
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-38496

Canopy Growth Corporation

(Exact name of registrant as specified in its charter)

Canada

(State or other jurisdiction of
incorporation or organization)

1 Hershey Drive

Smith Falls, Ontario

(Address of principal executive offices)

N/A

(I.R.S. Employer
Identification No.)

K7A 0A8

(Zip Code)

Registrant's telephone number, including area code: (855) 558-9333

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common shares, no par value	CGC	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 6, 2020, there were 372,283,584 common shares of the registrant issued and outstanding.

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Unless otherwise noted or the context indicates otherwise, references in this Quarterly Report on Form 10-Q ("Quarterly Report") to the "Corporation", "Canopy Growth", "we", "us" and "our" refer to Canopy Growth Corporation, its direct and indirect wholly-owned subsidiaries and, if applicable, its joint ventures and investments accounted for by the equity method; the term "cannabis" means the plant of any species or subspecies of genus Cannabis and any part of that plant, including all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers; and the term "U.S. hemp" has the meaning given to term "hemp" in the U.S. Agricultural Improvement Act of 2018, including hemp-derived cannabidiol ("CBD").

This Quarterly Report contains references to our trademarks and trade names and to trademarks and trade names belonging to other entities. Solely for convenience, trademarks and trade names referred to in this report may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that their respective owners will not assert, to the fullest extent under applicable law, their rights thereto. We do not intend our use or display of other companies' trademarks or trade names to imply a relationship with, or endorsement or sponsorship of us or our business by, any other companies.

All currency amounts in this Quarterly Report are stated in Canadian dollars, which is our reporting currency, unless otherwise noted. All references to "dollars" or "CDN\$" are to Canadian dollars and all references to "US\$" are to U.S. dollars.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

CANOPY GROWTH CORPORATION
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS
(in thousands of Canadian dollars, except number of shares and per share data, unaudited)

	September 30, 2020	March 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 673,287	\$ 1,303,176
Short-term investments	1,048,921	673,323
Restricted short-term investments	14,332	21,539
Amounts receivable, net	79,668	90,155
Inventory	398,454	391,086
Prepaid expenses and other assets	77,227	85,094
Total current assets	2,291,889	2,564,373
Equity method investments	25,663	65,843
Other financial assets	381,878	249,253
Property, plant and equipment	1,495,143	1,524,803
Intangible assets	437,344	476,366
Goodwill	1,933,476	1,954,471
Other assets	8,337	22,636
Total assets	\$ 6,573,730	\$ 6,857,745
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 81,064	\$ 123,393
Other accrued expenses and liabilities	83,064	64,994
Current portion of long-term debt	13,272	16,393
Other liabilities	147,060	215,809
Total current liabilities	324,460	420,589
Long-term debt	520,424	449,022
Deferred income tax liabilities	39,569	47,113
Liability arising from Acreage Arrangement	147,000	250,000
Warrant derivative liability	221,948	322,491
Other liabilities	167,267	190,660
Total liabilities	1,420,668	1,679,875
Commitments and contingencies		
Redeemable noncontrolling interest	83,900	69,750
Canopy Growth Corporation shareholders' equity:		
Common shares - \$nil par value; Authorized - unlimited number of shares; Issued - 372,046,111 shares and 350,112,927 shares, respectively	6,745,255	6,373,544
Additional paid-in capital	2,533,112	2,615,155
Accumulated other comprehensive income	103,306	220,899
Deficit	(4,463,798)	(4,323,236)
Total Canopy Growth Corporation shareholders' equity	4,917,875	4,886,362
Noncontrolling interests	151,287	221,758
Total shareholders' equity	5,069,162	5,108,120
Total liabilities and shareholders' equity	\$ 6,573,730	\$ 6,857,745

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

CANOPY GROWTH CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF
OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(in thousands of Canadian dollars, except number of shares and per share data, unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2020	2019	2020	2019
Revenue	\$ 150,828	\$ 85,621	\$ 269,916	\$ 189,012
Excise taxes	15,562	9,008	24,234	21,917
Net revenue	135,266	76,613	245,682	167,095
Cost of goods sold	109,186	72,970	213,107	145,162
Gross margin	26,080	3,643	32,575	21,933
Operating expenses				
Selling, general and administrative expenses	147,253	181,601	282,645	327,248
Share-based compensation	21,984	92,881	52,669	180,243
Expected credit losses on financial assets and related charges	94,745	-	94,745	-
Asset impairment and restructuring costs	46,363	-	59,157	-
Total operating expenses	310,345	274,482	489,216	507,491
Operating loss	(284,265)	(270,839)	(456,641)	(485,558)
Loss from equity method investments	(32,991)	(2,171)	(40,180)	(4,004)
Other income (expense), net	221,256	509,893	269,461	542,661
(Loss) income before income taxes	(96,000)	236,883	(227,360)	53,099
Income tax (expense) recovery	(552)	5,767	2,486	(4,500)
Net (loss) income	(96,552)	242,650	(224,874)	48,599
Net loss attributable to noncontrolling interests and redeemable noncontrolling interest	(64,491)	(16,268)	(84,312)	(24,450)
Net (loss) income attributable to Canopy Growth Corporation	<u>\$ (32,061)</u>	<u>\$ 258,918</u>	<u>\$ (140,562)</u>	<u>\$ 73,049</u>
Basic (loss) earnings per share	\$ (0.09)	\$ 0.75	\$ (0.38)	\$ 0.21
Basic weighted average common shares outstanding	371,520,534	347,226,921	367,663,135	346,028,903
Diluted (loss) earnings per share	\$ (0.09)	\$ 0.25	\$ (0.38)	\$ 0.19
Diluted weighted average common shares outstanding	371,520,534	380,323,118	367,663,135	382,765,533
Comprehensive (loss) income:				
Net (loss) income	\$ (96,552)	\$ 242,650	\$ (224,874)	\$ 48,599
Other comprehensive (loss) income, net of income tax effect				
Fair value changes of own credit risk of financial liabilities	(37,110)	22,050	(52,470)	36,660
Foreign currency translation	(11,999)	8,627	(65,123)	(52,117)
Total other comprehensive (loss) income, net of income tax effect	(49,109)	30,677	(117,593)	(15,457)
Comprehensive (loss) income	(145,661)	273,327	(342,467)	33,142
Comprehensive loss attributable to noncontrolling interests and redeemable noncontrolling interest	(64,491)	(16,268)	(84,312)	(24,450)
Comprehensive (loss) income attributable to Canopy Growth Corporation	<u>\$ (81,170)</u>	<u>\$ 289,595</u>	<u>\$ (258,155)</u>	<u>\$ 57,592</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

CANOPY GROWTH CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands of Canadian dollars, unaudited)

	Common shares	Additional paid-in capital				Accumulated other comprehensive income (loss)	Deficit	Noncontrolling interests	Total
		Share-based reserve	Warrants	Ownership changes	Redeemable noncontrolling interest				
Balance at March 31, 2020	\$ 6,373,544	\$ 517,741	\$ 2,638,951	\$ (501,403)	\$ (40,134)	\$ 220,899	\$ (4,323,236)	\$ 221,758	\$ 5,108,120
Other issuances of common shares and warrants	35,666	(27,728)	-	-	-	-	-	-	7,938
Exercise of warrants	315,256	-	(70,266)	-	-	-	-	-	244,990
Exercise of Omnibus Plan stock options	18,959	(8,203)	-	-	-	-	-	-	10,756
Share-based compensation	-	49,916	-	-	-	-	-	-	49,916
Issuance and vesting of restricted share units	1,830	(1,830)	-	-	-	-	-	-	-
Changes in redeemable noncontrolling interest	-	-	-	-	(23,575)	-	-	9,425	(14,150)
Ownership changes relating to noncontrolling interests	-	-	-	(357)	-	-	-	4,416	4,059
Comprehensive loss	-	-	-	-	-	(117,593)	(140,562)	(84,312)	(342,467)
Balance at September 30, 2020	<u>\$ 6,745,255</u>	<u>\$ 529,896</u>	<u>\$ 2,568,685</u>	<u>\$ (501,760)</u>	<u>\$ (63,709)</u>	<u>\$ 103,306</u>	<u>\$ (4,463,798)</u>	<u>\$ 151,287</u>	<u>\$ 5,069,162</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

CANOPY GROWTH CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands of Canadian dollars, unaudited)

	Common shares	Additional paid-in capital				Accumulated other comprehensive income (loss)	Deficit	Noncontrolling interests	Total
		Share-based reserve	Warrants	Ownership changes	Redeemable noncontrolling interest				
Balance at March 31, 2019	\$ 6,029,222	\$ 505,172	\$ 1,589,925	\$ (500,963)	\$ (2,110)	\$ (5,905)	\$ (835,118)	\$ 285,485	\$ 7,065,708
Other issuances of common shares and warrants	244,622	(244,877)	359	-	-	-	-	-	104
Exercise of warrants	932	-	(486)	-	-	-	-	-	446
Exercise of Omnibus Plan stock options	58,764	(22,741)	-	-	-	-	-	-	36,023
Share-based compensation	-	175,395	-	-	-	-	-	-	175,395
Issuance and vesting of restricted share units	389	(389)	-	-	-	-	-	-	-
Acreage warrant modification	-	-	1,049,153	-	-	-	(2,166,792)	-	(1,117,639)
Changes in redeemable noncontrolling interest	-	-	-	-	779	-	-	(3,679)	(2,900)
Ownership changes relating to noncontrolling interests	-	-	-	(335)	-	-	-	5,339	5,004
Comprehensive (loss) income	-	-	-	-	-	(15,457)	73,049	(24,450)	33,142
Balance at September 30, 2019	<u>\$ 6,333,929</u>	<u>\$ 412,560</u>	<u>\$ 2,638,951</u>	<u>\$ (501,298)</u>	<u>\$ (1,331)</u>	<u>\$ (21,362)</u>	<u>\$ (2,928,861)</u>	<u>\$ 262,695</u>	<u>\$ 6,195,283</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

CANOPY GROWTH CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars, unaudited)

	<u>Six months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net loss	\$ (224,874)	\$ 48,599
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property, plant and equipment	36,373	29,813
Amortization of intangible assets	29,432	15,955
Share of loss on equity method investments	40,180	4,004
Share-based compensation	52,669	180,243
Asset impairment and restructuring costs	59,157	-
Expected credit losses on financial assets and related charges	94,745	-
Income tax (recovery) expense	(2,486)	4,500
Non-cash foreign currency	(17,756)	(1,463)
Interest paid	(12,837)	(12,750)
Change in operating assets and liabilities, net of effects from purchases of businesses:		
Amounts receivable	1,498	11,390
Prepaid expenses and other assets	(6,604)	(50,224)
Inventory	(23,500)	(143,229)
Accounts payable and accrued liabilities	(11,408)	10,584
Other, including non-cash fair value adjustments	(294,884)	(469,507)
Net cash used in operating activities	<u>(280,295)</u>	<u>(372,085)</u>
Cash flows from investing activities:		
Purchases of and deposits on property, plant and equipment	(90,195)	(440,150)
Purchases of intangible assets	(7,604)	(9,538)
Proceeds on sale of intangible assets	18,337	-
(Purchases) redemption of short-term investments	(367,779)	388,027
Investments in equity method investments	-	(4,719)
Investments in other financial assets	(7,526)	(36,423)
Investment in Acreage Arrangement	(49,849)	(395,190)
Loan advanced to Acreage Hempco	(66,995)	-
Recovery of amounts related to construction financing	10,000	-
Payment of acquisition related liabilities	(6,394)	(21,447)
Net cash outflow on acquisition of noncontrolling interests	(125)	-
Net cash outflow on acquisition of subsidiaries	-	(416,028)
Net cash used in investing activities	<u>(568,130)</u>	<u>(935,468)</u>
Cash flows from financing activities:		
Payment of share issue costs	(677)	(129)
Proceeds from issuance of shares by Canopy Rivers	92	156
Proceeds from exercise of stock options	10,756	36,023
Proceeds from exercise of warrants	244,990	446
Issuance of long-term debt	1,564	5,278
Repayment of long-term debt	(5,920)	(104,282)
Net cash provided by (used in) financing activities	<u>250,805</u>	<u>(62,508)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(32,269)</u>	<u>(8,305)</u>
Net decrease in cash and cash equivalents	(629,889)	(1,378,366)
Cash and cash equivalents, beginning of period	1,303,176	2,480,830
Cash and cash equivalents, end of period	<u>\$ 673,287</u>	<u>\$ 1,102,464</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

CANOPY GROWTH CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars, unaudited)

	<u>Six months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>
Supplemental disclosure of cash flow information		
Cash received during the period:		
Income taxes	\$ 2,000	\$ -
Cash paid during the period:		
Income taxes	\$ 15,587	\$ 1,305
Noncash investing and financing activities		
Additions to property, plant and equipment	\$ 24,840	\$ 128,440

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

CANOPY GROWTH CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, unaudited)

1. DESCRIPTION OF BUSINESS

Canopy Growth Corporation is a publicly traded corporation, incorporated in Canada, with its head office located at 1 Hershey Drive, Smiths Falls, Ontario. References herein to “Canopy Growth” or “the Company” refer to Canopy Growth Corporation and its subsidiaries.

The principal activities of the Company are the production, distribution and sale of cannabis as regulated by the Access to Cannabis for Medical Purposes Regulations (“ACMPR”) in Canada, up to and including October 16, 2018. On October 17, 2018, the ACMPR was superseded by The Cannabis Act which regulates the production, distribution, and possession of cannabis for both medical and adult recreational access in Canada. The Company has also expanded to jurisdictions outside of Canada where federally lawful and regulated for cannabis and/or hemp including subsidiaries which operate in the United States, Europe, Latin America and the Caribbean, and Asia / Pacific. Through its partially owned subsidiary Canopy Rivers Inc. (“Canopy Rivers”), the Company also provides growth capital and a strategic support platform that pursues investment opportunities in the global cannabis sector, where federally lawful.

2. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been presented in Canadian dollars and are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Canopy Growth has determined that the Canadian dollar is the most relevant and appropriate reporting currency as, despite continuing shifts in the relative size of our operations across multiple geographies, the majority of our operations are conducted in Canadian dollars and our financial results are prepared and reviewed internally by management in Canadian dollars. Our condensed interim consolidated financial statements, and the financial information contained herein, are reported in thousands of Canadian dollars, except share and per share amounts or as otherwise stated.

Certain information and footnote disclosures normally included in the audited annual consolidated financial statements prepared in accordance with U.S. GAAP have been omitted or condensed. These condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended March 31, 2020 (the “Annual Report”), and have been prepared on a basis consistent with the accounting policies as described in the Annual Report.

These condensed interim consolidated financial statements are unaudited and reflect adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary to provide a fair statement of results for the interim periods in accordance with U.S. GAAP.

The results reported in these condensed interim consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for an entire fiscal year. The policies set out below are consistently applied to all periods presented, unless otherwise noted.

Principles of consolidation

The accompanying condensed interim consolidated financial statements include the accounts of the Company and all entities in which the Company either has a controlling voting interest or is the primary beneficiary of a variable interest entity. All intercompany accounts and transactions have been eliminated on consolidation. Information on the Company’s subsidiaries with noncontrolling interests is included in Note 22.

Variable interest entities

A variable interest entity (“VIE”) is an entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to control the entity’s activities or do not substantially participate in the gains and losses of the entity. Upon inception of a contractual agreement, and thereafter, if a reconsideration event occurs, the Company performs an assessment to determine whether the arrangement contains a variable interest in an entity and whether that entity is a VIE. The primary beneficiary of a VIE is the party that has both the power to direct the activities that most significantly impact the VIE’s economic performance and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. Under Accounting Standards Codification (“ASC”) 810 – *Consolidations*, where the Company concludes that it is the primary beneficiary of a VIE, the Company consolidates the accounts of that VIE.

Equity method investments

Investments accounted for using the equity method include those investments where the Company (i) can exercise significant influence over the other entity and (ii) holds common stock and/or in-substance common stock of the other entity. Under the equity method, investments are carried at cost, and subsequently adjusted for the Company's share of net income (loss), comprehensive income (loss) and distributions received from the investee. If the current fair value of an investment falls below its carrying amount, this may indicate that an impairment loss should be recorded. Any impairment losses recognized are not reversed in subsequent periods. Refer to Note 10 for additional information on the Company's investments accounted for using the equity method.

Use of estimates

The preparation of these condensed interim consolidated financial statements and accompanying notes in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.

New accounting policies

Recently Adopted Accounting Pronouncements

Measurement of Credit Losses on Financial Instruments

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Adoption of ASU 2016-13 will require financial institutions and other organizations to use forward-looking information to better formulate their credit loss estimates. Canopy Growth adopted the new standard as of April 1, 2020. There was no impact of adopting ASU 2016-13 on the condensed interim consolidated financial statements.

Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)* ("ASU 2018-13"). ASU 2018-13 adds, modifies, and removes certain fair value measurement disclosure requirements. Canopy Growth adopted the new standard as of April 1, 2020. There was no impact of adopting ASU 2018-13 on the condensed interim consolidated financial statements.

Accounting Guidance not yet adopted

Income Taxes

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which among other things, eliminates certain exceptions in the current rules regarding the approach for intraperiod tax allocations and the methodology for calculating income taxes in an interim period, and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 is effective for annual and interim periods beginning after December 15, 2020. Early adoption is permitted. The Company is evaluating the impact on the consolidated financial statements and expects to implement the provisions of ASU 2019-12 effective April 1, 2021.

Investments-Equity Securities

In January 2020, the FASB issued ASU 2020-01, *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*. ASU 2020-01 clarifies the interaction of accounting for the transition into and out of the equity method. The new standard also clarifies the accounting for measuring certain purchased options and forward contracts to acquire investments. The guidance in ASU 2020-01 is effective for annual and interim periods beginning after December 15, 2020, with early adoption permitted. The Company is evaluating the impact on the consolidated financial statements and expects to implement the provisions of ASU 2020-01 effective April 1, 2021.

Convertible Instruments and Contracts in an Entity's Own Equity

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* ("ASU 2020-06"), which simplifies the accounting for convertible instruments by reducing the number of accounting models for convertible debt instruments and convertible preferred stock. In addition, ASU 2020-06 enhances information transparency by making targeted improvements to the disclosures for convertible instruments and earnings-per-share (EPS) guidance, and amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-

based accounting conclusions. ASU 2020-06 is effective for interim and annual periods beginning after December 15, 2021, with early adoption permitted after December 15, 2020. The Company is evaluating the impact on the consolidated financial statements and expects to implement the provisions of ASU 2020-06 effective April 1, 2022.

3. ASSET IMPAIRMENT AND RESTRUCTURING COSTS

In the year ended March 31, 2020, the Company commenced an organizational and strategic review of its business which resulted in several restructuring actions designed to improve organizational focus, streamline operations and align the Company's production capability with projected demand.

In the three months ended June 30, 2020, the Company completed certain of the restructuring actions that had commenced in the previous fiscal year, and recorded final adjustments related to changes in certain estimates recorded at March 31, 2020. In addition, the Company incurred additional costs in the three months ended June 30, 2020, related primarily to the rationalization of our marketing organization in the current period.

In the three months ended September 30, 2020, the Company recorded adjustments related to changes in the estimated fair value of certain of the Company's Canadian production facilities from March 31, 2020 and charges related to rationalizing certain research and development activities.

As a result, in the three and six months ended September 30, 2020, the Company recognized asset impairment and restructuring costs of \$46,363 and \$59,157, respectively, in relation to (i) changes in the estimated fair value of certain of the Company's Canadian production facilities, and costs associated with their closure; (ii) completing the exit of the Company's operations in South Africa and Lesotho; (iii) employee-related costs associated with rationalizing certain marketing activities; and (iv) charges related to rationalizing certain research and development activities.

4. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are as follows:

	September 30, 2020	March 31, 2020
Cash	\$ 433,626	\$ 679,581
Cash equivalents	239,661	623,595
	<u>\$ 673,287</u>	<u>\$ 1,303,176</u>

5. SHORT-TERM INVESTMENTS

The components of short-term investments are as follows:

	September 30, 2020	March 31, 2020
Term deposits	\$ 550,737	\$ 374,000
Government securities	182,883	226,087
Commercial paper and other	315,301	73,236
	<u>\$ 1,048,921</u>	<u>\$ 673,323</u>

The amortized cost of short-term investments at September 30, 2020 is \$1,048,316 (March 31, 2020 – \$673,022).

6. AMOUNTS RECEIVABLE, NET

The components of amounts receivable, net are as follows:

	September 30, 2020	March 31, 2020
Accounts receivable, net	\$ 63,004	\$ 51,166
Interest receivable	7,812	10,303
Indirect taxes receivable	2,648	22,982
Other receivables	6,204	5,704
	<u>\$ 79,668</u>	<u>\$ 90,155</u>

Included in the accounts receivable, net balance at September 30, 2020 is an allowance for doubtful accounts of \$571 (March 31, 2020 – \$655).

7. INVENTORY

The components of inventory are as follows:

	September 30, 2020	March 31, 2020
Raw materials, packaging supplies and consumables	\$ 62,422	\$ 75,507
Work in progress	256,594	255,934
Finished goods	79,438	59,645
	<u>\$ 398,454</u>	<u>\$ 391,086</u>

In the three and six months ended September 30, 2020, the Company recorded write-downs related to inventory of \$4,945 and \$24,331, respectively, (three and six months ended September 30, 2019 – \$21,747 and \$26,536, respectively) in cost of goods sold.

