiority in legal channels.
3. **Structuring compliant U.S. and international deals**, providing investors access to cannabis companies and brands around the world.
4. **Prioritizing strong corporate governance**, in everything we do.

We believe in the long-term success of the cannabis industry and, as such, helping build sustainable businesses. This takes time. We trust that our shareholders understand our mission, share our view of the immense potential in the industry, and ultimately believe in the value we are creating.

## OUR PEOPLE

Over the past year, our team members have been instrumental in establishing Canopy Rivers as the only public venture capital firm in the cannabis space – and they will continue to be key to our long-term success. We truly believe that our collective

intelligence and unmatched industry knowledge sets us apart from any other firm investing in cannabis.

We are always focused on creating a positive, stimulating, and empowering environment for our team members. We recognize that by encouraging our employees to explore, grow, and succeed in their roles, that their goals and the core principals of our company become aligned. Our team has a shared passion for the cannabis industry – as it exists today and its promise for the future.


We want to stay agile. We strive for streamlined operations with a lean team to ensure speed in decision-making and preserve our ability to do what we do best – intelligent and innovative investment in the cannabis space.

## TO SUM IT ALL UP

We had a breakthrough year. We truly believe we lead the pack, rather than follow it. Our actions are not based on what others are doing, but where we think the industry is heading. While we are proud of what we have accomplished, we continue to work tirelessly on building value for you – all while fostering a resilient and integrated ecosystem of innovators that will continue to prosper in the years to come. Thanks to you, our shareholders, for investing in us, believing in us. [We are where the smart money goes.](#)



**Narbé Alexandrian**  
President and CEO



**John Bell**  
Chair of the Board

# OUR PORTFOLIO

LEVERAGING THE ECOSYSTEM EFFECT



\*Canopy Rivers' equity interest is in LeafLink Services International ULC.



## SHAREHOLDER INFORMATION

### TSXV Listing

Trading Symbol: RIV  
Securities Listed: Subordinated Voting Shares

### Registrar and Transfer Agent

TSX Trust Company  
100 Adelaide St W #301  
Toronto, ON, M5H 4H1, Canada

### Annual General and Special Meeting of Shareholders

September 26, 2019  
Cassels Brock & Blackwell LLP  
40 King St W #2100  
Toronto, ON, M5H 3C2, Canada

### Auditors

KPMG LLP

### Investor Contact Information

Email: [ir@canopyrivers.com](mailto:ir@canopyrivers.com)  
Website: [canopyrivers.com/investors](http://canopyrivers.com/investors)

## BOARD OF DIRECTORS

### John Bell

Chair of the Board

### Asha Daniere

Independent Director

### Richard Mavrincac

Lead Independent Director

### Joe Mimran

Independent Director

## EXECUTIVE TEAM

### Narbé Alexandrian

President and Chief Executive Officer

### Eddie Lucarelli

Chief Financial Officer

### Olivier Dufourmantelle

Chief Operating Officer

### Matthew Mundy

General Counsel and Corporate Secretary

### Daniel Pearlstein

Executive Vice President, Strategy

## Forward-Looking Information

This document includes forward-looking information within the meaning of Canadian securities laws. Statements containing the words “believe”, “expect”, “intend”, “should”, “seek”, “anticipate”, “will”, “positioned”, “project”, “risk”, “plan”, “may”, “estimate” or, in each case, their negative and words of similar meaning are intended to identify forward-looking information. Forward-looking information in this document includes, but is not limited to, information regarding Canopy Rivers Inc.’s (the “Company”) and its portfolio companies’ (the “Investees”) future financial results, investment strategies, goals, plans, business opportunities and ability to create value for shareholders, as well as market and industry trends and growth opportunities. Forward-looking information contained in this document is based on certain assumptions, including, but not limited to, assumptions regarding the expected financial performance of the Company and the Investees, the Company’s ability to implement its strategies, goals and plans and to create value for shareholders, the Company’s relationship with Canopy Growth Corporation and the Investees, industry trends and growth opportunities. While management believes these assumptions to be reasonable, based on information available as of the current date, they may prove to be incorrect.

Forward-looking information involves known and unknown risks and uncertainties. Such risks and uncertainties are set out under the heading “Risk Factors” in the Company’s Annual Information Form for the financial year ended March 31, 2019 dated July 15, 2019, available under the Company’s profile on the System for Electronic Document Analysis and Retrieval (SEDAR).

These assumptions, risks and uncertainties could adversely affect the outcome and financial effects of the plans and events described herein. In addition, even if the outcome and financial effects of the plans and events described herein are consistent with the forward-looking information contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

Many risks, uncertainties and assumptions are based on factors and events that are not within the control of the Company and actual future results may differ materially from current expectations. You should not place undue reliance on forward-looking information. Except as required by applicable law, the Company assumes no obligation to update or revise any forward-looking information in this document to reflect new events or circumstances. All forward-looking statements in this document are qualified by these cautionary statements.


THANK  
YOU

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