8. PREPAID EXPENSES AND OTHER ASSETS

The components of prepaid expenses and other assets are as follows:

	September 30, 2020	March 31, 2020
Prepaid expenses	\$ 45,112	\$ 41,423
Deposits	20,203	7,773
Prepaid inventory	1,915	21,217
Other assets	9,997	14,681
	<u>\$ 77,227</u>	<u>\$ 85,094</u>

9. PHARMHOUSE

PharmHouse Inc. (“PharmHouse”), a joint venture formed on May 7, 2018, between the Company and 2615975 Ontario Limited (the “PharmHouse JV Partner”), is a company licensed to cultivate cannabis under the Cannabis Act.

CCAA Proceedings

During the three months ended September 30, 2020, it was determined that the previously anticipated timeline for PharmHouse to generate cash flows from its offtake agreements with the Company and TerrAscend Canada Inc. would not be met, and the ultimate timing and receipt of cash inflows pursuant to these agreements became uncertain. As a result of this, as well as broader sector-wide challenges impacting the Canadian cannabis industry, PharmHouse did not have sufficient liquidity and capital resources to meet its business objectives and became unable to meet its financial obligations as they became due.

Accordingly, on September 15, 2020, PharmHouse obtained an order (the “Initial Order”) from the Ontario Superior Court of Justice (the “Court”) granting PharmHouse creditor protection under the Companies’ Creditors Arrangement Act (“CCAA”) (the “CCAA Proceedings”). The Court appointed an independent professional services firm to act as the Monitor of PharmHouse in the CCAA Proceedings while PharmHouse explores a restructuring of its business and operations (the “Restructuring”).

PharmHouse Recoverability Assessment

As a result of the CCAA Proceedings and the Restructuring, the Company determined that there were indicators of impairment present for its investments in various PharmHouse-related financial assets. These investments are described below.

The Company performed impairment testing for its various PharmHouse-related financial assets by estimating the fair value of PharmHouse en bloc. Due to the lack of profitable operating history for PharmHouse as a cannabis entity, the Company estimated the fair value of PharmHouse en bloc using an asset-based approach to value PharmHouse’s assets under an orderly liquidation scenario where cannabis operations are not continued at PharmHouse’s facility and the greenhouse is sold for purposes other than cannabis cultivation. This amount was then compared to the carrying values of the various PharmHouse-related financial instruments held by the Company, in sequence based on the priority of claims on PharmHouse’s assets (the “PharmHouse Recoverability Assessment”). The significant components of this fair value analysis included PharmHouse’s greenhouse facility and retrofits, separable machinery and equipment, saleable inventory, and cash. Significant unobservable inputs used by the Company to determine the fair value of PharmHouse’s assets include the selling price per square foot for PharmHouse’s greenhouse facility; the recoverability percentage on the liquidation of PharmHouse’s property, plant and equipment; the selling price per gram of PharmHouse’s existing cannabis

inventory; and adjustments for the risk of fair value changes and liquidity. Based on the foregoing, the Company estimated the recoverable value of PharmHouse's assets in an orderly liquidation scenario to be approximately \$65,000.

The impact of the PharmHouse Recoverability Assessment on the Company's various PharmHouse-related financial instruments is described below.

PharmHouse Financial Guarantee

As at September 30, 2020, PharmHouse had entered a syndicated credit agreement with amended terms (the "PharmHouse Credit Agreement") with a number of Canadian banks to provide PharmHouse with a committed, non-revolving credit facility (the "PharmHouse Credit Facility") with a maximum principal amount of \$90,000, which was fully drawn. The obligations of PharmHouse under the PharmHouse Credit Facility are secured by guarantees of Canopy Rivers and Canopy Rivers Corporation ("CRC", a wholly-owned subsidiary of Canopy Rivers), and a pledge by CRC of all of the shares of PharmHouse held by it (the "PharmHouse Financial Guarantee"). Accordingly, if PharmHouse is not able to generate sufficient cash flows to service its obligations pursuant to the PharmHouse Credit Facility, the Company may be required to recognize a financial liability relating to all or a portion of the PharmHouse Financial Guarantee. The PharmHouse Credit Agreement also contains certain representations and warranties and affirmative covenants applicable to the Company.

Based on the PharmHouse Recoverability Assessment described above, the Company determined that the fair value of PharmHouse's assets under an orderly liquidation scenario where the facility is not used for cannabis operations may be less than the principal amount owed by PharmHouse pursuant to the PharmHouse Credit Facility. Accordingly, the Company estimated that it has a financial liability related to the PharmHouse Financial Guarantee, reflecting the estimated shortfall between the recoverable amount of PharmHouse en bloc and the Company's exposure to the PharmHouse Credit Facility.

As at September 30, 2020, the Company estimated the current expected credit loss related to its contingent obligation under the PharmHouse Financial Guarantee to be \$25,000, and recognized a financial liability for this amount in the consolidated balance sheet (March 31, 2020 – \$nil) (see Note 17) and the associated expected credit loss in net income (loss) for the three and six months ended September 30, 2020 (three and six months ended September 30, 2019 – \$nil).

Other financial assets, including loans receivable

As at September 30, 2020, the Company had advanced \$40,000 of secured debt financing pursuant to a shareholder loan agreement with PharmHouse (March 31, 2020 – \$40,000). The shareholder loan has a three-year term and an annual interest rate of 12%, with interest calculated monthly (effective as at the date principal is advanced) and payable quarterly upon the achievement of certain sales-related milestones.

As at September 30, 2020, the Company had advanced \$2,450 to PharmHouse pursuant to a secured demand promissory note (March 31, 2020 – \$2,450). The secured demand promissory note is non-interest bearing both before and after demand or default. Based on the terms of the secured demand promissory note, the Company had recognized the secured demand promissory note as a financial asset initially recorded at fair value and subsequently measured at amortized cost.

On August 4, 2020, the Company entered into an unsecured demand promissory note agreement with PharmHouse, pursuant to which it made total advances of \$1,206 between August 4, 2020, and September 8, 2020. The unsecured promissory note bears interest at a rate of 12% per annum, calculated and compounded monthly, and is payable on the demand date. Based on the terms of the unsecured demand promissory note, the Company has recognized the instrument as a financial asset initially recorded at fair value and subsequently measured at amortized cost.

Pursuant to the Initial Order, Canopy Rivers entered into an agreement to provide a super-priority, debtor-in-possession ("DIP") interim, non-revolving credit facility up to a maximum principal amount of \$7,214 (the "DIP Financing") to enable PharmHouse to continue its day-to-day operations throughout the anticipated Restructuring. The DIP Financing bears interest at a rate of 8% per annum, calculated and compounded monthly and payable on the maturity date, which is the earlier of December 29, 2020, and the date the CCAA Proceedings are terminated. As at September 30, 2020, the Company had advanced \$2,100 pursuant to the DIP Financing.

As a result of the PharmHouse Recoverability Assessment described above, the Company recognized current expected credit losses of \$25,000 related to its contingent obligation under the PharmHouse Financial Guarantee and concluded that the following amounts may not be recoverable: (i) \$2,100 advanced pursuant to DIP Financing; (ii) \$40,000 advanced under the shareholder loan agreement; (iii) \$2,450 advanced under the secured demand promissory note; (iv) \$1,206 advanced under the unsecured demand promissory note; and (v) \$8,989 in interest receivable in relation to the financial instruments. Additionally, it was determined that certain advances in the amount of \$15,000 provided to PharmHouse by the Company may not be recoverable. Accordingly, the Company recorded expected credit losses on financial assets and related charges of \$94,745 for the three and six months ended September 30, 2020 (three and six months ended September 30, 2019 - \$nil).

PharmHouse equity method investment

As at September 30, 2020, the Company owned 10,998,660 common shares of PharmHouse (March 31, 2020 – 10,998,660 common shares), representing a 49% equity interest on a non-diluted basis. The Company had not yet received any distributions on account of its common share investment in PharmHouse.

As a result of the PharmHouse Recoverability Assessment described above, the Company determined that there was an other-than-temporary-impairment and recognized an impairment charge for the full amount of its equity method investment of \$32,369 (see Note 10) for the three and six months ended September 30, 2020 (three and six months ended September 30, 2019 – \$nil).

10. EQUITY METHOD INVESTMENTS

The following table presents changes in the Company's investments in associates that are accounted for using the equity method in the six months ended September 30, 2020:

Entity	Instrument	Ownership percentage	Balance at March 31, 2020	Share of net (loss) income	Impairment losses	Balance at September 30, 2020
PharmHouse ¹	Shares	49%	\$ 37,025	\$ (4,656)	\$ (32,369)	\$ -
More Life	Shares	40%	10,300	-	-	10,300
CanapaR	Shares	49%	8,500	(639)	-	7,861
Agripharm	Shares	40%	5,000	(3,017)	-	1,983
Other	Shares	18%-27%	5,018	501	-	5,519
			<u>\$ 65,843</u>	<u>\$ (7,811)</u>	<u>\$ (32,369)</u>	<u>\$ 25,663</u>

¹ See Note 9 for information regarding PharmHouse.

Where the Company does not have the same reporting date as its investees, the Company will account for its investment one quarter in arrears. Accordingly, certain of the figures in the above table, including the Company's share of the investee's net income (loss), are based on the investees' results for the six months ended June 30, 2020 (with respect to September 30, 2020) with adjustments for any significant transactions.

The following tables present current and non-current assets, current and non-current liabilities as well as revenues and net loss of the Company's equity method investments as at and for the six months ended June 30, 2020:

Entity	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Net loss
CanapaR	\$ 13,676	\$ 10,949	\$ 2,002	\$ -	\$ 165	\$ (1,300)
Agripharm	6,981	24,179	25,899	1,683	2,915	(7,541)
Other	9,937	20,865	3,861	11,572	4,197	(3,729)
	<u>\$ 30,594</u>	<u>\$ 55,993</u>	<u>\$ 31,762</u>	<u>\$ 13,255</u>	<u>\$ 7,277</u>	<u>\$ (12,570)</u>

11. OTHER FINANCIAL ASSETS

The following table outlines changes in other financial assets. Additional details on how the fair value of significant investments are calculated are included in Note 23.

Entity	Instrument	Balance at March 31, 2020	Additions	Fair value changes	Allowance for expected credit losses	Exercise of options / disposal of shares	Balance at September 30, 2020
TerrAscend Canada	Term loan / debenture	\$ 53,820	\$ -	\$ 23,070	\$ -	\$ -	\$ 76,890
TerrAscend	Exchangeable shares	47,000	-	67,000	-	-	114,000
TerrAscend	Warrants	25,004	-	54,096	-	-	79,100
Acreage Hempco ¹	Debenture	-	66,995	(23,314)	-	-	43,681
PharmHouse ²	Loan receivable	40,000	-	-	(40,000)	-	-
ZeaKal	Shares	14,186	-	(886)	-	-	13,300
Agripharm	Royalty interest	12,600	-	(5,900)	-	-	6,700
Greenhouse	Convertible debenture	10,517	-	(4,117)	-	-	6,400
Other - at fair value through net income (loss)	Various	31,978	7,951	(6,089)	-	(4,203)	29,637
Other - classified as held for investment	Loan receivable	14,148	3,906	-	(5,756)	(128)	12,170
		<u>\$ 249,253</u>	<u>\$ 78,852</u>	<u>\$ 103,860</u>	<u>\$ (45,756)</u>	<u>\$ (4,331)</u>	<u>\$ 381,878</u>

¹ See Note 27 for information regarding Acreage Hempco.

² See Note 9 for information regarding PharmHouse.

12. PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment are as follows:

	September 30, 2020	March 31, 2020
Buildings and greenhouses	\$ 929,612	\$ 876,732
Production and warehouse equipment	288,985	300,666
Leasehold improvements	116,867	75,964
Land	71,988	65,003
Office and lab equipment	31,293	29,978
Computer equipment	33,155	30,744
Right-of-use-assets		
Buildings and greenhouses	161,431	169,754
Production and warehouse equipment	655	927
Assets in process	305,138	365,644
	<u>1,939,124</u>	<u>1,915,412</u>
Less: Accumulated depreciation	(443,981)	(390,609)
	<u>\$ 1,495,143</u>	<u>\$ 1,524,803</u>

Depreciation expense included in cost of goods sold for the three and six months ended September 30, 2020 is \$14,449 and \$29,235, respectively (three and six months ended September 30, 2019 – \$12,138 and \$21,455, respectively). Depreciation expense included in selling, general and administrative expenses for the three and six months ended September 30, 2020 is \$4,509 and \$7,138, respectively (three and six months ended September 30, 2019 – \$4,087 and \$8,358, respectively).

13. INTANGIBLE ASSETS

The components of intangible assets are as follows:

	September 30, 2020		March 31, 2020	
	Gross Carrying Amount	Net Carrying Amount	Gross Carrying Amount	Net Carrying Amount
<u>Finite lived intangible assets</u>				
Licensed brands	\$ 66,117	\$ 47,393	\$ 66,227	\$ 53,797
Distribution channel	74,124	41,133	74,768	47,117
Health Canada and operating licenses	62,604	54,747	63,631	57,250
Intellectual property	230,794	194,631	240,386	215,044
Software and domain names	16,792	9,958	16,056	10,013
Amortizable intangibles in process	5,187	5,187	9,590	9,590
Total	<u>455,618</u>	<u>353,049</u>	<u>470,658</u>	<u>392,811</u>
<u>Indefinite lived intangible assets</u>				
Operating licenses		\$ 8,000		\$ 7,000
Acquired brands		76,295		76,555
Total intangible assets		<u>\$ 437,344</u>		<u>\$ 476,366</u>

Amortization expense (recovery) included in cost of goods sold for the three and six months ended September 30, 2020 is \$(739) and \$(37), respectively (three and six months ended September 30, 2019 – \$26 and \$38, respectively). Amortization expense included in selling, general and administrative expenses for the three and six months ended September 30, 2020 is \$13,539 and \$29,469, respectively (three and six months ended September 30, 2019 – \$8,764 and \$15,917, respectively).

14. GOODWILL

The changes in the carrying amount of goodwill are as follows:

Balance, March 31, 2019	\$ 1,489,859
Purchase accounting allocations	443,724
Finalization of Storz & Bickel purchase price allocation	(24,990)
Foreign currency translation adjustments	45,878
Balance, March 31, 2020	1,954,471
Foreign currency translation adjustments	(20,995)
Balance, September 30, 2020	<u>\$ 1,933,476</u>

15. OTHER ACCRUED EXPENSES AND LIABILITIES

The components of other accrued expenses and liabilities are as follows:

	September 30, 2020	March 31, 2020
Property, plant and equipment	\$ 6,613	\$ 1,173
Professional fees	13,008	7,677
Employee compensation	31,021	33,415
Other	32,422	22,729
	<u>\$ 83,064</u>	<u>\$ 64,994</u>

16. DEBT

The components of debt are as follows:

Convertible senior notes

	Maturity Date	September 30, 2020	March 31, 2020
Convertible senior notes at 4.25% interest with semi-annual interest payments	July 15, 2023		
Principal amount		\$ 600,000	\$ 600,000
Accrued interest		5,454	5,454
Non-credit risk fair value adjustment		(7,590)	(27,120)
Credit risk fair value adjustment		(75,660)	(128,130)
		522,204	450,204
Transferred receivables, bearing interest rate of EURIBOR plus 0.850%		1,553	4,678
Other revolving debt facility, loan, and financings		9,939	10,533
		533,696	465,415
Less: current portion		(13,272)	(16,393)
Long-term portion		<u>\$ 520,424</u>	<u>\$ 449,022</u>

On June 20, 2018, the Company issued convertible senior notes (the “notes”) with an aggregate principal amount of \$600,000. The notes bear interest at a rate of 4.25% per annum, payable semi-annually on January 15th and July 15th of each year commencing from January 15, 2019. The notes will mature on July 15, 2023. The notes are subordinated in right of payment to any existing and future senior indebtedness, including indebtedness under the revolving credit facility. The notes will rank senior in right of payment to any future subordinated borrowings. The notes are effectively junior to any secured indebtedness and the notes are structurally subordinated to all indebtedness and other liabilities of the Company’s subsidiaries.

Holders of the notes may convert the notes at their option at any time from January 15, 2023 to the maturity date. The notes will be convertible, at the holder’s option, at a conversion rate of 20.7577 common shares for every \$1 principal amount of notes (equal to an initial conversion price of approximately \$48.18 per common share), subject to adjustments in certain events. In addition, the holder has the right to exercise the conversion option from September 30, 2018 to January 15, 2023, if (i) the market price of the Company common shares for at least 20 trading days during a period of 30 consecutive trading days ending on the last trading day of

the preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day, (ii) during the 5 business day period after any consecutive 5 trading day period (the “measurement period”) in which the trading price per \$1 principal amount of the notes for each trading day in the measurement period was less than 98% of the product of the last reported sales price of the Company’s common shares and the conversion rate on each such trading day, (iii) the notes are called for redemption or (iv) upon occurrence of certain corporate events (“Fundamental Change”). A Fundamental Change occurred upon completion of the investment by Constellation Brands, Inc. (“CBI”) in November 2018, and no note holders surrendered any portion of their notes in connection therewith.

The Company may, upon conversion by the holder, elect to settle in either cash, common shares, or a combination of cash and common shares, subject to certain circumstances. Under the terms of the indenture if a Fundamental Change occurs and a holder elects to convert its notes from and including on the date of the Fundamental Change up to, and including, the business day immediately prior to the Fundamental Change repurchase date, the Company may be required to increase the conversion rate for the notes so surrendered for conversion by a number of additional common shares.

The Company cannot redeem the notes prior to July 20, 2021, except in the event of certain changes in Canadian tax law. On or after July 20, 2021, the Company could redeem for cash, subject to certain conditions, any or all of the notes, at its option, if the last reported sales price of the Company’s common shares for at least 20 trading days during any 30 consecutive trading day period ending within 5 trading days immediately preceding the date on which the Company provides notice of redemption exceeds 130% of the conversion price on each applicable trading day. The Company may also redeem the notes, if certain tax laws related to Canadian withholding tax change subject to certain further conditions. The redemption of notes in either case shall be at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

For accounting purposes, the equity conversion feature did not meet the equity classification guidance, therefore the Company elected the fair value option under ASC 825 – *Financial Instruments* (“ASC 825”). The notes were initially recognized at fair value on the balance sheet. All subsequent changes in fair value, excluding the impact of the change in fair value related to Company’s own credit risk are recorded in other income (expenses), net. The changes in fair value related to the Company’s own credit risk are recorded through other comprehensive income (loss).

The overall change in fair value of the notes during the three and six months ended September 30, 2020, was an increase of \$36,306 and \$72,000, respectively (three and six months ended September 30, 2019, a decrease of \$199,194 and \$245,250, respectively), which included contractual interest of \$6,306 and \$12,750 (three and six months ended September 30, 2019, interest of \$6,306 and \$12,750, respectively). Refer to Note 23 for additional details on how the fair value of the notes is calculated.

Transferred receivables

The carrying amount of the transferred receivables include receivables which are subject to a factoring arrangement. Under this agreement, C³ Cannabinoid Compound Company (“C³”) has transferred the relevant receivables to PB Factoring GmbH in exchange for cash. The transferred receivables to PB Factoring GmbH are \$1,542 and the associated secured borrowing is \$1,553.

Other revolving debt facility, loans, and financings

On August 13, 2019, the Company, through its wholly owned subsidiary, Tweed Farms Inc., entered into a \$40,000 revolving debt facility with Farm Credit Canada (“FCC”). The new facility replaces the previous loans with FCC and is secured by the Company’s property in Niagara-on-the-Lake. The extinguishment of \$4,912 in previous FCC debt resulted in no gain or loss.

The current outstanding balance of the FCC debt facility is \$5,268 with an interest rate of 3.45%, or FCC prime rate plus 1.0%, and matures on September 3, 2024.

The revolving debt facility with FCC is secured by a first charge on the properties in Niagara-on-the-Lake, Ontario, a corporate guarantee from the Company, and a general corporate security agreement.

17. OTHER LIABILITIES

The components of other liabilities are as follows:

	As at September 30, 2020			As at March 31, 2020		
	Current	Long-term	Total	Current	Long-term	Total
Acquisition consideration related liabilities	\$ 38,281	\$ 14,165	\$ 52,446	\$ 104,028	\$ 9,791	\$ 113,819
Lease liabilities	39,083	103,658	142,741	40,356	120,047	160,403
Minimum royalty obligations	16,785	43,332	60,117	9,368	50,445	59,813
PharmHouse Financial Guarantee ¹	25,000	-	25,000	-	-	-
Refund liability	7,392	-	7,392	17,586	-	17,586
Settlement liability	5,421	2,583	8,004	33,162	7,932	41,094
Other	15,098	3,529	18,627	11,309	2,445	13,754
	<u>\$ 147,060</u>	<u>\$ 167,267</u>	<u>\$ 314,327</u>	<u>\$ 215,809</u>	<u>\$ 190,660</u>	<u>\$ 406,469</u>

¹ See Note 9 for information regarding the PharmHouse Financial Guarantee.

18. REDEEMABLE NONCONTROLLING INTEREST

The net changes in the redeemable noncontrolling interests are as follows:

	Vert Mirabel	BioSteel	Total
As at March 31, 2020	\$ 20,250	\$ 49,500	\$ 69,750
Loss attributable to noncontrolling interest	(6,897)	(2,528)	(9,425)
Adjustments to redemption amount	16,347	7,228	23,575
As at September 30, 2020	<u>\$ 29,700</u>	<u>\$ 54,200</u>	<u>\$ 83,900</u>
			Vert Mirabel
As at March 31, 2019			\$ 6,400
Income attributable to noncontrolling interest			3,679
Adjustments to redemption amount			(779)
As at September 30, 2019			<u>\$ 9,300</u>

19. SHARE CAPITAL

CANOPY GROWTH

Authorized

An unlimited number of common shares.

(i) Equity financings

There were no equity financings during the six months ended September 30, 2020 (six months ended September 30, 2019 - none).

(ii) Other issuances of common shares

During the six months ended September 30, 2020, the Company issued the following shares, net of share issuance costs, as a result of business combinations, milestones being met, and other equity-settled transactions:

	Number of shares	Share capital	Share based reserve
Completion of acquisition milestones	1,149,086	\$ 21,531	\$ (13,009)
Other issuances	412,417	14,135	(14,719)
Total	<u>1,561,503</u>	<u>\$ 35,666</u>	<u>\$ (27,728)</u>

During the six months ended September 30, 2019, the Company issued the following shares, net of share issuance costs, as a result of business combinations, milestones being met, and other equity-settled transactions:

	Number of shares	Share capital	Share based reserve
Completion of acquisition milestones	543,411	\$ 20,713	\$ (20,713)
Other issuances	23,440	873	(1,128)
Total	<u>566,851</u>	<u>\$ 21,586</u>	<u>\$ (21,841)</u>

(iii) Warrants

	Number of whole warrants	Average exercise price	Warrant value
Balance outstanding at March 31, 2020 ¹	146,299,443	\$ 52.44	\$ 2,638,951
Exercise of warrants	(18,876,901)	12.98	(70,266)
Expiry of warrants	(91,933)	44.37	-
Balance outstanding at September 30, 2020 ¹	<u>127,330,609</u>	<u>\$ 58.30</u>	<u>\$ 2,568,685</u>

¹ This balance excludes the Tranche C Warrants, which represent a derivative liability and have nominal value, see Note 27.

	Number of whole warrants	Average exercise price	Warrant value
Balance outstanding at March 31, 2019	107,848,322	\$ 43.80	\$ 1,589,925
Tranche A warrant modification	-	-	1,049,153
Issuance of Tranche B warrants	38,454,444	76.68	-
Other issuance of warrants	9,200	32.83	359
Exercise of warrants	(12,523)	35.55	(486)
Balance outstanding at September 30, 2019 ¹	<u>146,299,443</u>	<u>\$ 52.44</u>	<u>\$ 2,638,951</u>

¹ This balance excludes the Tranche C Warrants, which represent a derivative liability and have nominal value, see Note 27.

CANOPY RIVERS

Authorized capital

Canopy Rivers is authorized to issue an unlimited number of Class A common shares designated as subordinated voting shares (the “Subordinated Voting Shares”) and unlimited number of Class B common shares designated as multiple voting shares (the “Multiple Voting Shares”). Each Subordinated Voting Share carries the right to one vote per share and each Multiple Voting Share carries the right to 20 votes per share at all meetings of the shareholders of Canopy Rivers. There is no priority or distinction between the two classes of shares in respect of their entitlement to the payment of dividends or participation on liquidation, dissolution or winding-up of Canopy Rivers.

Issued and outstanding

As at September 30, 2020, Canopy Rivers had 36,468,318 Multiple Voting Shares (March 31, 2020 – 36,468,318) and 154,836,057 Subordinated Voting Shares (March 31, 2020 – 152,837,131) issued and outstanding. As at September 30, 2020, the Company held 36,468,318 Multiple Voting Shares (March 31, 2020 – 36,468,318) and 15,223,938 Subordinated Voting shares (March 31, 2020 – 15,223,938) which represented a 26.9% ownership interest in Canopy Rivers and 84.1% of the voting rights (March 31, 2020 – 27.3% and 84.4% respectively). The voting rights allow the Company to direct the relevant activities of Canopy Rivers such that the Company has control over Canopy Rivers and Canopy Rivers is consolidated in these financial statements.

Financings

There were no financings during the six months ended September 30, 2020, other than the release of shares related to share purchase financing as noted below.

Initial financing

10,066,668 Subordinated Voting Shares were acquired by certain employees of the Company and another individual by way of share purchase loans, whereby funds were advanced to Canopy Rivers by the Company on behalf of such individuals. These Subordinated Voting Shares were initially accounted for as seed capital options and are not considered issued for accounting purposes until the loans are repaid on an individual employee/consultant basis. During the three and six months ended September 30, 2020, share purchase loans in the amount of \$63 and \$95, respectively, (three and six months ended September 30, 2019 – \$29 and \$48, respectively) relating to Canopy Rivers shares held in trust by the Company on behalf of certain Canopy Growth employees were repaid, resulting in the release from escrow of 1,266,668 and 1,905,559 Subordinated Voting Shares, respectively (three and six months ended September 30, 2019 – 583,333 and 961,108, respectively). As at September 30, 2020, there were 66,668 seed capital options outstanding (March 31, 2020 – 2,805,560). Please refer to Note 20 for additional details on the seed capital options

Share buyback

On April 2, 2020, Canopy Rivers received approval from the Toronto Stock Exchange (“TSX”) to commence a normal course issuer bid (“NCIB”) to purchase up to 10,409,961 Subordinated Voting Shares, representing 10% of Canopy Rivers’ issued and outstanding Subordinated Voting Shares, in the open market or as otherwise permitted by the TSX, subject to the normal terms and limitations of such bids. The NCIB will expire on April 1, 2021.

Daily purchases are limited to 70,653 Subordinating Voting Shares, representing 25% of the average daily trading volume on the TSX over a specified period. The NCIB may be utilized at the sole discretion of Canopy Rivers, with no contractual obligation to purchase any specified number of shares. All Subordinated Voting Share purchases made by Canopy Rivers under the NCIB will be funded out of Canopy Rivers’ working capital and will be cancelled immediately.

During the three months ended September 30, 2020, Canopy Rivers repurchased and cancelled a total of 164,200 Subordinated Voting Shares under the NCIB program for \$181, at a weighted average acquisition price of \$1.09 per share (three months ended September 30, 2019 – not applicable).

During the six months ended September 30, 2020, Canopy Rivers repurchased and cancelled a total of 273,300 Subordinated Voting Shares under the NCIB program for \$307, at a weighted average acquisition price of \$1.11 per share (six months ended September 30, 2019 – not applicable).

20. SHARE-BASED COMPENSATION

CANOPY GROWTH CORPORATION SHARE-BASED COMPENSATION PLAN

Canopy Growth's eligible employees participate in a share-based compensation plan as noted below.

On September 21, 2020, the Company’s shareholders approved amendments to the Company’s Amended and Restated Omnibus Incentive Plan (as amended and restated, the “Omnibus Plan”) pursuant to which the Company can issue share-based long-term incentives. The Omnibus Plan approved by the shareholders extended the maximum term of each Option (as defined below) to be granted by the Company to ten years from the date of grant rather than six years from the date of grant. All directors, officers, employees and independent contractors of the Company are eligible to receive awards of common share purchase options (“Options”), restricted share units (“RSUs”), performance share units (“PSUs”), deferred share units, stock appreciation rights (“Stock Appreciation Rights”), performance awards (“Performance Awards”) or other stock based awards (collectively, the “Awards”) under the Omnibus Plan.

Under the Omnibus Plan, the maximum number of shares issuable from treasury pursuant to Awards shall not exceed 15% of the total outstanding shares from time to time less the number of shares issuable pursuant to all other security-based compensation arrangements of the Company. The maximum number of common shares reserved for Awards is 55,806,917 at September 30, 2020. As of September 30, 2020, the only Awards issued have been Options, RSUs and PSUs under the Omnibus Plan.

The Omnibus Plan is administered by the Board of Directors of the Company who establishes exercise prices, at not less than the market price at the date of grant, and expiry dates. Options under the Omnibus Plan generally become exercisable in increments with 1/3 being exercisable on each of the first, second and third anniversaries from the date of grant, with expiry dates set at ten years from issuance. The Board of Directors of the Company has the discretion to amend general vesting provisions and the term of any award, subject to limits contained in the Omnibus Plan.

The Employee Share Purchase Plan (the “Purchase Plan”) is the Company’s only other security-based compensation arrangement. Under the Purchase Plan, the aggregate number of common shares that may be issued is 600,000, and the maximum number of common shares which may be issued in any one fiscal year shall not exceed 300,000. As of September 30, 2020, no common shares have been issued under the Purchase Plan.

The following is a summary of the changes in the Options outstanding under the Omnibus Plan during the six months ended September 30, 2020:

	Options issued	Weighted average exercise price
Balance outstanding at March 31, 2020	32,508,395	\$ 34.89
Options granted	295,451	22.48
Options exercised	(1,431,880)	7.51
Options forfeited/cancelled	(5,502,996)	40.03
Balance outstanding at September 30, 2020	<u>25,868,970</u>	<u>\$ 35.16</u>

The following is a summary of the Options as at September 30, 2020:

Range of Exercise Prices	Options Outstanding		Options Exercisable	
	Outstanding at September 30, 2020	Weighted Average Remaining Contractual Life (years)	Exercisable at September 30, 2020	Weighted Average Remaining Contractual Life (years)
\$0.06 - \$24.62	4,805,135	3.09	3,177,738	2.28
\$24.63 - \$33.53	5,239,348	4.47	1,527,637	3.63
\$33.54 - \$36.80	5,543,626	4.02	2,382,409	3.78
\$36.81 - \$42.84	4,625,715	4.04	2,662,872	3.96
\$42.85 - \$67.64	5,655,146	4.40	2,504,168	4.32
	<u>25,868,970</u>	<u>4.03</u>	<u>12,254,824</u>	<u>3.52</u>

At September 30, 2020, the weighted average exercise price of Options outstanding and Options exercisable was \$35.16 and \$33.84, respectively (March 31, 2020 – \$34.89 and \$31.84, respectively).

The Company recorded \$15,525 and \$37,853 in share-based compensation expense related to Options issued to employees and contractors for the three and six months ended September 30, 2020, respectively (three and six months ended September 30, 2019 – \$80,225 and \$153,318, respectively). The share-based compensation expense for the six months ended September 30, 2020 includes an amount related to 2,060,068 Options being provided in exchange for services which are subject to performance conditions (for the six months ended September 30, 2019 – 445,000).

The Company uses the Black-Scholes option pricing model to establish the fair value of Options granted during the three months ended September 30, 2020 and 2019, on their measurement date by applying the following assumptions:

	September 30, 2020	September 30, 2019
Risk-free interest rate	0.36%	1.44%
Expected life of options (years)	3 - 6	3 - 5
Expected volatility	76%	72%
Expected forfeiture rate	17%	11%
Expected dividend yield	nil	nil
Black-Scholes value of each option	\$12.85	\$22.57

Volatility was estimated by 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 zero coupon Canada government bonds with a remaining term equal to the expected life of the Options.

During the six months ended September 30, 2020, 1,431,880 Options were exercised ranging in price from \$0.06 to \$27.99 for gross proceeds of \$10,756 (for the six months ended September 30, 2019 – 3,290,212 Options were exercised ranging in price from \$0.22 to \$40.68 for gross proceeds of \$36,023).

For the three and six months ended September 30, 2020, the Company recorded \$2,343 and \$6,185 respectively, in share-based compensation expense related to these RSUs (for the three and six months ended September 30, 2019 – \$1,287 and \$2,681, respectively). The following is a summary of the changes in the Company’s RSUs during the six months ended September 30, 2020:

	<u>Number of RSUs</u>
Balance outstanding at March 31, 2020	883,009
RSUs granted	100,928
RSUs released	(62,900)
RSUs cancelled and forfeited	(113,763)
Balance outstanding at September 30, 2020	<u>807,274</u>

Share-based compensation expense related to acquisition milestones is comprised of:

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>September 30,</u> <u>2020</u>	<u>September 30,</u> <u>2019</u>	<u>September 30,</u> <u>2020</u>	<u>September 30,</u> <u>2019</u>
Canindica	\$ 605	\$ 2,286	\$ 1,203	\$ 6,296
Spectrum Colombia	-	4,141	-	6,400
Other	2,303	2,687	4,675	6,699
	<u>\$ 2,908</u>	<u>\$ 9,114</u>	<u>\$ 5,878</u>	<u>\$ 19,395</u>

During the three and six months ended September 30, 2020, 397,164 and 1,149,086 common shares, respectively, (during the three and six months ended September 30, 2019 – 84,530 and 566,851 respectively) were released on completion of acquisition milestones. At September 30, 2020, there were up to 3,965,798 common shares to be issued on the completion of acquisition and asset purchase milestones. In certain cases, the number of common shares to be issued is based on the volume weighted average share price at the time the milestones are met. The number of common shares has been estimated assuming the milestones were met at September 30, 2020. The number of common shares excludes common shares that are to be issued on July 4, 2023 to the previous shareholders of Spectrum Colombia S.A.S. (“Spectrum Colombia”) and Canindica Capital Ltd. (“Canindica”) based on the fair market value of the Company’s Latin American business on that date.

BioSteel share-based payments

On October 1, 2019, the Company purchased 72% of the outstanding shares of BioSteel Sports Nutrition Inc. (“BioSteel”). BioSteel has a stock option plan under which non-transferable options to purchase common shares of BioSteel may be granted to directors, officers, employees, or independent contractors of the BioSteel. As at September 30, 2020, BioSteel had 1,352,000 (March 31, 2020 – 1,008,000) options outstanding which vest in equal tranches over a 5-year period. In determining the amount of share-based compensation related to these options, BioSteel used the Black-Scholes option pricing model to establish the fair value of options on their measurement date. The Company recorded \$418 and \$662 of share-based compensation expense related to the BioSteel options during the three and six months ended September 30, 2020, respectively (three and six months ended September 30, 2019 – \$nil), with a corresponding increase in noncontrolling interest.

CANOPY RIVERS SHARE-BASED COMPENSATION PLAN

Seed Capital Options

On May 12, 2017, seed capital options were issued. These seed capital options consisted of 10,066,668 shares that were issued by way of share purchase loans. Since they were issued through loans, they are not considered issued for accounting purposes until the loan is repaid. The seed capital options were measured at fair value on May 12, 2017, using a Black-Scholes option pricing model and will be expensed over their vesting period. Where there are performance conditions in addition to service requirements Canopy Rivers has estimated the number of shares it expects to vest and is amortizing the expense over the expected vesting period.

	<u>Seed capital</u> <u>options issued</u>	<u>Seed capital loan</u> <u>balance</u>
Balance outstanding at March 31, 2020	2,805,560	\$ 140
Options exercised	(1,905,559)	\$ (95)
Options forfeited	(500,000)	\$ (25)
Options expired	(333,333)	\$ (17)
Balance outstanding at September 30, 2020	<u>66,668</u>	<u>\$ 3</u>

Canopy Rivers has a stock option plan (the “Option Plan”) under which non-transferable options to purchase Subordinated Voting Shares of the Company may be granted to directors, officers, employees, or independent contractors of Canopy Rivers. Pursuant to the Option Plan, the maximum number of Subordinated Voting Shares issuable from treasury pursuant to outstanding options shall not exceed 10% of the issued and outstanding Subordinated Voting Shares and Multiple Voting Shares, on an aggregate basis. The Option Plan is administered by the Board of Directors of Canopy Rivers who establishes exercise prices, at not less than the market price at the date of the grant, and expiry dates. Options under the Option Plan generally become exercisable in increments, with one-third being exercisable on each of the first, second, and third anniversaries from the date of grant, and have expiry dates five years from the date of grant. The Board of Directors of Canopy Rivers has the discretion to amend general vesting provisions and the term of any option grant, subject to limits contained in the Option Plan. The seed capital options are not within the scope of the Option Plan.

The following is a summary of the changes in Canopy Rivers’ stock options, excluding the seed capital options presented separately, during the six months ended September 30, 2020:

	Options issued	Weighted average exercise price
Balance outstanding at March 31, 2020	13,066,004	\$ 2.31
Options granted	-	-
Options exercised	(366,667)	-
Options expired	(381,000)	3.64
Options forfeited/cancelled	(296,668)	1.82
Balance outstanding at September 30, 2020	<u>12,021,669</u>	<u>\$ 2.33</u>

In determining the amount of share-based compensation related to options issued during the year, Canopy Rivers used the Black-Scholes option pricing model to establish the fair value of options granted during the three months ended September 30, 2020 and 2019, on their measurement date by applying the following assumptions:

	September 30, 2020	September 30, 2019
Risk-free interest rate	-	1.41%
Expected life of options (years)	-	3 - 4
Expected volatility	-	70%
Expected forfeiture rate	-	nil
Expected dividend yield	-	nil
Black-Scholes value of each option	-	\$1.23

Volatility was estimated using companies that Canopy Rivers considers comparable that have trading and volatility history prior to Canopy Rivers becoming public. 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 zero coupon Canada government bonds with a remaining term equal to the expected life of the options.

For the three and six months ended September 30, 2020, the Company recorded \$391 and \$1,575, respectively, (three and six months ended September 30, 2019 – \$2,255 and \$4,849, respectively) in share-based compensation expense related to these options and the seed capital options with a corresponding increase to noncontrolling interests.

In the three and six months ended September 30, 2020, Canopy Rivers granted 28,884 (three and six months ended September 30, 2019 – none) restricted share units which vest immediately. For the three and six months ended September 30, 2020, the Company recorded \$(5) and \$112, respectively, (three and six months ended September 30, 2019 – \$nil) of share-based compensation expense (recapture) related to these restricted share units.

In the three and six months ended September 30, 2020, Canopy Rivers granted 1,210,000 (three and six months ended September 30, 2019 – none) performance share units which vest over a three-year period. For the three and six months ended September 30, 2020, the Company recorded \$404 (three and six months ended September 30, 2019 – \$nil) of share-based compensation expense related to these performance share units.

21. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income includes the following components:

	Foreign currency translation adjustments	Changes of own credit risk of financial liabilities	Accumulated other comprehensive income (loss)
As at March 31, 2020	\$ 126,723	\$ 94,176	\$ 220,899
Other comprehensive loss	(65,123)	(52,470)	(117,593)
As at September 30, 2020	<u>\$ 61,600</u>	<u>\$ 41,706</u>	<u>\$ 103,306</u>
	Foreign currency translation adjustments	Changes of own credit risk of financial liabilities	Accumulated other comprehensive income (loss)
As at March 31, 2019	\$ 41,225	\$ (47,130)	\$ (5,905)
Other comprehensive (loss) income	(52,117)	36,660	(15,457)
As at September 30, 2019	<u>\$ (10,892)</u>	<u>\$ (10,470)</u>	<u>\$ (21,362)</u>

22. NONCONTROLLING INTERESTS

The net change in the noncontrolling interests is as follows:

	Canopy Rivers	Vert Mirabel	BioSteel	Other non- material interests	Total
As at March 31, 2020	\$ 211,086	\$ 7,132	\$ 489	\$ 3,051	\$ 221,758
Comprehensive loss	(70,953)	(10,831)	(2,528)	-	(84,312)
Net loss attributable to redeemable noncontrolling interest	-	6,897	2,528	-	9,425
Share-based compensation	2,091	-	662	-	2,753
Ownership changes	1,413	-	-	-	1,413
Warrants	250	-	-	-	250
As at September 30, 2020	<u>\$ 143,887</u>	<u>\$ 3,198</u>	<u>\$ 1,151</u>	<u>\$ 3,051</u>	<u>\$ 151,287</u>
	Canopy Rivers	Vert Mirabel		Other non- material interests	Total
As at March 31, 2019	\$ 280,012	\$ 2,422		\$ 3,051	\$ 285,485
Comprehensive (loss) income	(30,214)	5,764		-	(24,450)
Net income attributable to redeemable noncontrolling interest	-	(3,679)		-	(3,679)
Share-based compensation	4,849	-		-	4,849
Ownership changes	490	-		-	490
As at September 30, 2019	<u>\$ 255,137</u>	<u>\$ 4,507</u>		<u>\$ 3,051</u>	<u>\$ 262,695</u>

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements are made using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value:

- Level 1 – defined as observable inputs such as quoted prices in active markets;
- Level 2 – defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3 – defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The fair value measurement is categorized in its entirety by reference to its lowest level of significant input.

The Company records cash, accounts receivable, interest receivable and, accounts payable, and other accrued expenses and liabilities at cost. The carrying values of these instruments approximate their fair value due to their short-term maturities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

Assets and liabilities recognized or disclosed at fair value on a nonrecurring basis may include items such as property, plant and equipment, goodwill and other intangible assets, equity and other investments and other assets. We determine the fair value of these items using Level 3 inputs, as described in the related sections below.

The following table represents our financial assets and liabilities measured at estimated fair value on a recurring basis:

	Fair value measurement using			Total
	Quoted prices prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
September 30, 2020				
Assets:				
Short-term investments	\$ 1,048,921	\$ -	\$ -	\$ 1,048,921
Restricted short-term investments	14,332	-	-	14,332
Other financial assets	1,425	5,174	375,570	382,169
Liabilities:				
Convertible senior notes	-	522,204	-	522,204
Liability arising from Acreage Arrangement	-	-	147,000	147,000
Warrant derivative liability	-	-	221,948	221,948
March 31, 2020				
Assets:				
Short-term investments	\$ 673,323	\$ -	\$ -	\$ 673,323
Restricted short-term investments	21,539	-	-	21,539
Other financial assets	2,596	36	192,473	195,105
Liabilities:				
Convertible senior notes	-	450,204	-	450,204
Liability arising from Acreage Arrangement	-	-	250,000	250,000
Warrant derivative liability	-	-	322,491	322,491

The following table summarizes the valuation techniques and significant unobservable inputs in the fair value measurement of significant level 2 financial instruments:

Financial asset / financial liability	Valuation techniques	Key inputs
Convertible senior note	Convertible note pricing model	Quoted prices in over-the-counter broker market

The following table summarizes the valuation techniques and significant unobservable inputs in the fair value measurement of significant level 3 financial instruments:

Financial asset / financial liability	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Acreage financial instrument	Probability weighted expected return model	Probability of each scenario	Change in probability of occurrence in each scenario will result in a change in fair value
		Value and number of common shares to be issued	Increase or decrease in value and number of common shares will result in a decrease or increase in fair value
		Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value
		Estimated premium on US legalization	Increase or decrease in estimated premium on US legalization will result in an increase or decrease in fair value
		Control premium	Increase or decrease in estimated control premium will result in an increase or decrease in fair value
		Market access premium	Increase or decrease in estimated market access premium will result in an increase or decrease in fair value
TerrAscend exchangeable shares	Put option pricing model	Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value
Acreage Hempco Debenture	Discounted cash flow	Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
TerrAscend warrants	Monte Carlo simulation model	Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value
TerrAscend Canada term loan	Discounted cash flow	Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value
		Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
ZeaKal shares	Market approach	Share price	Increase or decrease in share price will result in an increase or decrease in fair value
Greenhouse convertible debenture	FinCAD model	Share price	Increase or decrease in share price will result in an increase or decrease in fair value
Agripharm royalty interest and repayable debenture	Discounted cash flow	Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
		Future royalties	Increase or decrease in future royalties to be paid will result in an increase or decrease in fair value
Warrant derivative liability	Monte Carlo simulation model	Volatility of common share price	Increase or decrease in volatility will result in an increase or decrease in fair value
		Expected life	Increase or decrease in expected life will result in an increase or decrease in fair value
BioSteel redeemable noncontrolling interest	Discounted cash flow	Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
		Future wholesale price and production levels	Increase or decrease in future wholesale price and production levels will result in an increase or decrease in fair value
Vert Mirabel redeemable noncontrolling interest	Discounted cash flow	Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
		Future wholesale price and production levels	Increase or decrease in future wholesale price and production levels will result in an increase or decrease in fair value

During the six months ended September 30, 2020 and September 30, 2019, there were no transfers of amounts between levels.

24. REVENUE

Revenue is disaggregated as follows:

	Three months ended		Six months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Recreational cannabis revenue				
Business to business	\$ 56,423	\$ 16,677	\$ 98,603	\$ 67,102
Business to consumer	18,709	13,100	28,039	23,738
Medical cannabis revenue				
Canadian	15,250	14,149	30,586	27,200
International	17,474	18,090	37,665	28,586
Other revenue	42,972	23,605	75,023	42,386
Gross revenue	150,828	85,621	269,916	189,012
Excise taxes	15,562	9,008	24,234	21,917
Net revenue	<u>\$ 135,266</u>	<u>\$ 76,613</u>	<u>\$ 245,682</u>	<u>\$ 167,095</u>

The Company recognizes variable consideration related to estimated future product returns and price adjustments as a reduction of the transaction price at the time revenue for the corresponding product sale is recognized. Net revenue reflects actual returns and variable consideration related to estimated returns and price adjustments in the amount of \$3,750 and \$7,150 for the three and six months ended September 30, 2020, respectively (three and six months ended September 30, 2019 – \$32,727 and \$40,727, respectively). As of September 30, 2020, the liability for estimated returns and price adjustments was \$7,392 (March 31, 2020 – \$17,586).

25. OTHER INCOME (EXPENSE), NET

Other income (expense), net is disaggregated as follows:

	Three months ended		Six months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Fair value changes on other financial assets	\$ 82,053	\$ (69,735)	\$ 103,860	\$ (110,822)
Fair value changes on liability arising from				
Acreage Arrangement	88,151	(235,190)	53,151	(235,190)
Fair value changes on convertible senior notes	(11,946)	164,394	(32,280)	195,840
Fair value change on warrant derivative liability	65,174	641,854	100,543	666,746
Fair value changes on acquisition related				
contingent consideration	2,886	(70)	42,869	(1,640)
Interest income	2,775	16,463	11,768	39,181
Interest expense	(1,523)	(1,165)	(2,678)	(2,371)
Foreign currency loss	(5,041)	(5,553)	(11,000)	(8,409)
Other (expense) income, net	(1,273)	(1,105)	3,228	(674)
	<u>\$ 221,256</u>	<u>\$ 509,893</u>	<u>\$ 269,461</u>	<u>\$ 542,661</u>

26. INCOME TAXES

There have been no material changes to income tax matters in connection with normal course operations during the six months ended September 30, 2020.

The Company is subject to income tax in numerous jurisdictions with varying income tax rates. During the most recent period ended and the fiscal year to date, there were no material changes to the statutory income tax rates in the taxing jurisdictions where the majority of the Company's income for tax purposes was earned, or where its temporary differences or losses are expected to be realized or settled. Although statutory income tax rates remain stable, the Company's effective income tax rate may fluctuate, arising as a result of the Company's evolving footprint, discrete transactions and other factors that, to the extent material, are disclosed in these financial statements.

The Company continues to believe the amount of unrealized tax benefits appropriately reflects the uncertainty of items that are or may in the future be under discussion, audit, dispute or appeal with a tax authority or which otherwise result in uncertainty in the determination of income for tax purposes. If appropriate, an unrealized tax benefit will be realized in the reporting period in which the Company determines that realization is not in doubt. Where the final determined outcome is different from the Company's estimate, such difference will impact the Company's income taxes in the reporting period during which such determination is made.

27. ACREAGE ARRANGEMENT AND AMENDMENTS TO CBI INVESTOR RIGHTS AGREEMENT AND WARRANTS

Acreage Arrangement

On June 24, 2020, the Company and Acreage Holdings, Inc. ("Acreage") entered into a proposal agreement to amend the terms of the existing plan of arrangement (the "Prior Arrangement") made pursuant to an arrangement agreement (the "Arrangement Agreement") between the Company and Acreage dated April 18, 2019, as amended on May 15, 2019. Pursuant to the terms of the Prior Arrangement, shareholders of Acreage and holders of certain securities convertible into Existing SVS (as defined below) as of June 26, 2019, received an immediate aggregate total payment of US\$300,000 (\$395,190) in exchange for granting Canopy Growth both the right and the obligation (the "Acreage financial instrument") to acquire all of the issued and outstanding shares of Acreage following the occurrence or waiver of changes in U.S. 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 "Triggering Event") and subject to the satisfaction or waiver of the conditions set out in the Arrangement Agreement.

In September 2020, Acreage obtained the requisite approvals of the shareholders of Acreage and the Supreme Court of British Columbia and on September 23, 2020, the Company and Acreage entered into a second amendment to the Arrangement Agreement and implemented an amended and restated plan of arrangement (the "Amended Arrangement"). The Amended Arrangement provides for, among other things, the following:

- A capital reorganization of Acreage (the "Capital Reorganization"), pursuant to which Acreage amended its Notice of Articles and Articles to, among other things, create the Fixed Shares (as defined below), the Floating Shares (as defined below) and the Fixed Multiple Shares (as defined below) and remove the existing Acreage subordinated voting shares (the "Existing SVS"), the existing Acreage proportionate voting shares (the "Existing PVS") and the existing Acreage multiple voting shares (the "Existing MVS"). Pursuant to the Capital Reorganization (i) each outstanding Existing SVS was exchanged for 0.7 of a Fixed Share and 0.3 of a Floating Share; (ii) each outstanding Existing PVS was exchanged for 28 Fixed Shares and 12 Floating Shares; and (iii) each outstanding Existing MVS was exchanged for 0.7 of a Fixed Multiple Share and 0.3 of a Floating Share;
- The new Class E subordinated voting shares (the "Fixed Shares") have the same attributes as the Existing SVS and are listed on the Canadian Securities Exchange (the "CSE") under the ticker symbol ACRG.A.U. Following the occurrence or waiver (at the discretion of Canopy Growth) of the Triggering Event and subject to the satisfaction or waiver of the conditions set out in the Arrangement Agreement (as modified in connection with the Amended Arrangement), Canopy Growth will acquire all of the issued and outstanding Fixed Shares based on an amended exchange ratio equal to 0.3048 of a common share to be received for each Fixed Share held (reduced from 0.5818 per Existing SVS pursuant to the Prior Arrangement). The foregoing exchange ratio for the Fixed Shares is subject to adjustment in accordance with the Amended Arrangement if, among other things, Acreage issues greater than the permitted number of Fixed Shares;
- The new Class D subordinated voting shares (the "Floating Shares") are listed on the CSE under the ticker symbol ACRG.B.U. Upon the occurrence or waiver (at the discretion of Canopy Growth) of the Triggering Event, Canopy Growth will have the right exercisable for a period of 30 days, to acquire all of the issued and outstanding Floating Shares for cash or common shares or a combination thereof, in Canopy Growth's sole discretion at a price equal to the 30-day volume weighted average trading price of the Floating Shares on the CSE, subject to a minimum call price of US\$6.41 per Floating Share. The foregoing exchange ratio for the Floating Shares is subject to adjustment in accordance with the Amended Arrangement if Acreage issues greater than the permitted number of Floating Shares. The acquisition of the Floating Shares, if acquired, will take place concurrently with the closing of the acquisition of the Fixed Shares;
- The new Class F multiple voting shares (the "Fixed Multiple Shares") have the same attributes as the Existing MVS, provided that each Fixed Multiple Share entitles the holder thereof to 4,300 votes per share at shareholder meetings of Acreage. Immediately prior to the acquisition of the Fixed Shares, each issued and outstanding Fixed Multiple Share will automatically be exchanged for one Fixed Share and thereafter be acquired by Canopy Growth upon the same terms and conditions as the acquisition of the Fixed Shares;
- If the occurrence or waiver of the Triggering Event does not occur within 10 years from the date the Amended Arrangement was implemented (being September 23, 2030), Canopy Growth's rights to acquire both the Fixed Shares and the Floating Shares will terminate;

- Upon implementation of the Amended Arrangement, Canopy Growth made a cash payment to the shareholders of Acreage and holders of certain securities convertible into Existing SVS in the aggregate amount of US\$37,500 (\$49,849); and
- Acreage is only permitted to issue an aggregate of up to 32,700,000 Fixed Shares and Floating Shares.

At September 30, 2020, the Acreage financial instrument represents a financial liability of \$147,000 (March 31, 2020 – \$250,000), as the estimated fair value of the Acreage business is less than the estimated fair value of the consideration to be provided upon the exercise of the Acreage financial instrument. Fair value changes of \$88,151 and \$53,151 were recognized in other income (expense), net in the three and six months ended September 30, 2020, respectively (three and six months ended September 30, 2019 – \$(235,190) and \$(235,190), respectively) (see Note 25). The fair value determination includes a high degree of subjectivity and judgment, which results in significant estimation uncertainty. See Note 23 for additional details on how the fair value of the Acreage financial instrument is calculated on a recurring basis. From a measurement perspective, the Company has elected the fair value option under ASC 825.

In connection with the Amended Arrangement, an affiliate of the Company advanced US\$50,000 (\$66,995) to Universal Hemp, LLC, a wholly-owned subsidiary of Acreage (“Acreage Hempco”) pursuant to a secured debenture (“debenture”). In accordance with the terms of the debenture, the funds cannot be used, directly or indirectly, in connection with or for any cannabis or cannabis-related operations in the United States, unless and until such operations comply with all applicable laws of the United States. The debenture bears interest at a rate of 6.1% per annum, matures 10 years from the implementation of the Amended Arrangement (being September 23, 2030) or such earlier date in accordance with the terms of the debenture, and all interest payments made pursuant to the debenture are payable in cash by Acreage Hempco. The debenture is not convertible and is not guaranteed by Acreage.

The amount advanced on September 23, 2020 pursuant to the debenture has been recorded in other financial assets (see Note 11), and the Company has elected the fair value option under ASC 825. At September 30, 2020, the estimated fair value of the debenture issued to an affiliate of the Company by Acreage Hempco was \$43,681, measured using a discounted cash flow model, and fair value changes of \$23,314 were recognized in other income (expense), net in the three months ended September 30, 2020 (see Note 25). An additional US\$50,000 may be advanced pursuant to the debenture subject to the satisfaction of certain conditions by Acreage Hempco.

Amendment to the CBI Investor Rights Agreement and warrants

On April 18, 2019, certain wholly-owned subsidiaries of CBI and Canopy Growth entered into a second amended and restated investor rights agreement and a consent agreement. In connection with these agreements, on June 27, 2019 Canopy Growth (i) extended the term of the first tranche of warrants, which allow CBI to acquire 88.5 million additional shares of Canopy Growth for a fixed price of \$50.40 per share (the “Tranche A Warrants”), to November 1, 2023; and (ii) replaced the second tranche of warrants with two new tranches of warrants (the “Tranche B Warrants” and the “Tranche C Warrants”) as follows:

- the Tranche B Warrants are exercisable to acquire 38.5 million common shares at a price of C\$76.68 per common share; and
- the Tranche C Warrants are exercisable to acquire 12.8 million common shares at a price equal to the 5-day volume-weighted average price of the common shares immediately prior to exercise.

In connection with the Tranche B Warrants and the Tranche C Warrants, Canopy Growth will provide CBI 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 purchase for cancellation 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 April 18, 2019 and ending on the date that is 24 months after the date that CBI exercises all of the Tranche A Warrants. The share repurchase credit feature is accounted for as a derivative liability, with the fair value continuing to be \$nil at September 30, 2020.

The modifications to the Tranche A Warrants resulted in them meeting the definition of a derivative instrument under ASC 815 - *Derivatives and Hedging* (“ASC 815”). They continue to be classified in equity as the number of shares and exercise price were both fixed at inception.

The Tranche B Warrants are accounted for as derivative instruments measured at fair value in accordance with ASC 815. At September 30, 2020, the fair value of the warrant derivative liability was \$221,948 (March 31, 2020 – \$322,491), and fair value changes of \$65,174 and \$100,543 have been recognized in other income (expense), net in the three and six months ended September 30, 2020, respectively (three and six months ended September 30, 2019 – gains of \$641,854 and \$666,746, respectively) (see Note 25). The fair value determination includes a high degree of subjectivity and judgment, which results in significant estimation uncertainty. See Note 23 for additional details on how the fair value of the warrant derivative liability is calculated on a recurring basis.

The Tranche C Warrants are accounted for as derivative instruments, with the fair value continuing to be \$nil at September 30, 2020.

28. SEGMENT INFORMATION

Reportable segments

The Company operates in two segments: 1) Cannabis, Hemp and Other Consumer Products, which encompasses the production, distribution and sale of a diverse range of cannabis, hemp-based, and other consumer products in Canada and internationally pursuant to applicable international and domestic legislation, regulations and permits; and 2) Canopy Rivers, a publicly-traded company in Canada, through which the Company provides growth capital and strategic support in the global cannabis sector, where federally lawful. Financial information for Canopy Rivers is included in the table below, and in Note 22.

	September 30, 2020	March 31, 2020
Ownership interest	27%	27%
Cash and cash equivalents	\$ 37,928	\$ 46,724
Prepaid expenses and other current assets	3,912	11,598
Investments in associates	10,337	50,543
Other financial assets	134,828	146,812
Other long-term assets	23,411	22,058
Other liabilities	(29,130)	(2,771)
Noncontrolling interests	(143,887)	(211,086)
Equity attributable to Canopy Growth	<u>\$ 37,399</u>	<u>\$ 63,878</u>

Entity-wide disclosures

All property, plant and equipment are located in Canada, except for \$517,572 which is located outside of Canada as at September 30, 2020 (March 31, 2020 – \$499,059).

All revenues were principally generated in Canada during the three and six months ended September 30, 2020, except for \$48,959 and \$93,658, respectively related to exported medical cannabis and cannabis related merchandise generated outside of Canada (three and six months ended September 30, 2019 – \$34,866 and \$57,407, respectively).

For the three months ended September 30, 2020, no customer represented more than 10% of the Company's net revenue (three months ended September 30, 2019 – none).

For the six months ended September 30, 2020, no customer represented more than 10% of the Company's net revenue (six months ended September 30, 2019 – one).

29. SUBSEQUENT EVENTS

On November 1, 2020, a production facility owned by the Company in Delta, British Columbia was damaged by a fire. The facility has been non-operational since March 2020. The Company is in the process of assessing the impact of the fire, including the extent of damages and potential insurance recoveries. As a result, an estimate of the financial effect on the Company's consolidated financial statements is uncertain at this time.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Introduction

This Management's Discussion and Analysis ("MD&A") should be read together with other information, including our unaudited condensed interim consolidated financial statements and the related notes to those statements included in Part I, Item 1 of this Quarterly Report (the "Interim Financial Statements"), our consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended March 31, 2020 (as amended, the "Annual Report") and Part I, Item 1A, Risk Factors, of the Annual Report. This MD&A provides additional information on our business, recent developments, financial condition, cash flows and results of operations, and is organized as follows:

- *Part 1 - Business Overview.* This section provides a general description of our business, which we believe is important in understanding the results of our operations, financial condition, and potential future trends.
- *Part 2 - Results of Operations.* This section provides an analysis of our results of operations for the second quarter of fiscal 2021 in comparison to the second quarter of fiscal 2020, and for the six months ended September 30, 2020 in comparison to the six months ended September 30, 2019.
- *Part 3 - Financial Liquidity and Capital Resources.* This section provides an analysis of our cash flows and outstanding debt and commitments. Included in this analysis is a discussion of the amount of financial capacity available to fund our ongoing operations and future commitments.

We prepare and report our Interim Financial Statements in accordance with U.S. GAAP. Our Interim Financial Statements, and the financial information contained herein, are reported in thousands of Canadian dollars, except share and per share amounts or as otherwise stated. We have determined that the Canadian dollar is the most relevant and appropriate reporting currency as, despite continuing shifts in the relative size of our operations across multiple geographies, the majority of our operations are conducted in Canadian dollars and our financial results are prepared and reviewed internally by management in Canadian dollars.

Special Note Regarding Forward-Looking Statements

This Quarterly Report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and other applicable securities laws, which involve certain known and unknown risks and uncertainties. Forward-looking statements predict or describe our future operations, business plans, business and investment strategies and the performance of our investments. These forward-looking statements are generally identified by their use of such terms and phrases as "intend," "goal," "strategy," "estimate," "expect," "project," "projections," "forecasts," "plans," "seeks," "anticipates," "potential," "proposed," "will," "should," "could," "would," "may," "likely," "designed to," "foreseeable future," "believe," "scheduled" and other similar expressions. Our actual results or outcomes may differ materially from those anticipated. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made.

Forward-looking statements include, but are not limited to, statements with respect to:

- the uncertainties associated with the COVID-19 pandemic, including our ability to continue operations, the ability of our suppliers and distribution channels to continue to operate, the use of our products by consumers, disruptions to the global and local economies due to related stay-at-home orders, quarantine policies and restrictions on travel, trade and business operations and a reduction in discretionary consumer spending;
- laws and regulations and any amendments thereto applicable to our business and the impact thereof, including uncertainty regarding the application of U.S. state and federal law to U.S. hemp (including CBD) products and the scope of any regulations by the U.S. Federal Drug Administration, the U.S. Federal Trade Commission, the U.S. Patent and Trademark Office, the U.S. Department of Agriculture (the "USDA") and any state equivalent regulatory agencies over U.S. hemp (including CBD) products;
- expectations regarding the regulation of the U.S. hemp industry in the U.S., including the promulgation of regulations for the U.S. hemp industry by the USDA;
- expectations regarding the potential success of, and the costs and benefits associated with, our acquisitions, joint ventures, strategic alliances and equity investments;
- the amended plan of arrangement with Acreage Holdings, Inc. ("Acreage"), including the satisfaction or waiver of the conditions to closing of such acquisition;
- the grant, renewal and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof;

- our international activities and joint venture interests, including required regulatory approvals and licensing, anticipated costs and timing, and expected impact;
- the ability to successfully create and launch brands and further create, launch and scale cannabis-based products and U.S. hemp-derived consumer products in jurisdictions where such products are legal and that we currently operate in;
- the benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, including CBD and other cannabinoids;
- the anticipated benefits and impact of the investment in us (the “CBI Group Investments”) by Constellation Brands, Inc. (“CBI”) and its affiliates (together, the “CBI Group”);
- the potential exercise of the warrants held by the CBI Group, pre-emptive rights and/or top-up rights in connection with the CBI Group Investments, including proceeds to us that may result therefrom or the potential conversion of notes held by the CBI Group in connection with the CBI Group Investments;
- expectations regarding the use of proceeds of equity financings, including the proceeds from the CBI Group Investments;
- the legalization of the use of cannabis for medical or recreational in jurisdictions outside of Canada, the related timing and impact thereof and our intentions to participate in such markets, if and when such use is legalized;
- our ability to execute on our strategy and the anticipated benefits of such strategy;
- the ongoing impact of the legalization of cannabis product types and forms for recreational use in Canada, including federal, provincial, territorial and municipal regulations pertaining thereto, the related timing and impact thereof and our intentions to participate in such markets;
- the ongoing impact of developing provincial, territorial and municipal regulations pertaining to the sale and distribution of cannabis, the related timing and impact thereof, as well as the restrictions on federally regulated cannabis producers participating in certain retail markets and our intentions to participate in such markets to the extent permissible;
- the future performance of our business and operations;
- our competitive advantages and business strategies;
- the competitive conditions of the industry;
- the expected growth in the number of customers using our products;
- our ability or plans to identify, develop, commercialize or expand our technology and research and development initiatives in cannabinoids, or the success thereof;
- expectations regarding revenues, expenses and anticipated cash needs;
- expectations regarding cash flow, liquidity and sources of funding;
- expectations regarding capital expenditures;
- the expansion of our production and manufacturing, the costs and timing associated therewith and the receipt of applicable production and sale licenses;
- the expected growth in our growing, production and supply chain capacities;
- expectations regarding the resolution of litigation and other legal proceedings;
- expectations with respect to future production costs;
- expectations with respect to future sales and distribution channels;
- the expected methods to be used to distribute and sell our products;
- our future product offerings;
- the anticipated future gross margins of our operations;
- accounting standards and estimates;
- expectations regarding our distribution network; and
- expectations regarding the costs and benefits associated with our contracts and agreements with third parties, including under our third-party supply and manufacturing agreements.

Certain of the forward-looking statements contained herein concerning the industries in which we conduct our business are based on estimates prepared by us using data from publicly available governmental sources, market research, industry analysis and on assumptions based on data and knowledge of these industries, which we believe to be reasonable. However, although generally indicative of relative market positions, market shares and performance characteristics, such data is inherently imprecise. The industries in which we conduct our business involve risks and uncertainties that are subject to change based on various factors, which are described further below.

The forward-looking statements contained herein are based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including: (i) management’s perceptions of historical trends, current conditions and expected future developments; (ii) our ability to generate cash flow from operations; (iii) general economic, financial market, regulatory and political conditions in which we operate; (iv) the production and manufacturing capabilities and output from our facilities and our joint ventures, strategic alliances and equity investments; (v) consumer interest in our products; (vi) competition; (vii) anticipated and unanticipated costs; (viii) government regulation of our activities and products including but not limited to the areas of taxation and environmental protection; (ix) the timely receipt of any required regulatory authorizations, approvals, consents,

permits and/or licenses; (x) our ability to obtain qualified staff, equipment and services in a timely and cost-efficient manner; (xi) our ability to conduct operations in a safe, efficient and effective manner; (xii) our ability to realize anticipated benefits, synergies or generate revenue, profits or value from our recent acquisitions into our existing operations; (xiii) our ability to continue to operate in light of the COVID-19 pandemic and the impact of the pandemic on demand for, and sales of, our products and our distribution channels; and (xiv) other considerations that management believes to be appropriate in the circumstances. While our management considers these assumptions to be reasonable based on information currently available to management, there is no assurance that such expectations will prove to be correct.

By their nature, forward-looking statements are subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, including known and unknown risks, many of which are beyond our control, could cause actual results to differ materially from the forward-looking statements in this Quarterly Report and other reports we file with, or furnish to, the Securities and Exchange Commission (the “SEC”) and other regulatory agencies and made by our directors, officers, other employees and other persons authorized to speak on our behalf. Such factors include, without limitation, changes in laws, regulations and guidelines and our compliance with such laws, regulations and guidelines; the risk that the COVID-19 pandemic may disrupt our operations and those of our suppliers and distribution channels and negatively impact the use of our products; consumer demand for cannabis and U.S. hemp products; our reliance on licenses issued by and contractual arrangements with various federal and provincial governmental authorities; future levels of revenues and the impact of increasing levels of competition; our ability to manage disruptions in credit markets or changes to our credit rating; future levels of capital, environmental or maintenance expenditures, general and administrative and other expenses; the success or timing of completion of ongoing or anticipated capital or maintenance projects; business strategies, growth opportunities and expected investment; the adequacy of our capital resources and liquidity, including but not limited to, availability of sufficient cash flow to execute our business plan (either within the expected timeframe or at all); the potential effects of judicial or other proceedings on our business, financial condition, results of operations and cash flows; volatility in and/or degradation of general economic, market, industry or business conditions; our exposure to risks related to an agricultural business, including wholesale price volatility and variable product quality; compliance with applicable environmental, economic, health and safety, energy and other policies and regulations and in particular health concerns with respect to vaping and the use of cannabis and U.S. hemp products in vaping devices; the anticipated effects of actions of third parties such as competitors, activist investors or federal, state, provincial, territorial or local regulatory authorities, self-regulatory organizations, plaintiffs in litigation or persons threatening litigation; changes in regulatory requirements in relation to our business and products; and the factors discussed under the heading “Risk Factors” in the Annual Report. Readers are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

Forward-looking statements are provided for the purposes of assisting the reader in understanding our financial performance, financial position and cash flows as of and for periods ended on certain dates and to present information about management’s current expectations and plans relating to the future, and the reader is cautioned that the forward-looking statements may not be appropriate for any other purpose. While we believe that the assumptions and expectations reflected in the forward-looking statements are reasonable based on information currently available to management, there is no assurance that such assumptions and expectations will prove to have been correct. Forward-looking statements are made as of the date they are made and are based on the beliefs, estimates, expectations and opinions of management on that date. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, estimates or opinions, future events or results or otherwise or to explain any material difference between subsequent actual events and such forward-looking statements, except as required by law. The forward-looking statements contained in this Quarterly Report and other reports we file with, or furnish to, the SEC and other regulatory agencies and made by our directors, officers, other employees and other persons authorized to speak on our behalf are expressly qualified in their entirety by these cautionary statements.

Part 1 - Business Overview

We are a leading cannabis company with operations in countries across the world. We produce, distribute and sell a diverse range of cannabis and hemp-based products and other consumer products for both recreational and medical purposes under a portfolio of distinct brands in Canada pursuant to the *Cannabis Act*, and globally pursuant to applicable international and Canadian legislation, regulations and permits.

On October 17, 2018, the *Cannabis Act* came into effect in Canada, regulating both the medical and recreational cannabis markets in Canada and providing provincial, territorial and municipal governments the authority to prescribe regulations regarding the distribution and sale of recreational cannabis. On October 17, 2019, the second phase of recreational cannabis products, specifically, ingestible cannabis, cannabis extracts and cannabis topical products (referred to as “Cannabis 2.0”), were legalized pursuant to certain amendments to the regulations under the *Cannabis Act*. We began selling our cannabis-infused chocolates, cannabis-infused beverage offerings, vape pen power sources and pod-based vape devices across Canada in the fourth quarter of fiscal 2020, with these products

complementing our existing flower, oil and softgel products. Our 510-threaded vape cartridges began shipping into the market in April 2020, with product availability varying based on provincial and territorial regulations. Our recreational cannabis products are predominantly sold to provincial and territorial agencies under a “business-to-business” wholesale model, with those provincial and territorial agencies then being responsible for the distribution of our products to brick-and-mortar stores and for online retail sales. We have also opened a network of Tweed and Tokyo Smoke retail stores across Canada, where permissible, to promote brand awareness and drive consumer demand under a “business-to-consumer” model.

Our Spectrum Therapeutics medical division is a global leader in medical cannabis. Spectrum Therapeutics produces and distributes a diverse portfolio of medical cannabis products to healthcare practitioners and medical customers in Canada, and in several other countries where it is federally permissible to do so, and Spectrum Therapeutics also offers education, resource and support programs. In April 2019, we acquired C³ Cannabinoid Compound Company (“C³”), Europe’s largest cannabinoid-based pharmaceuticals company and a leading manufacturer of dronabinol, a registered active pharmaceutical ingredient in Germany and certain other European countries. The addition of dronabinol has allowed us to expand our portfolio of medical cannabis offerings for our customers in countries where permissible.

Subsequent to the passage of the U.S. Agricultural Improvement Act of 2018 in December 2018, we began building our hemp supply chain in the United States through our investment in hemp growing capability and in processing, extraction and finished goods manufacturing facilities. We sell a line of hemp-derived CBD isolate products under the First & Free brand, including oils, softgels and topical creams, and in September 2020, we launched Martha Stewart CBD, a new line of premium quality, hemp-derived wellness gummies, oils and softgels. In June 2019, we implemented a plan of arrangement (the “Prior Arrangement”) pursuant to an arrangement agreement (the “Arrangement Agreement”) with Acreage, a U.S. multi-state cannabis operator. Pursuant to the Prior Arrangement, following the occurrence or waiver (at our discretion) of changes in U.S. 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 “Triggering Event”) and subject to the satisfaction or waiver of the conditions set out in the Arrangement Agreement, we agreed to acquire all of the issued and outstanding shares of Acreage. In June 2020, we entered into the Proposal Agreement (as defined below) with Acreage to amend the terms of the Prior Arrangement. In September 2020, following receipt of all required approvals, we entered into a second amendment to the Arrangement Agreement with Acreage and implemented an amended and restated plan of arrangement (the “Amended Arrangement”); refer to “Recent Developments” below for further information. The acquisition of Acreage, if completed, will provide a pathway into cannabis markets in the United States; however, we and Acreage will continue to operate as independent companies until the acquisition of Acreage is completed.

Our other product offerings, which are sold by our subsidiaries in jurisdictions where it is permissible to do so, include (i) vaporizers sold by Storz & Bickel GmbH & Co. KG (“Storz & Bickel”); (ii) beauty, skincare, wellness and sleep products, some of which have been blended with hemp-derived CBD isolate, sold by This Works Products Limited (“This Works”); and (iii) sports nutrition beverages, mixes, protein, gum and mints, some of which have been infused with hemp-derived CBD isolate, sold by BioSteel.

The majority of our products contain THC, CBD, or a combination of these two cannabinoids which are found in the Cannabis sativa plant species. THC is the primary psychoactive or intoxicating cannabinoid found in cannabis. We also refer throughout this MD&A to “hemp”, which is a term used to classify varieties of the Cannabis sativa plant that contain CBD and 0.3% or less THC content (by dry weight). Conversely, the term “marijuana” refers to varieties of the Cannabis sativa plant with more than 0.3% THC content and moderate levels of CBD.

Our licensed operational capacity in Canada includes indoor, greenhouse and outdoor cultivation space; post-harvest processing and cannabinoid extraction capability; advanced manufacturing capability for vape products, softgel encapsulation and pre-rolled joints; a beverage production facility; and a chocolate manufacturing facility. These infrastructure investments allow us to supply the recreational and medical markets with a complimentary balance of flower products and extracted cannabinoid input for our oil, CBD and Cannabis 2.0 products. Additionally, we have built a hemp supply chain in the United States, and we hold the necessary licenses to cultivate and produce cannabis in Denmark, allowing us to supply the domestic European market.

We operate in two reportable segments:

- Cannabis, Hemp and Other Consumer Products, which encompasses the production, distribution and sale of a diverse range of cannabis, hemp-based, and other consumer products in Canada and internationally pursuant to applicable international and domestic legislation, regulations and permits; and
- Canopy Rivers Inc. (“Canopy Rivers”), a publicly-traded company in Canada, through which we provide growth capital and strategic support in the global cannabis sector, where federally lawful. Canopy Rivers did not generate net revenue in the three and six months ended September 30, 2020.

Update on the COVID-19 Pandemic

Management has continued to closely monitor the impact of the COVID-19 global pandemic, with a focus on the health and safety of our employees, business continuity and supporting our communities. We established a COVID-19 Management Committee shortly after the declaration of COVID-19 as a global pandemic and implemented various measures to reduce the spread of the virus, as highlighted in the MD&A section of our Annual Report. We have continued to operate under the preventative measures as previously described and have experienced minimal disruption to our production and supply chain. As of the date of the filing of this Quarterly Report, all 32 of our corporate-owned retail stores are open and offering click-and-collect and in-store shopping. Our Canadian medical business, which operates as an e-commerce channel, has continued largely unchanged. Our international medical business operates primarily as a pharmacy model, with pharmacies being deemed essential businesses in Germany and other European countries in which we conduct business. In addition, since our non-production workforce continues to effectively work remotely using various technology tools, we are able to maintain our full operations and internal controls over financial reporting and disclosures.

Given the uncertainties associated with the COVID-19 pandemic, including those related to the use of our products by consumers, disruptions to the global and local economies due to related stay-at-home orders, quarantine policies and restrictions on travel, trade and business operations and a reduction in discretionary consumer spending, we are unable to estimate the impact of the COVID-19 pandemic on our business, financial condition, results of operations, and/or cash flows. The uncertain nature of the impacts of the COVID-19 pandemic may continue to affect our results of operations for the balance of fiscal 2021.

We believe we have sufficient liquidity available from cash and cash equivalents and short-term investments on hand of \$673.3 million and \$1.0 billion, respectively, at September 30, 2020, and from available capacity under our revolving debt facility to enable us to meet our working capital and other operating requirements, fund growth initiatives and capital expenditures, settle our liabilities, and repay scheduled principal and interest payments on debt. Refer to “Part 3 – Financial Liquidity and Capital Resources” for further information.

Recent Developments

Amendments to Acreage Arrangement

On June 24, 2020, we entered into a proposal agreement (the “Proposal Agreement”) with Acreage to amend the terms of the Prior Arrangement made pursuant to the Arrangement Agreement between us and Acreage dated April 18, 2019, as amended on May 15, 2019. Pursuant to the terms of the Prior Arrangement, shareholders of Acreage and holders of certain securities convertible into Existing SVS (as defined below) as of June 26, 2019, received an immediate aggregate total payment of US\$300.0 million (\$395.2 million) in exchange for granting Canopy Growth both the right and the obligation (the “Acreage financial instrument”) to acquire all of the issued and outstanding shares of Acreage following the occurrence or waiver of the Triggering Event and subject to the satisfaction or waiver of the conditions set out in the Arrangement Agreement.

In September 2020, Acreage obtained the requisite approvals of the shareholders of Acreage and the Supreme Court of British Columbia and on September 23, 2020, Canopy Growth and Acreage entered into a second amendment to the Arrangement Agreement and implemented the Amended Arrangement. The Amended Arrangement provides for, among other things, the following:

- A capital reorganization of Acreage (the “Capital Reorganization”), pursuant to which Acreage amended its Notice of Articles and Articles to, among other things, create the Fixed Shares (as defined below), the Floating Shares (as defined below) and the Fixed Multiple Shares (as defined below) and remove the existing Acreage subordinated voting shares (the “Existing SVS”), the existing Acreage proportionate voting shares (the “Existing PVS”) and the existing Acreage multiple voting shares (the “Existing MVS”). Pursuant to the Capital Reorganization (i) each outstanding Existing SVS was exchanged for 0.7 of a Fixed Share and 0.3 of a Floating Share; (ii) each outstanding Existing PVS was exchanged for 28 Fixed Shares and 12 Floating Shares; and (iii) each outstanding Existing MVS was exchanged for 0.7 of a Fixed Multiple Share and 0.3 of a Floating Share;
- The new Class E subordinated voting shares (the “Fixed Shares”) have the same attributes as the Existing SVS and are listed on the Canadian Securities Exchange (the “CSE”) under the ticker symbol ACRG.A.U. Following the occurrence or waiver (at the discretion of Canopy Growth) of the Triggering Event and subject to the satisfaction or waiver of the conditions set out in the Arrangement Agreement (as modified in connection with the Amended Arrangement), Canopy Growth will acquire all of the issued and outstanding Fixed Shares based on an amended exchange ratio equal to 0.3048 of a common share to be received for each Fixed Share held (reduced from 0.5818 per Existing SVS pursuant to the Prior Arrangement). The foregoing exchange ratio for the Fixed Shares is subject to adjustment in accordance with the Amended Arrangement if, among other things, Acreage issues greater than the permitted number of Fixed Shares;
- The new Class D subordinated voting shares (the “Floating Shares”) are listed on the CSE under the ticker symbol ACRG.B.U. Upon the occurrence or waiver (at the discretion of Canopy Growth) of the Triggering Event, Canopy Growth will have the right exercisable for a period of 30 days, to acquire all of the issued and outstanding Floating Shares for cash or common shares

or a combination thereof, in Canopy Growth's sole discretion at a price equal to the 30-day volume weighted average trading price of the Floating Shares on the CSE, subject to a minimum call price of US\$6.41 per Floating Share. The foregoing exchange ratio for the Floating Shares is subject to adjustment in accordance with the Amended Arrangement if Acreage issues greater than the permitted number of Floating Shares. The acquisition of the Floating Shares, if acquired, will take place concurrently with the closing of the acquisition of the Fixed Shares;

- The new Class F multiple voting shares (the "Fixed Multiple Shares") have the same attributes as the Existing MVS, provided that each Fixed Multiple Share entitles the holder thereof to 4,300 votes per share at shareholder meetings of Acreage. Immediately prior to the acquisition of the Fixed Shares, each issued and outstanding Fixed Multiple Share will automatically be exchanged for one Fixed Share and thereafter be acquired by Canopy Growth upon the same terms and conditions as the acquisition of the Fixed Shares;
- If the occurrence or waiver of the Triggering Event does not occur within 10 years from the date the Amended Arrangement was implemented (being September 23, 2020), Canopy Growth's rights to acquire both the Fixed Shares and the Floating Shares will terminate;
- Upon implementation of the Amended Arrangement, Canopy Growth made a cash payment to the shareholders of Acreage and holders of certain securities convertible into Existing SVS in the aggregate amount of US\$37.5 million (\$49.8 million); and
- Acreage is only permitted to issue an aggregate of up to 32,700,000 Fixed Shares and Floating Shares.

In connection with the implementation of the Amended Arrangement, we advanced US\$50.0 million (\$67.0 million) to Universal Hemp, LLC, a wholly-owned subsidiary of Acreage ("Acreage Hempco") pursuant to the terms of a secured debenture ("debenture"). In accordance with the terms of the debenture, the funds cannot be used, directly or indirectly, in connection with or for any cannabis or cannabis-related operations in the United States, unless and until such operations comply with all applicable laws of the United States. The debenture bears interest at a rate of 6.1% per annum, matures 10 years from the implementation of the Amended Arrangement or such earlier date in accordance with the terms of the debenture, and all interest payments made pursuant to the debenture are payable in cash by Acreage Hempco. The debenture is not convertible and is not guaranteed by Acreage. An additional US\$50.0 million may be advanced pursuant to the debenture subject to the satisfaction of certain conditions by Acreage Hempco.

PharmHouse

PharmHouse Inc. ("PharmHouse"), a joint venture formed on May 7, 2018, between Canopy Rivers and 2615975 Ontario Limited (the "PharmHouse JV Partner"), is a company licensed to cultivate cannabis under the Cannabis Act.

CCAA Proceedings

During the three months ended September 30, 2020, it was determined that the previously anticipated timeline for PharmHouse to generate cash flows from its offtake agreements with Canopy Growth and TerrAscend Canada Inc. would not be met, and the ultimate timing and receipt of cash inflows pursuant to these agreements became uncertain. As a result of this, as well as broader sector-wide challenges impacting the Canadian cannabis industry, PharmHouse did not have sufficient liquidity and capital resources to meet its business objectives and became unable to meet its financial obligations as they became due.

Accordingly, on September 15, 2020, PharmHouse obtained an order (the "Initial Order") from the Ontario Superior Court of Justice (the "Court") granting PharmHouse creditor protection under the Companies' Creditors Arrangement Act ("CCAA") (the "CCAA Proceedings"). The Court appointed an independent professional services firm to act as the Monitor of PharmHouse in the CCAA Proceedings while PharmHouse explores a restructuring of its business and operations (the "Restructuring").

PharmHouse Recoverability Assessment

As a result of the CCAA Proceedings and the Restructuring, we determined that there were indicators of impairment present for its investments in various PharmHouse-related financial assets. These investments are described below.

We performed impairment testing for the various PharmHouse-related financial assets by estimating the fair value of PharmHouse en bloc. Due to the lack of profitable operating history for PharmHouse as a cannabis entity, we estimated the fair value of PharmHouse en bloc using an asset-based approach to value PharmHouse's assets under an orderly liquidation scenario where cannabis operations are not continued at PharmHouse's facility and the greenhouse is sold for purposes other than cannabis cultivation. This amount was then compared to the carrying values of the various PharmHouse-related financial instruments held by Canopy Growth, in sequence based on the priority of claims on PharmHouse's assets (the "PharmHouse Recoverability Assessment"). The significant components of this fair value analysis included PharmHouse's greenhouse facility and retrofits, separable machinery and equipment, saleable inventory, and cash. Significant unobservable inputs used to determine the fair value of PharmHouse's assets include the selling price per square foot for PharmHouse's greenhouse facility; the recoverability percentage on the liquidation of PharmHouse's property, plant and equipment; the selling price per gram of PharmHouse's existing cannabis inventory; and

adjustments for the risk of fair value changes and liquidity. Based on the foregoing, we estimated the recoverable value of PharmHouse's assets in an orderly liquidation scenario to be approximately \$65.0 million. The impact of the PharmHouse Recoverability Assessment on Canopy Growth's various PharmHouse-related financial instruments is described below.

PharmHouse Financial Guarantee

As at September 30, 2020, PharmHouse had entered a syndicated credit agreement with amended terms (the "PharmHouse Credit Agreement") with a number of Canadian banks to provide PharmHouse with a committed, non-revolving credit facility (the "PharmHouse Credit Facility") with a maximum principal amount of \$90.0 million, which was fully drawn. The obligations of PharmHouse under the PharmHouse Credit Facility are secured by guarantees of Canopy Rivers and Canopy Rivers Corporation ("CRC", a wholly-owned subsidiary of Canopy Rivers), and a pledge by CRC of all of the shares of PharmHouse held by it (the "PharmHouse Financial Guarantee"). Accordingly, if PharmHouse is not able to generate sufficient cash flows to service its obligations pursuant to the PharmHouse Credit Facility, we may be required to recognize a financial liability relating to all or a portion of the PharmHouse Financial Guarantee. The PharmHouse Credit Agreement also contains certain representations and warranties and affirmative covenants applicable to Canopy Growth.

Based on the PharmHouse Recoverability Assessment described above, we determined that the fair value of PharmHouse's assets under an orderly liquidation scenario where the facility is not used for cannabis operations may be less than the principal amount owed by PharmHouse pursuant to the PharmHouse Credit Facility. Accordingly, we estimated that we have a financial liability related to the PharmHouse Financial Guarantee, reflecting the estimated shortfall between the recoverable amount of PharmHouse en bloc and our exposure to the PharmHouse Credit Facility.

As at September 30, 2020, we estimated the current expected credit loss related to its contingent obligation under the PharmHouse Financial Guarantee to be \$25.0 million, and recognized a financial liability for this amount in the consolidated balance sheet (March 31, 2020 – \$nil) and the associated current expected credit loss in net income (loss) for the three and six months ended September 30, 2020 (three and six months ended September 30, 2019 – \$nil).

Other financial assets, including loans receivable

As at September 30, 2020, we had advanced \$40.0 million of secured debt financing pursuant to a shareholder loan agreement with PharmHouse (March 31, 2020 – \$40.0 million). The shareholder loan has a three-year term and an annual interest rate of 12%, with interest calculated monthly (effective as at the date principal is advanced) and payable quarterly upon the achievement of certain sales-related milestones.

As at September 30, 2020, we had advanced \$2.5 million to PharmHouse pursuant to a secured demand promissory note (March 31, 2020 – \$2.5 million). The secured demand promissory note is non-interest bearing both before and after demand or default. Based on the terms of the secured demand promissory note, we had recognized the secured demand promissory note as a financial asset initially recorded at fair value and subsequently measured at amortized cost.

On August 4, 2020, we entered into an unsecured demand promissory note agreement with PharmHouse, pursuant to which it made total advances of \$1.2 million between August 4, 2020, and September 8, 2020. The unsecured promissory note bears interest at a rate of 12% per annum, calculated and compounded monthly, and is payable on the demand date. Based on the terms of the unsecured demand promissory note, we recognized the instrument as a financial asset initially recorded at fair value and subsequently measured at amortized cost.

Pursuant to the Initial Order, we entered into an agreement to provide a super-priority, debtor-in-possession ("DIP") interim, non-revolving credit facility up to a maximum principal amount of \$7.2 million (the "DIP Financing") to enable PharmHouse to continue its day-to-day operations throughout the anticipated Restructuring. The DIP Financing bears interest at a rate of 8% per annum, calculated and compounded monthly and payable on the maturity date, which is the earlier of December 29, 2020, and the date the CCAA Proceedings are terminated. As at September 30, 2020, we had advanced \$2.1 million pursuant to the DIP Financing.

As a result of the PharmHouse Recoverability Assessment described above, we recognized current expected credit losses of \$25.0 million related to its contingent obligation under the PharmHouse Financial Guarantee and concluded that the following amounts may not be recoverable: (i) \$2.1 million advanced pursuant to DIP Financing; (ii) \$40.0 million advanced under the shareholder loan agreement; (iii) \$2.5 million advanced under the secured demand promissory note; (iv) \$1.2 million advanced under the unsecured demand promissory note; and (v) \$9.0 million in interest receivable in relation to the aforementioned financial instruments. Additionally, it was determined that certain advances in the amount of \$15.0 million provided to PharmHouse by Canopy Growth may not be recoverable. Accordingly, we recorded expected credit losses on financial assets and related charges of \$94.7 million for the three and six months ended September 30, 2020.

PharmHouse equity method investment

As at September 30, 2020, we owned 10,998,660 common shares of PharmHouse (March 31, 2020 – 10,998,660 common shares), representing a 49% equity interest on a non-diluted basis. We have not yet received any distributions on account of its common share investment in PharmHouse. As a result of the PharmHouse Recoverability Assessment described above, we determined that there was an other-than-temporary-impairment and recognized an impairment charge for the full amount of its equity method investment of \$32.4 million or the three and six months ended September 30, 2020 (three and six months ended September 30, 2019 – \$nil).

British Columbia Production Facility

On November 1, 2020, a production facility owned by the Company in Delta, British Columbia was damaged by a fire. The facility has been non-operational since March 2020. We are in the process of assessing the impact of the fire, including the extent of damages and potential insurance recoveries. As a result, an estimate of the financial effect on our consolidated financial statements is uncertain at this time.

Part 2 - Results of Operations

Discussion of Second Quarter of Fiscal 2021 Results of Operations

	Three months ended September 30,		Change	% Change
	2020	2019		
<i>(in thousands of Canadian dollars, except share amounts and where otherwise indicated)</i>				
Selected financial information:				
Net revenue	\$ 135,266	\$ 76,613	\$ 58,653	77%
Gross margin percentage	19%	5%	-	14%
Net (loss) income	\$ (96,552)	\$ 242,650	\$ (339,202)	(140%)
Net (loss) income attributable to Canopy Growth Corporation	\$ (32,061)	\$ 258,918	\$ (290,979)	(112%)
(Loss) earnings per share - basic	\$ (0.09)	\$ 0.75	\$ (0.84)	(112%)
(Loss) earnings per share - diluted ¹	\$ (0.09)	\$ 0.25	\$ (0.34)	(136%)

¹For the three months ended September 30, 2020, the weighted average number of outstanding common shares, basic and diluted, totaled 371,520,534. For the three months ended September 30, 2019, the weighted average number of outstanding common shares, basic and diluted, totaled 347,226,921 and 380,323,118, respectively.

Revenue

Revenue by Channel	Three months ended September 30,		\$ Change	% Change
	2020	2019		
<i>(in thousands of Canadian dollars)</i>				
Recreational net revenue				
Business-to-business ¹	\$ 42,223	\$ 8,854	\$ 33,369	377%
Business-to-consumer	18,709	13,100	5,609	43%
	60,932	21,954	38,978	178%
Medical net revenue				
Canadian ²	13,888	12,964	924	7%
International	17,474	18,090	(616)	(3%)
	31,362	31,054	308	1%
Cannabis net revenue	92,294	53,008	39,286	74%
Other revenue	42,972	23,605	19,367	82%
Net revenue	\$ 135,266	\$ 76,613	\$ 58,653	77%

¹ Reflects excise taxes of \$14,200 and other revenue adjustments, representing our determination of returns and pricing adjustments, of \$3,750 for the three months ended September 30, 2020 (three months ended September 30, 2019 - excise taxes of \$7,823 and other revenue adjustments of \$32,727).

² Reflects excise taxes of \$1,362 for the three months ended September 30, 2020 (three months ended September 30, 2019 - \$1,185).

Revenue by Form*(in thousands of Canadian dollars)*

	Three months ended September 30,		\$ Change	% Change
	2020	2019		
Recreational revenue by form				
Dry bud ¹	\$ 63,895	\$ 59,040	\$ 4,855	8%
Oils and softgels ¹	7,021	3,464	3,557	103%
Cannabis 2.0 products	7,966	-	7,966	-
Other revenue adjustments	(3,750)	(32,727)	28,977	89%
Excise taxes	(14,200)	(7,823)	(6,377)	(82%)
	60,932	21,954	38,978	178%
Medical revenue by form				
Dry bud	8,942	9,576	(634)	(7%)
Oils and softgels	23,053	22,663	390	2%
Cannabis 2.0 products	729	-	729	-
Excise taxes	(1,362)	(1,185)	(177)	(15%)
	31,362	31,054	308	1%
Cannabis net revenue	92,294	53,008	39,286	74%
Other revenue	42,972	23,605	19,367	82%
Net revenue	\$ 135,266	\$ 76,613	\$ 58,653	77%

¹ Excludes the impact of other revenue adjustments.

Net revenue in the second quarter of fiscal 2021 was \$135.3 million, as compared to \$76.6 million in the second quarter of fiscal 2020. The year-over-year increase is primarily attributable to (i) the year-over-year increase in Canadian recreational net revenue; and (ii) the year-over-year increase in other revenue primarily resulting from continued strong performance by Storz & Bickel and the acquisition of BioSteel in October 2019.

Recreational

Canadian recreational net revenue in the second quarter of fiscal 2021 was \$60.9 million, as compared to \$22.0 million in the second quarter of fiscal 2020.

Net revenue from the business-to-business channel in the second quarter of fiscal 2021 was \$42.2 million, as compared to \$8.9 million in the second quarter of fiscal 2020. Net revenue in the second quarter of fiscal 2020 was impacted by other revenue adjustments in the amount of \$32.7 million related to our determination, at that time, of returns and pricing adjustments associated primarily with the risk of over-supply of certain oil and softgel products. We also benefited in the second quarter of fiscal 2021 from (i) an overall increase in demand resulting from the opening of 185 new retail stores across Canada in the second quarter of fiscal 2021, 46 of which were in Ontario; (ii) an increase in sales of our dry bud product, largely resulting from a competitive repositioning of our product offerings in the value-priced dried flower category that was implemented in the first quarter of fiscal 2021; and (iii) the introduction of our Cannabis 2.0 products, which represented approximately 8% of gross revenue from the business-to-business channel in the second quarter of fiscal 2021. Our cannabis-infused beverage products represented approximately 72% of our Cannabis 2.0 sales in the second quarter of fiscal 2021. These variances resulting in year-over-year net revenue growth were partially offset by an increase in excise taxes of \$6.4 million, due primarily to an increase in the volume of value-priced dried flower product sold compared to the prior year.

Revenue from the business-to-consumer channel in the second quarter of fiscal 2021 was \$18.7 million, as compared to \$13.1 million in the second quarter of fiscal 2020. The year-over-year increase is primarily attributable to (i) year-over-year same-store sales growth of 44%. We benefitted in the second quarter of fiscal 2021 from increased traffic and ticket size at our retail stores as we broadened our brand and product offerings at our retail locations, including the introduction of new value-priced dried flower products, vapes, and cannabis-infused beverages. Additionally, we saw an increase in foot traffic as the Canadian provinces relaxed COVID-19 measures, our communities re-opened, and our stores returned to normal operations; and (ii) the build-out of our retail store platform across Canada. At September 30, 2020, we operated 32 corporate-owned Tweed and Tokyo Smoke retail stores, an increase of 11 stores from September 30, 2019.

Medical

Medical cannabis net revenue in the second quarter of fiscal 2021 was \$31.4 million, as compared to \$31.1 million in the second quarter of fiscal 2020. Canadian medical net revenue in the second quarter of fiscal 2021 was \$13.9 million, as compared to \$13.0 million in the second quarter of fiscal 2020. The year-over-year increase is due primarily to an increase in the average order size by our medical customers, resulting largely from (i) the continued broadening of our brand and medical cannabis product offerings available on the Spectrum Therapeutics online store; and (ii) the convenience of our trusted e-commerce channel, which benefited from the slower-than-expected opening of recreational retail stores in Ontario in recent months due largely to the COVID-19 pandemic.

International medical revenue in the second quarter of fiscal 2021 was \$17.5 million, a 3% decrease from \$18.1 million in the second quarter of fiscal 2020. Our international medical revenue in the second quarter of fiscal 2021 was comprised of revenue from C³ and our German medical business of \$13.6 million and \$3.9 million, respectively, compared to \$14.0 million and \$4.1 million, respectively, in the second quarter of fiscal 2020.

Other

Other revenue is comprised of revenue related to (i) vaporizers sold by Storz & Bickel; (ii) beauty, skincare, wellness and sleep products, some of which have been blended with hemp-derived CBD isolate, sold by This Works; (iii) sports nutrition beverages, mixes, protein, gum and mints, some of which have been infused with hemp-derived CBD isolate, sold by BioSteel; and (iv) other strategic revenue sources such as our clinic partners.

Other revenue in the second quarter of fiscal 2021 was \$43.0 million, as compared to \$23.6 million in the second quarter of fiscal 2020. The year-over-year increase of \$19.4 million is primarily due to increases in revenue from both Storz & Bickel and This Works, and the acquisition of BioSteel in October 2019. Revenue from Storz & Bickel was \$21.8 million in the second quarter of fiscal 2021, a year-over-year increase of \$10.9 million due primarily to the expansion of our distribution network in the United States. Additionally, This Works contributed revenue totaling \$7.8 million in the second quarter of fiscal 2021, a year-over-year increase of \$2.0 million due primarily to the expansion of distribution to both direct-to-consumer and third-party e-commerce channels and new product launches. These factors were partially offset by the impact of lower traffic at brick-and-mortar retail stores in the United Kingdom related to the COVID-19 pandemic.

Cost of Goods Sold and Gross Margin

<i>(in thousands of Canadian dollars except where indicated)</i>	Three months ended September 30,		\$ Change	% Change
	2020	2019		
Net revenue	\$ 135,266	\$ 76,613	\$ 58,653	77%
Cost of goods sold	\$ 109,186	\$ 72,970	\$ 36,216	50%
Gross margin	26,080	3,643	22,437	616%
Gross margin percentage	19%	5%	-	14%

Cost of goods sold in the second quarter of fiscal 2021 was \$109.2 million, as compared to \$73.0 million in the second quarter of fiscal 2020. Our gross margin in the second quarter of fiscal 2021 was \$26.1 million, or 19% of net revenue, as compared to a gross margin of \$3.6 million and gross margin percentage of 5% of net revenue in the second quarter of fiscal 2020. In the second quarter of fiscal 2021, our gross margin percentage was primarily impacted by operating costs relating to facilities not yet cultivating or producing cannabis, not yet producing cannabis-related products or having under-utilized capacity. In the second quarter of fiscal 2021, these costs amounted to \$28.2 million and primarily related to (i) start-up costs associated with our indoor cultivation facility in Newfoundland and our gummy production facility in Smiths Falls; and (ii) under-utilized capacity associated with our chocolate factory and vape production facilities in Smiths Falls.

Comparatively, our gross margin percentage in the second quarter of fiscal 2020 was impacted by (i) charges of \$17.0 million for excess finished recreational cannabis inventory recorded primarily in connection with our evaluation of the estimated on-hand provincial and territorial inventory levels at that time; (ii) the impact on gross margin of \$9.2 million reflecting the returns and pricing adjustments relating primarily to the over-supply of certain oil and softgel products; and (iii) other adjustments related to the net realizable value of inventory. Further, we incurred operating costs of \$10.5 million relating to facilities not yet cultivating or processing cannabis, not yet producing cannabis-related products or having under-utilized capacity, primarily related to start-up costs associated with our advanced manufacturing and beverage facilities in Smiths Falls and our greenhouse in Denmark.

Operating Expenses

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30,		\$ Change	% Change
	2020	2019		
Operating expenses				
General and administrative	\$ 69,555	\$ 94,228	\$ (24,673)	(26%)
Sales and marketing	43,373	62,089	(18,716)	(30%)
Research and development	14,166	11,935	2,231	19%
Acquisition-related costs	3,472	2,562	910	36%
Depreciation and amortization	16,687	10,787	5,900	55%
Selling, general and administrative expenses	147,253	181,601	(34,348)	(19%)
Share-based compensation	19,901	83,767	(63,866)	(76%)
Share-based compensation related to acquisition milestones	2,083	9,114	(7,031)	(77%)
Share-based compensation expense	21,984	92,881	(70,897)	(76%)
Expected credit losses on financial assets and related charges	94,745	-	94,745	-
Asset impairment and restructuring costs	46,363	-	46,363	-
Total operating expenses	\$ 310,345	\$ 274,482	\$ 35,863	13%

Selling, general and administrative expenses

Selling, general and administrative expenses in the second quarter of fiscal 2021 were \$147.3 million, as compared to \$181.6 million in the second quarter of fiscal 2020.

General and administrative expense in the second quarter of fiscal 2021 was \$69.6 million, as compared to \$94.2 million in the second quarter of fiscal 2020. The year-over-year decrease is due primarily to:

- Losses recorded in the second quarter of fiscal 2020 of \$10.8 million related to legal disputes with a third-party supplier, and \$8.8 million associated with additional reserves on onerous lease obligations. These losses did not recur in the second quarter of fiscal 2021.
- A reduction in costs attributable to the restructuring actions initiated in the fourth quarter of fiscal 2020, resulting from an organizational and strategic review of our business. Accordingly, as we exited non-strategic geographies, rationalized our production capability and infrastructure footprint, and began streamlining our operations, we realized reductions related to (i) compensation costs for finance, information technology, legal and other administrative functions; (ii) facilities and insurance costs; and (iii) scaling-back on our expansion and business development initiatives. Partially offsetting these cost reductions was a year-over-year increase in third-party professional fees associated with the organizational and strategic review of our business, and third-party information technology costs to support our business.

Sales and marketing expense in the second quarter of fiscal 2021 was \$43.4 million, as compared to \$62.1 million in the second quarter of fiscal 2020. In the comparative prior period we incurred (i) costs attributable to product marketing and brand awareness advertising and media campaigns in support of the launch of our Cannabis 2.0 portfolio of products and the launch of our First & Free line of CBD products in the United States, and (ii) staffing costs associated with servicing our Canadian and United States markets in the areas of creative design and advertising, brand insights and launch support, and brand management. These costs did not recur to the same extent in the second quarter of fiscal 2021, as we rationalized our Canadian marketing organization in April 2020, delayed or cancelled various planned product and brand marketing initiatives across our business due to measures established to contain the spread of the COVID-19 pandemic, and incurred significantly reduced travel costs due to travel restrictions. The above factors that resulted in a year-over-year decrease in sales and marketing expense were partially offset by (i) higher advertising and promotion expenses associated with new market awareness campaigns in support of price changes and new product launches for our Canadian recreational cannabis business, and in support of the Martha Stewart line of CBD products in the United States; and (ii) the growth in our business as compared to the second quarter of fiscal 2020 resulting primarily from the acquisitions of C³ in April 2019, This Works in May 2019 and BioSteel in October 2019.

Research and development expense in the second quarter of fiscal 2021 was \$14.2 million, as compared to \$11.9 million in the second quarter of fiscal 2020. The year-over-year increase is primarily attributable to (i) higher third-party professional fees,

particularly associated with conducting research and testing for dronabinol-based health products and therapies. Specifically, costs increased year-over-year due to the acquisition of C³ in April 2019; and (ii) costs related to research and development of patent-protected technology, most notably in relation to product innovation, plant science and extraction technology. The above factors that resulted in a year-over-year increase in research and development expense were partially offset by lower third-party professional fees associated with a refocusing of Spectrum Therapeutics' research objectives.

Acquisition-related costs in the second quarter of fiscal 2021 were \$3.5 million, as compared to \$2.6 million in the second quarter of fiscal 2020. In the second quarter of fiscal 2021, costs were incurred in relation to implementing the Amended Arrangement with Acreage, as described in "Recent Developments" above. Comparatively, in the second quarter of fiscal 2020, costs were incurred primarily in relation to the acquisition of BioSteel, which closed in October 2019, and evaluating other potential acquisition opportunities.

Depreciation and amortization expense in the second quarter of fiscal 2021 was \$16.7 million, as compared to \$10.8 million in the second quarter of fiscal 2020. The year-over-year increase is primarily attributable to the growth in our business over the past year with the acquisitions of C³, BioSteel and This Works, and our investment in the build-out of our infrastructure across Canada over the past year.

Share-based compensation expense

Share-based compensation expense in the second quarter of fiscal 2021 was \$19.9 million, as compared to \$83.8 million in the second quarter of fiscal 2020. The year-over-year decrease is primarily attributable to:

- The significant number of stock options that were granted in previous years at relatively higher exercise prices, which impacted share-based compensation expense more significantly in previous periods. We granted 22.1 million stock options in fiscal 2019 at a weighted average price of \$51.49 per option, as compared to 9.5 million options in fiscal 2020 at a weighted average price of \$33.87. The decrease in the number of stock option grants from fiscal 2019 to fiscal 2020 was due to the modification of our share-based compensation program in fiscal 2020; only 295,451 options were granted in the six months ended September 30, 2020, as compared to 5.3 million in the comparative period; and
- The forfeiture or cancellation of 5.9 million stock options in fiscal 2020 and another 5.5 million stock options in the six months ended September 30, 2020 resulting primarily from restructuring actions commenced in the fourth quarter of fiscal 2020. These forfeitures and cancellations also contributed to a year-over-year reduction in share-based compensation expense.

As a result of the changes described above to our share-based compensation program leading to a reduction in the number of stock option grants, and the forfeiture or cancellation of stock options in recent quarters, 25.9 million stock options were outstanding at September 30, 2020, as compared to 32.9 million at September 30, 2019.

Share-based compensation expense related to acquisition milestones in the second quarter of fiscal 2021 was \$2.1 million, as compared to \$9.1 million in the second quarter of fiscal 2020. The year-over-year decrease is primarily related to (i) the restructuring of our operations in Colombia in the fourth quarter of fiscal 2020, which resulted in the acceleration of share-based compensation expense related to the unvested milestones associated with the acquisitions of Spectrum Colombia S.A.S. ("Spectrum Colombia") and Canindica Capital Ltd. ("Canindica") (as a result, there is no remaining share-based compensation expense to be recognized in association with these acquisitions); and (ii) the achievement, in earlier quarters, of major milestones associated with the acquisitions of Spectrum Colombia, Canindica, and Spectrum Cannabis Denmark Aps ("Spectrum Denmark"), which had resulted in the recognition of share-based compensation expense at that time.

Expected credit losses on financial assets and related charges

In the second quarter of fiscal 2021, we recorded expected credit losses on financial assets and related charges in the amount of \$94.7 million, as discussed in "Recent Developments" above.

Asset impairment and restructuring costs

Asset impairment and restructuring costs recorded in operating expenses in the second quarter of fiscal 2021 were \$46.4 million. We recorded (i) adjustments related to changes in the estimated fair value of certain of our Canadian production facilities from March 31, 2020; and (ii) charges related to rationalizing certain research and development activities.

Other

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30,		\$ Change	% Change
	2020	2019		
Loss from equity method investments	\$ (32,991)	\$ (2,171)	\$ (30,820)	(1420%)
Other income (expense), net	221,256	509,893	(288,637)	(57%)
Income tax (expense) recovery	(552)	5,767	(6,319)	(110%)

Loss from equity method investments

The loss from equity method investments in the second quarter of fiscal 2021 was \$33.0 million, as compared to \$2.2 million in the second quarter of fiscal 2020. The year-over-year increase in the loss is primarily attributable to impairment charges of \$32.4 million recognized in the second quarter of fiscal 2021 relating to our equity method investment in PharmHouse, as discussed in “Recent Developments” above.

Other income (expense), net

Other income (expense), net in the second quarter of fiscal 2021 was \$221.3 million, as compared to \$509.9 million in the second quarter of fiscal 2020. The year-over-year decrease of \$288.6 million is primarily attributable to:

- A decrease in non-cash income of \$576.7 million related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI. The decrease of \$65.2 million in the fair value of the warrant derivative liability (resulting in non-cash income) in the second quarter of fiscal 2021 is primarily attributable to a decline of approximately 15% in our share price from July 1, 2020 to September 30, 2020 and changes during the quarter in certain other assumptions used to value the liability, including the risk-free interest rate. Comparatively, the decrease of \$641.9 million in the fair value of the warrant derivative liability in the second quarter of fiscal 2020 was attributable to a decline of approximately 42% in our share price from July 1, 2019 to September 30, 2019.
- Change of \$176.3 million, from an income amount of \$164.4 million in the second quarter of fiscal 2020 to an expense amount of \$11.9 million in the second quarter of fiscal 2021, related to the non-cash fair value changes on our senior convertible notes. The year-over-year change is primarily due to the larger decline in our share price in the second quarter of fiscal 2020 (approximately 42%) relative to the decline in the second quarter of fiscal 2021 (15%), along with year-over-year changes in credit spreads.
- A decrease in interest income of \$13.7 million, primarily attributable to the year-over-year decrease in our cash and cash equivalents and short-term investments balances and lower interest rates relative to the prior year.
- Change of \$323.3 million related to the fair value changes on the liability arising from the Acreage Arrangement, from an expense amount of \$235.2 million in the second quarter of fiscal 2020 to an income amount of \$88.2 million in the second quarter of fiscal 2021. The current quarter income amount, associated with a decrease in the liability arising from the Acreage Arrangement, is primarily attributable to the implementation of the Amended Arrangement with Acreage in September 2020, as described above in “Recent Developments”. On a quarterly basis, we determine the fair value of the Acreage financial instrument using a probability-weighted expected return model, incorporating several potential scenarios and outcomes associated with our arrangement with Acreage. The implementation of the Amended Arrangement in September 2020 resulted in (i) an incremental payment to Acreage shareholders of US\$37.5 million (\$49.8 million); (ii) the loan advance of US\$50.0 million (\$67.0 million) to Acreage Hempco pursuant to the debenture and the removal of the estimated discount on the loan, now captured through the loan’s recognition at fair value at September 30, 2020; and (iii) the removal of the uncertainties related to the approval and implementation of the terms of the Amended Arrangement, including the reset of the exchange ratio, that existed at June 30, 2020 and had impacted our model and resulted in a higher liability amount at that time. Comparatively, the expense amount of \$235.2 million in the second quarter of fiscal 2020 was primarily attributable to overall declines in both Canopy Growth’s and Acreage’s share prices, as well as share prices across multi-state cannabis operators in the United States.
- Change of \$151.8 million related to non-cash fair value changes on our other financial assets, from an expense amount of \$69.7 million in the second quarter of fiscal 2020 to an income amount of \$82.1 million in the second quarter of fiscal 2021. The current quarter changes are primarily attributable to fair value increases relating to our investments in the TerrAscend exchangeable shares (\$61.0 million), and the TerrAscend Canada secured debenture and TerrAscend warrants (totaling \$55.9 million), driven largely by an increase of approximately 101% in TerrAscend’s share price from July 1 to September 30, 2020. Comparatively, in the second quarter of fiscal 2020 the expense amount was primarily driven by decreases of \$40.0 million and \$25.0 million in the fair value of our exchangeable shares in TerrAscend and warrants in the capital of SLANG Worldwide Inc., respectively, which were in-line with declines in share prices across multi-state cannabis operators in the United States. Partially offsetting these year-over-year fair value increases was a fair value decrease of \$23.3 million representing the difference between the loan advanced to Acreage Hempco, and the debenture’s estimated fair value using a discounted cash

flow model. The discount resulted from our assessment of the market interest rate currently available on comparable issuances of debt relative to the debenture's stated interest rate of 6.1% per annum.

Income tax (expense) recovery

Income tax expense in the second quarter of fiscal 2021 was \$0.6 million, compared to income tax recovery of \$5.8 million in the second quarter of fiscal 2020. In the second quarter of fiscal 2021, the income tax expense consisted of a deferred income tax recovery of \$1.1 million (compared to a recovery of \$11.9 million in the second quarter of fiscal 2020) and current income tax expense of \$1.6 million (compared to an expense of \$6.1 million in the second quarter of fiscal 2020).

The decrease of \$10.8 million in the deferred income tax recovery is primarily a result of (i) recording a reduction in deferred tax liabilities that arose in connection with the required revaluation of the accounting carrying value, but not the tax basis, of property, plant and equipment, intangible assets, and other financial assets; and (ii) the recognition of losses carried forward net of the use of losses carried forward from prior years for which a deferred tax asset had been recorded. In connection with certain deferred tax assets, mainly in respect of losses for tax purposes, where the accounting criteria for recognition of an asset has yet to be satisfied and it is not probable that they will be used, the deferred tax asset has not been recognized.

The decrease of \$4.5 million in the current income tax expense arose primarily in connection with acquired legal entities that generated income for tax purposes during prior periods that could not be reduced by the group's tax attributes but whose current period income will now be reduced by the group's tax attributes.

Net (Loss) Income

Net loss in the second quarter of fiscal 2021 was \$96.6 million, as compared to net income of \$242.7 million in the second quarter of fiscal 2020. The year-over-year change from net income to net loss is primarily attributable to the year-over-year decrease in other income (expense), net, and the other variances described above.

Segmented Analysis

In the second quarters of fiscal 2021 and fiscal 2020, all of our revenue was earned by the Cannabis, Hemp and Other Consumer Products segment. Canopy Rivers contributed a net loss of \$91.8 million in the second quarter of fiscal 2021, of which \$24.7 million was attributable to Canopy Growth. In the second quarter of fiscal 2020, Canopy Rivers contributed a net loss of \$2.7 million, of which \$0.7 million was attributable to Canopy Growth. The increase in the net loss reflects the impairment losses and expected credit losses related to the PharmHouse equity method investment and associated financial assets, as described under "Recent Developments" above.

Adjusted EBITDA (Non-GAAP Measure)

Our "Adjusted EBITDA" is a non-GAAP measure used by management that is not defined by U.S. GAAP and may not be comparable to similar measures presented by other companies. Management calculates Adjusted EBITDA as the reported net (loss) income, adjusted to exclude income tax recovery (expense); other income (expense), net; loss on equity method investments; share-based compensation expense; depreciation and amortization expense; asset impairment and restructuring costs; expected credit losses on financial assets and related charges; and charges related to the flow-through of inventory step-up on business combinations, and further adjusted to remove acquisition-related costs. Accordingly, management believes that Adjusted EBITDA provides meaningful and useful financial information as this measure demonstrates the operating performance of businesses.

The following table presents Adjusted EBITDA for the three months ended September 30, 2020 and 2019:

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30,		\$ Change	% Change
	2020	2019		
Net (loss) income	\$ (96,552)	\$ 242,650	\$ (339,202)	(140%)
Income tax expense (recovery)	552	(5,767)	6,319	110%
Other (income) expense, net	(221,256)	(509,893)	288,637	57%
Loss on equity method investments	32,991	2,171	30,820	1420%
Share-based compensation ¹	21,984	92,881	(70,897)	(76%)
Acquisition-related costs	3,472	2,562	910	36%
Depreciation and amortization ¹	31,758	25,016	6,742	27%
Asset impairment and restructuring costs	46,363	-	46,363	-
Expected credit losses on financial assets and related charges	94,745	-	94,745	-
Charges related to the flow-through of inventory step-up on business combinations	281	-	281	-
Adjusted EBITDA ²	\$ (85,662)	\$ (150,380)	\$ 64,718	43%

¹From Condensed Interim Consolidated Statements of Cash Flows.

²Adjusted EBITDA is a non-GAAP measure and is calculated as the reported net (loss) income, adjusted to exclude income tax (expense) recovery; other income (expense), net; loss on equity method investments; share-based compensation expense; depreciation and amortization expense; asset impairment and restructuring costs; expected credit losses on financial assets and related charges; and charges related to the flow-through of inventory step-up on business combinations, and further adjusted to remove acquisition-related costs.

The Adjusted EBITDA loss in the second quarter of fiscal 2021 was \$85.7 million, as compared to the Adjusted EBITDA loss of \$150.4 million in the second quarter of fiscal 2020. The year-over-year decrease in the Adjusted EBITDA loss is primarily attributable to the improvement in our gross margin percentage, and a year-over-year reduction in our selling, general and administrative expense.

Discussion of Results of Operations for the Six Months Ended September 30, 2020

	<u>Six months ended September 30,</u>		<u>Change</u>	<u>% Change</u>
	<u>2020</u>	<u>2019</u>		
<i>(in thousands of Canadian dollars, except share amounts and where otherwise indicated)</i>				
Selected financial information:				
Net revenue	\$ 245,682	\$ 167,095	\$ 78,587	47%
Gross margin percentage	13%	13%	-	-
Net (loss) income	\$ (224,874)	\$ 48,599	\$ (273,473)	(563%)
Net (loss) income attributable to Canopy Growth Corporation	\$ (140,562)	\$ 73,049	\$ (213,611)	(292%)
(Loss) earnings per share - basic	\$ (0.38)	\$ 0.21	\$ (0.59)	(281%)
(Loss) earnings per share - diluted ¹	\$ (0.38)	\$ 0.19	\$ (0.57)	(300%)

¹For the six months ended September 30, 2020, the weighted average number of outstanding common shares, basic and diluted, totaled 367,663,135. For the six months ended September 30, 2019, the weighted average number of outstanding common shares, basic and diluted, totaled 346,028,903 and 382,765,533, respectively.

Revenue

Revenue by Channel

(in thousands of Canadian dollars)

	<u>Six months ended September 30,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2020</u>	<u>2019</u>		
Recreational net revenue				
Business-to-business ¹	\$ 77,157	\$ 47,735	\$ 29,422	62%
Business-to-consumer	28,039	23,738	4,301	18%
	105,196	71,473	33,723	47%
Medical net revenue				
Canadian ²	27,798	24,650	3,148	13%
International	37,665	28,586	9,079	32%
	65,463	53,236	12,227	23%
Cannabis net revenue	170,659	124,709	45,950	37%
Other revenue	75,023	42,386	32,637	77%
Net revenue	<u>\$ 245,682</u>	<u>\$ 167,095</u>	<u>\$ 78,587</u>	<u>47%</u>

¹ Reflects excise taxes of \$21,446 and other revenue adjustments, representing our determination of returns and pricing adjustments, of \$7,150 for the six months ended September 30, 2020 (six months ended September 30, 2019 - excise taxes of \$19,367 and other revenue adjustments of \$40,727).

² Reflects excise taxes of \$2,788 for the six months ended September 30, 2020 (six months ended September 30, 2019 - \$2,550).

Revenue by Form*(in thousands of Canadian dollars)*

	Six months ended September 30,		\$ Change	% Change
	2020	2019		
Recreational revenue by form				
Dry bud ¹	\$ 104,024	\$ 119,894	\$ (15,870)	(13%)
Oils and softgels ¹	14,742	11,673	3,069	26%
Cannabis 2.0 products	15,026	-	15,026	-
Other revenue adjustments	(7,150)	(40,727)	33,577	82%
Excise taxes	(21,446)	(19,367)	(2,079)	(11%)
	105,196	71,473	33,723	47%
Medical revenue by form				
Dry bud	19,147	16,786	2,361	14%
Oils and softgels	48,061	39,000	9,061	23%
Cannabis 2.0 products	1,043	-	1,043	-
Excise taxes	(2,788)	(2,550)	(238)	(9%)
	65,463	53,236	12,227	23%
Cannabis net revenue	170,659	124,709	45,950	37%
Other revenue	75,023	42,386	32,637	77%
Net revenue	\$ 245,682	\$ 167,095	\$ 78,587	47%

¹ Excludes the impact of other revenue adjustments.

Net revenue in the six months ended September 30, 2020 was \$245.7 million, as compared to \$167.1 million in the six months ended September 30, 2019. The year-over-year increase is primarily attributable to (i) the increase in Canadian recreational net revenue; (ii) the increase in other revenue resulting from strong performance by Storz & Bickel, a full six months of revenue contribution from This Works (acquired in May 2019), and the acquisition of BioSteel in October 2019; and (iii) the increase in medical net revenue, which was primarily due to a full six months of revenue contribution from C³ (acquired in April 2019), and year-over-year growth in our German and Canadian medical businesses.

Recreational

Canadian recreational net revenue in the six months ended September 30, 2020 was \$105.2 million, as compared to \$71.5 million in the six months ended September 30, 2019.

Net revenue from the business-to-business channel in the six months ended September 30, 2020 was \$77.2 million, as compared to \$47.7 million in the six months ended September 30, 2019. Net revenue in the six months ended September 30, 2019 was impacted by other revenue adjustments in the amount of \$40.7 million related to our determination, at that time, of returns and pricing adjustments associated primarily to the risk of over-supply of certain oil and softgel products. We also benefited in the current period from (i) an overall increase in demand resulting from the opening of over 315 new retail stores across Canada in the six months ended September 30, 2020; and (ii) the introduction of our portfolio of Cannabis 2.0 product offerings, which represented approximately 10% of gross revenue from the business-to-business channel. These favorable year-over-year variances were partially offset by lower sales of our dry bud products. We took steps to reposition our product offerings in the value-priced dried flower category in the first quarter of fiscal 2021, the effect of which contributed to a year-over-year improvement in our sales in this category in the second quarter of fiscal 2021. However, increased competition in that particular category of the recreational market – in the form of the number of competitive offerings, particularly those with higher THC potency, and aggressive pricing strategies adopted by some market participants – impacted sales of our dry bud products in the first quarter of fiscal 2021 and resulted in a decline in our dry bud sales during the six months ended September 30, 2020 as compared to the prior year.

Revenue from the business-to-consumer channel in the six months ended September 30, 2020 was \$28.0 million, as compared to \$23.7 million in the six months ended September 30, 2019. The year-over-year increase is primarily attributable to (i) increased traffic and ticket size at our retail stores, due largely to the broadening of our brand and product offerings at our retail locations, including the introduction of new value-priced dried flower products, vapes, and cannabis-infused beverages; and (ii) the build-out of our retail store platform across Canada to 32 corporate-owned Tweed and Tokyo Smoke retail stores at September 30, 2020, a year-over-year increase of 11 stores. Partially offsetting this increase was the adverse impact, predominantly in the first quarter of fiscal 2021, of the temporary closure of our retail stores in response to the COVID-19 pandemic and their re-opening, beginning in mid-April, with reduced hours and under a “click-and-collect” model with curbside pickup or delivery.

Medical

Medical cannabis net revenue in the six months ended September 30, 2020 was \$65.5 million, as compared to \$53.2 million in the six months ended September 30, 2019. Canadian medical net revenue in the six months ended September 30, 2020 was \$27.8 million, as compared to \$24.7 million in the six months ended September 30, 2019. The year-over-year increase is due primarily to (i) the prior year period being impacted by the transition of our medical customers to the Spectrum Therapeutics online store and its more medical-focused range of cannabis products prior to the opening of the Canadian recreational market in October 2018 (since that transition, we have broadened our brand and medical cannabis product offerings available on the Spectrum Therapeutics online store in response to medical customer demand); and (ii) the convenience of our trusted e-commerce channel, which has been benefitting from the slower-than-expected opening of recreational retail stores in Ontario in fiscal 2021 due largely to the COVID-19 pandemic.

International medical revenue in the six months ended September 30, 2020 was \$37.7 million, as compared to \$28.6 million in the six months ended September 30, 2019. C³ (acquired in April 2019) contributed a full six months of revenue totaling \$28.9 million in the current period, a year-over-year increase of \$6.1 million. Additionally, the year-over-year growth in our German medical business of \$3.0 million is primarily attributable to the resolution of supply constraints we had experienced early in the prior fiscal year, and which were largely associated with the opening of the recreational cannabis market in Canada.

Other

Other revenue in the six months ended September 30, 2020 was \$75.0 million, as compared to \$42.4 million in the six months ended September 30, 2019. The year-over-year increase of \$32.6 million is primarily due to an increase in revenue from Storz & Bickel, a full six months of revenue contribution from both This Works (acquired in May 2019), and the acquisition of BioSteel in October 2019. Revenue from Storz & Bickel was \$39.0 million in the six months ended September 30, 2020, a year-over-year increase of \$18.4 million due primarily to strong sales performance and an expansion of our distribution network in the United States. Additionally, This Works contributed a full period of revenue totaling \$13.9 million in the six months ended September 30, 2020, a year-over-year increase of \$5.7 million due primarily to one incremental month of contribution in the six months ended September 30, 2020, the expansion of distribution to both direct-to-consumer and third-party e-commerce channels, and new product launches. These factors were only partially offset by the impact of the closure of brick-and-mortar retail stores and measures in relation to the COVID-19 pandemic.

Cost of Goods Sold and Gross Margin

<i>(in thousands of Canadian dollars except where indicated)</i>	Six months ended September 30,		\$ Change	% Change
	2020	2019		
Net revenue	\$ 245,682	\$ 167,095	\$ 78,587	47%
Cost of goods sold	\$ 213,107	\$ 145,162	\$ 67,945	47%
Gross margin	32,575	21,933	10,642	49%
Gross margin percentage	13%	13%	-	0%

Cost of goods sold in the six months ended September 30, 2020 was \$213.1 million, as compared to \$145.2 million in the six months ended September 30, 2019. Our gross margin in the six months ended September 30, 2020 was \$32.6 million, or 13% of net revenue, as compared to a gross margin of \$21.9 million and gross margin percentage of 13% of net revenue in the six months ended September 30, 2019. In the six months ended September 30, 2020, our gross margin percentage was adversely impacted by the following:

- The impact of operating costs relating to facilities not yet cultivating or producing cannabis, not yet producing cannabis-related products or having under-utilized capacity. In the six months ended September 30, 2020, these costs amounted to \$36.9 million and primarily related to (i) start-up costs associated with our indoor cultivation facility in Newfoundland, our gummy production facility in Smiths Falls, and our greenhouse in Denmark, and (ii) under-utilized capacity associated with our chocolate, beverage and vape production facilities in Smiths Falls; and
- Lower production output in the six months ended September 30, 2020, particularly in Canada, to align with current and expected market demand. Lower production output, coupled with (i) our fixed costs representing a high proportion of our overall cultivation and manufacturing cost structure; and (ii) the gradual reduction of our variable costs late in the current period, resulted in the under-absorption of these fixed and variable costs and an adverse impact on gross margin in the current period. In connection with these changes to our production strategy we also adjusted our cannabis production profile to focus on higher-potency strains which are more in-demand in the current market, resulting in additional inventory charges in the six months ended September 30, 2020.

Comparatively, our gross margin percentage in the six months ended September 30, 2019 was impacted by (i) charges of \$17.0 million for excess finished recreational cannabis inventory recorded primarily in connection with our evaluation of the estimated on-hand provincial and territorial inventory levels at that time; (ii) the impact on gross margin of \$9.2 million reflecting the returns and pricing adjustments relating primarily to the over-supply of certain oil and softgel products; and (iii) other adjustments related to the net realizable value of inventory. Additionally, we incurred operating costs of \$26.8 million relating to facilities not yet cultivating or processing cannabis, not yet producing cannabis-related products or having under-utilized capacity, primarily related to start-up costs associated with our advanced manufacturing and beverage facilities in Smiths Falls, and our greenhouse in Denmark.

Operating Expenses

<i>(in thousands of Canadian dollars)</i>	Six months ended September 30,		\$ Change	% Change
	2020	2019		
Operating expenses				
General and administrative	\$ 134,382	\$ 157,516	\$ (23,134)	(15%)
Sales and marketing	81,142	112,636	(31,494)	(28%)
Research and development	27,825	20,425	7,400	36%
Acquisition-related costs	4,866	15,744	(10,878)	(69%)
Depreciation and amortization	34,430	20,927	13,503	65%
Selling, general and administrative expenses	282,645	327,248	(44,603)	(14%)
Share-based compensation	48,460	160,848	(112,388)	(70%)
Share-based compensation related to acquisition milestones	4,209	19,395	(15,186)	(78%)
Share-based compensation expense	52,669	180,243	(127,574)	(71%)
Expected credit losses on financial assets and related charges	94,745	-	94,745	-
Asset impairment and restructuring costs	59,157	-	59,157	-
Total operating expenses	\$ 489,216	\$ 507,491	\$ (18,275)	(4%)

Selling, general and administrative expenses

Selling, general and administrative expenses in the six months ended September 30, 2020 were \$282.6 million, as compared to \$327.2 million in the six months ended September 30, 2019.

General and administrative expense in the six months ended September 30, 2020 was \$134.4 million, as compared to \$157.5 million in the six months ended September 30, 2019. The year-over-year decrease is primarily attributable to:

- Losses recorded in the second quarter of fiscal 2020 of \$10.8 million related to legal disputes with a third-party supplier, and \$8.8 million associated with additional reserves on onerous lease obligations. These losses did not recur in the current period.
- A reduction in costs attributable to the restructuring actions initiated in the fourth quarter of fiscal 2020, as described above in our analysis of our results of operations for the second quarter of fiscal 2021. Partially offsetting these cost reductions were a year-over-year increase in third-party professional fees associated with the organizational and strategic review of our business.

Sales and marketing expense in the six months ended September 30, 2020 was \$81.1 million, as compared to \$112.6 million in the six months ended September 30, 2019. In the comparative period we incurred costs attributable to (i) creative design, brand insights and product marketing campaigns in preparation for the launch of our Cannabis 2.0 portfolio of products and the launch of our First & Free line of CBD products in the United States; (ii) staffing costs associated with servicing our Canadian and United States markets in the areas of creative design and advertising, brand insights and launch support, and brand management; and (iii) media and advertisement placement campaigns to drive brand awareness and educate consumers in support of our Tweed, Tokyo Smoke and other recreational brands at the onset of the opening of the Canadian recreational market in October 2018. These costs did not recur to the same extent in the six months ended September 30, 2020, as we rationalized our Canadian marketing organization in April 2020, delayed or cancelled various product and brand marketing initiatives across our business due to measures established to contain the spread of COVID-19, and incurred significantly reduced travel costs due to travel restrictions.

The above factors resulting in a year-over-year decrease in sales and marketing expense were partially offset by higher compensation costs related to our marketing and sales capabilities servicing (i) the United States market, where initiatives continue to

commercialize and drive brand and product awareness for our Martha Stewart line of CBD products; and (ii) the growth in our business as compared to the prior period resulting from the acquisitions of C³ in April 2019, This Works in May 2019 and BioSteel in October 2019.

Research and development expense in the six months ended September 30, 2020 was \$27.8 million, as compared to \$20.4 million in the six months ended September 30, 2019. The year-over-year increase is primarily attributable to (i) higher compensation costs associated with an increase in the number of employees conducting research and developing patent-protected technology, most notably in relation to our Cannabis 2.0 products and other product innovation initiatives, plant science and extraction technology; and (ii) a year-over-year increase in costs associated with conducting external laboratory research, testing and clinical trials for CBD, dronabinol, and other cannabinoid-based human and animal health products and therapies. The above factors resulting in a year-over-year increase in research and development expense were partially offset by lower travel costs resulting from travel restrictions due to the COVID-19 pandemic, and lower third-party professional fees associated with a refocusing of Spectrum Therapeutics' research objectives.

Acquisition-related costs in the six months ended September 30, 2020 were \$4.9 million, as compared to \$15.7 million in the six months ended September 30, 2019. The year-over-year decrease is primarily attributable to more mergers and acquisitions activity in the six months ended September 30, 2019, which included entering into and implementing the Arrangement Agreement with Acreage, closing the acquisitions of C³ and This Works. Additionally, costs were incurred in relation to the acquisition of BioSteel, which closed in October 2019, and evaluating other potential acquisition opportunities. Comparatively, in the six months ended September 30, 2020, our primary mergers and acquisitions activity related to entering into the Proposal Agreement and Amended Arrangement with Acreage in the first quarter of fiscal 2021, and implementing the Amended Arrangement in the second quarter of fiscal 2021, as described in "Recent Developments" above.

Depreciation and amortization expense in the six months ended September 30, 2020 was \$34.4 million, as compared to \$20.9 million in the six months ended September 30, 2019. The year-over-year increase is primarily attributable to substantial completion of the build-out of our infrastructure across Canada over the past year, the growth in our business over the past year with the acquisitions of C³, BioSteel and This Works, and our investment in our infrastructure in Europe and the United States.

Share-based compensation expense

Share-based compensation expense in the six months ended September 30, 2020 was \$48.5 million, as compared to \$160.8 million in the six months ended September 30, 2019. The year-over-year decrease is primarily attributable to:

- The significant number of stock options that were granted in previous years at relatively higher exercise prices, which impacted share-based compensation expense more significantly in previous periods. We granted 22.1 million stock options in fiscal 2019 at a weighted average price of \$51.49 per option, as compared to 9.5 million options in fiscal 2020 at a weighted average price of \$33.87. The year-over-year decrease in the number of stock option grants was due to the modification of our share-based compensation program in the first half of fiscal 2020, and only 295,451 options were granted in the first quarter of fiscal 2021; and
- The forfeiture or cancellation of 5.9 million stock options in fiscal 2020 and another 5.5 million stock options in the six months ended September 30, 2020 resulting primarily from restructuring actions commenced in the fourth quarter of fiscal 2020. These forfeitures and cancellations also resulted in a year-over-year reduction in share-based compensation expense.

Share-based compensation expense related to acquisition milestones in the six months ended September 30, 2020 was \$4.2 million, as compared to \$19.4 million in the six months ended September 30, 2019. The year-over-year decrease is primarily related to (i) the restructuring of our operations in Colombia in the fourth quarter of fiscal 2020, which resulted in the acceleration of share-based compensation expense related to the unvested milestones associated with the acquisitions of Spectrum Colombia and Canindica (as a result, there is no remaining share-based compensation expense to be recognized in association with the Spectrum Colombia acquisition and only a minimal amount was recognized in connection with the Canindica acquisition in the current period); and (ii) the achievement, in earlier quarters, of major milestones associated with the acquisitions of Spectrum Colombia, Canindica, and Spectrum Denmark, which had resulted in the recognition of share-based compensation expense at that time.

Expected credit losses on financial assets and related charges

In the six months ended September 30, 2020, we recorded expected credit losses on financial assets and related charges in the amount of \$94.7 million, as discussed in "Recent Developments" above.

Asset impairment and restructuring costs

Asset impairment and restructuring costs recorded in operating expenses in the six months ended September 30, 2020 were \$59.2 million. In the first quarter of fiscal 2021, we completed certain of the restructuring actions that had commenced in the previous fiscal year, and recorded final adjustments related to changes in certain estimates recorded at March 31, 2020. In addition, we incurred additional costs in the first quarter of fiscal 2021 related primarily to the rationalization of our marketing organization in April 2020. In the second quarter of fiscal 2021, we recorded (i) adjustments related to changes in the estimated fair value of certain of our Canadian production facilities from March 31, 2020; and (ii) charges related to rationalizing certain research and development activities. As a result, in the six months ended September 30, 2020, we recognized asset impairment and restructuring costs of \$59.2 million in relation to (i) changes in the estimated fair value of certain of our Canadian production facilities, and costs associated with their closure; (ii) completing the exit of our operations in South Africa and Lesotho; (iii) employee-related costs associated with rationalizing certain marketing activities; and (iv) charges related to rationalizing certain research and development activities.

Other

<i>(in thousands of Canadian dollars)</i>	Six months ended September 30,		\$ Change	% Change
	2020	2019		
Loss from equity method investments	\$ (40,180)	\$ (4,004)	\$ (36,176)	(903%)
Other income (expense), net	269,461	542,661	(273,200)	(50%)
Income tax recovery (expense)	2,486	(4,500)	6,986	155%

Loss from equity method investments

The loss from equity method investments in the six months ended September 30, 2020 was \$40.2 million, as compared to \$4.0 million in the six months ended September 30, 2019. The year-over-year increase in the loss is primarily attributable to impairment charges of \$32.4 million recognized in the second quarter of fiscal 2021 relating to our equity method investment in PharmHouse, as discussed in “Recent Developments” above.

Other income (expense), net

Other income (expense), net in the six months ended September 30, 2020 was \$269.5 million, as compared to \$542.7 million in the six months ended September 30, 2019. The year-over-year decrease of \$273.2 million is primarily attributable to:

- A decrease in non-cash income of \$566.2 million related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI. The decrease of \$100.5 million in the fair value of the warrant derivative liability (resulting in non-cash income) in the six months ended September 30, 2020 is primarily attributable to changes during the period in certain of the assumptions used to value the liability, most notably the decrease in the risk-free interest rate and a slight decrease in the price of our common shares, and the shorter time to maturity of the warrants. Comparatively, the decrease of \$666.7 million in the fair value of the warrant derivative liability during the six months ended September 30, 2019 was primarily attributable to a decline of approximately 43% in our share price from the time the terms of the Tranche B Warrants were amended in late June 2019 to September 30, 2019.
- Change of \$228.1 million, from an income amount of \$195.8 million in the six months ended September 30, 2019 to an expense amount of \$32.3 million in the six months ended September 30, 2020, related to the non-cash fair value changes on our senior convertible notes. The year-over-year change is primarily due to the larger decline in our share price in the six months ended September 30, 2019 (47%) relative to the decline in the six months ended September 30, 2020 (1%).
- A decrease in interest income of \$27.4 million, primarily attributable to the year-over-year decrease in our cash and cash equivalents and short-term investments balances and lower interest rates relative to the prior year.
- Changes of \$288.3 million related to the fair value changes on the liability arising from the Acreage Arrangement, from an expense amount of \$235.2 million in the six months ended September 30, 2019 to an income amount of \$53.2 million in the six months ended September 30, 2020. The current period income amount, associated with a decrease in the liability arising from the Acreage Arrangement, is primarily attributable to the implementation of the Amended Arrangement with Acreage, as described above in “Recent Developments”. Specifically, the Amended Arrangement included a reset of the exchange ratio and resulted in other changes to potential scenarios and outcomes associated with our arrangement with Acreage that had been considered in prior valuation models, and had resulted in higher liability balances at those times. Comparatively, the expense amount of \$235.2 million in the six months ended September 30, 2019 was primarily attributable to overall declines in both Canopy Growth’s and Acreage’s share prices, as well as share prices across multi-state cannabis operators in the United States.
- Change of \$214.7 million related to non-cash fair value changes on our other financial assets, from an expense amount of \$110.8 million in the six months ended September 30, 2019 to an income amount of \$103.9 million in the six months ended September 30, 2020. The current period changes are primarily attributable to fair value increases relating to our investments in

the TerrAscend exchangeable shares (\$67.0 million), and the TerrAscend Canada secured debenture and the TerrAscend warrants (\$77.2 million), driven largely by an increase of approximately 136% in TerrAscend's share price from April 1, 2020 to September 30, 2020. Comparatively, in the six months ended September 30, 2019, the expense amount was primarily driven by decreases of \$60.0 million and \$33.0 million in the fair value of our exchangeable shares in TerrAscend and warrants in the capital of SLANG Worldwide Inc., respectively. Partially offsetting these year-over-year fair value increases was a fair value decrease of \$23.3 million representing the difference between the loan advanced to Acreage Hempco and the debenture's estimated fair value measured using a discounted cash flow model.

- Change of \$44.5 million related to non-cash fair value changes on acquisition related contingent consideration, from an expense amount in the six months ended September 30, 2019 to an income amount in the six months ended September 30, 2020. In fiscal 2019 we acquired ebbu Inc. ("ebbu"), and the consideration paid included contingent consideration related to the achievement, by ebbu, of certain scientific related milestones. The year-over-year change in the fair value of the acquisition related contingent consideration is primarily attributable to changes in our assessment of the probability and timing of ebbu achieving certain of these milestones.

Income tax recovery (expense)

Income tax recovery in the six months ended September 30, 2020 was \$2.5 million, compared to income tax expense of \$4.5 million in the six months ended September 30, 2019. In the six months ended September 30, 2020, the income tax recovery consisted of a deferred income tax recovery of \$3.2 million (compared to a recovery of \$3.6 million in the six months ended September 30, 2019) and current income tax expense of \$0.7 million (compared to an expense of \$8.1 million in the six months ended September 30, 2019).

The decrease of \$0.4 million in the deferred income tax recovery is primarily a result of (i) recording a reduction in deferred tax liabilities that arose in connection with the required revaluation of the accounting carrying value, but not the tax basis, of property, plant and equipment, intangible assets, and other financial assets; and (ii) the recognition of losses carried forward net of the use of losses carried forward from prior years for which a deferred tax asset had been recorded. In connection with certain deferred tax assets, mainly in respect of losses for tax purposes, where the accounting criteria for recognition of an asset has yet to be satisfied and it is not probable that they will be used, the deferred tax asset has not been recognized.

The decrease of \$7.4 million in the current income tax expense arose primarily in connection with acquired legal entities that generated income for tax purposes during prior periods that could not be reduced by the group's tax attributes but whose current period income will now be reduced by the group's tax attributes.

Net (Loss) Income

Net loss in the six months ended September 30, 2020 was \$224.9 million, as compared to net income of \$48.6 million in the six months ended September 30, 2019. The change from net income to net loss is primarily attributable to the year-over-year decrease in other income (expense), net, and the other variances described above.

Segmented Analysis

In the six months ended September 30, 2020 and 2019, all of our revenue was earned by the Cannabis, Hemp and Other Consumer Products segment. Canopy Rivers contributed a net loss of \$97.1 million in the six months ended September 30, 2020, of which \$26.1 million was attributable to Canopy Growth. In the six months ended September 30, 2019, Canopy Rivers contributed a net loss of \$6.0 million, of which \$1.6 million was attributable to Canopy Growth. The increase in the net loss reflects the impairment losses and expected credit losses related to the PharmHouse equity method investment and associated financial assets, as described under "Recent Developments" above.

Adjusted EBITDA (Non-GAAP Measure)

The following table presents Adjusted EBITDA for the six months ended September 30, 2020 and 2019:

<i>(in thousands of Canadian dollars)</i>	Six months ended September 30,		\$ Change	% Change
	2020	2019		
Net (loss) income	\$ (224,874)	\$ 48,599	\$ (273,473)	(563%)
Income tax (recovery) expense	(2,486)	4,500	(6,986)	(155%)
Other (income) expense, net	(269,461)	(542,661)	273,200	50%
Loss on equity method investments	40,180	4,004	36,176	903%
Share-based compensation ¹	52,669	180,243	(127,574)	(71%)
Acquisition-related costs	4,866	15,744	(10,878)	(69%)
Depreciation and amortization ¹	65,805	45,768	20,037	44%
Asset impairment and restructuring costs	59,157	-	59,157	-
Expected credit losses on financial assets and related charges	94,745	-	94,745	-
Charges related to the flow-through of inventory step-up on business combinations	1,494	-	1,494	-
Adjusted EBITDA ²	<u>\$ (177,905)</u>	<u>\$ (243,803)</u>	<u>\$ 65,898</u>	<u>27%</u>

¹From Condensed Interim Consolidated Statements of Cash Flows.

²Adjusted EBITDA is a non-GAAP measure and is calculated as the reported net (loss) income, adjusted to exclude income tax (expense) recovery; other income (expense), net; loss on equity method investments; share-based compensation expense; depreciation and amortization expense; asset impairment and restructuring costs; expected credit losses on financial assets and related charges; and charges related to the flow-through of inventory step-up on business combinations, and further adjusted to remove acquisition-related costs.

The Adjusted EBITDA loss in the six months ended September 30, 2020 was \$177.9 million, as compared to the Adjusted EBITDA loss of \$243.8 million in the six months ended September 30, 2019. The year-over-year decrease in the Adjusted EBITDA loss is primarily attributable to the improvement in our gross margin, and a year-over-year reduction in our selling, general and administrative expenses.

Part 3 – Financial Liquidity and Capital Resources

We manage liquidity risk by reviewing, on an ongoing basis, our sources of liquidity and capital requirements. As of September 30, 2020, we had cash and cash equivalents of \$673.3 million and short-term investments of \$1.0 billion, which are predominantly invested in liquid securities issued by the United States and Canadian governments. Additionally, we have capacity of \$34.7 million under our \$40.0 million revolving debt facility with Farm Credit Canada (“FCC”). In evaluating our capital requirements, including the impact, if any, on our business from the COVID-19 pandemic, and our ability to fund the execution of our strategy, we believe we have adequate available liquidity to enable us to meet our working capital and other operating requirements, fund growth initiatives and capital expenditures, settle our liabilities, and repay scheduled principal and interest payments on debt for at least the next twelve months.

Our objective is to generate sufficient cash to fund our operating requirements and expansion plans. To date, we have incurred net losses on a U.S. GAAP basis and Adjusted EBITDA losses, and our cash and cash equivalents have decreased \$629.9 million from March 31, 2020 (and, together with short-term investments, decreased \$254.3 million from March 31, 2020), as discussed in the “Cash Flows” section below. However, management anticipates the success and eventual profitability of the business. We have also ensured that we have access to public capital markets through our U.S. and Canadian public stock exchange listings. However, there can be no assurance that we will gain adequate market acceptance for our products or be able to generate sufficient positive cash flow to achieve our business plans. In the six months ended September 30, 2020, our purchases of and deposits on property, plant and equipment totaled \$90.2 million, which were funded out of available cash, cash equivalents and short-term investments. Included in our purchase obligations for fiscal 2021, as reflected under the heading “Contractual Obligations and Commitments” in the MD&A section of our Annual Report, are commitments for the purchase of property, plant and equipment totaling \$73.2 million in fiscal 2021. We expect to continue funding these purchases with our available cash, cash equivalents and short-term investments. Therefore, we are subject to risks including, but not limited to, our inability to raise additional funds through debt and/or equity financing to support our continued development, including capital expenditure requirements, operating requirements and to meet our liabilities and commitments as they come due.

Cash Flows

<i>(in thousands of Canadian dollars)</i>	Six months ended September 30,	
	2020	2019
Net cash (used in) provided by:		
Operating activities	\$ (280,295)	\$ (372,085)
Investing activities	(568,130)	(935,468)
Financing activities	250,805	(62,508)
Effect of exchange rate changes on cash and cash equivalents	(32,269)	(8,305)
Net decrease in cash and cash equivalents	(629,889)	(1,378,366)
Cash and cash equivalents, beginning of year	1,303,176	2,480,830
Cash and cash equivalents, end of period	\$ 673,287	\$ 1,102,464

Operating activities

Cash used in operating activities in the six months ended September 30, 2020 totaled \$280.3 million, as compared to cash used of \$372.1 million in the six months ended September 30, 2019. The year-over-year decrease in the cash used in operating activities was primarily due to the year-over-year reduction in our working capital spending on inventory primarily attributable to the lower production output in the six months ended September 30, 2020, as described in the “Cost of Goods Sold and Gross Margin” section above. This factor was partially offset by the change from net income in the second quarter of fiscal 2020 to a net loss in the second quarter of fiscal 2021 and an overall decrease in the non-cash income and expense items impacting net (loss) income.

Investing activities

The cash used in investing activities totaled \$568.1 million in the six months ended September 30, 2020, as compared to cash used of \$935.5 million in the six months ended September 30, 2019. In the six months ended September 30, 2020, we invested \$90.2 million, primarily in our production infrastructure in the United States, an expansion of our Storz & Bickel facilities, and our indoor facility in Newfoundland. Comparatively, in the six months ended September 30, 2019, we invested \$440.2 million in expanding our growing capacity, and the construction of advanced manufacturing capability and a bottling plant at our Smiths Falls location. The year-over-year decrease in our purchases of property, plant and equipment reflects the substantial completion of our cultivation and

Cannabis 2.0 infrastructure build-out, and the shift in strategy to an asset-light model in certain markets and sustaining and process improvement investments.

In the six months ended September 30, 2020, we did not complete any acquisitions, whereas in the six months ended September 30, 2019, cash outflows related to acquisitions totaled \$416.0, with the most notable outflows relating to our acquisitions of C³ and This Works. We completed strategic investments totaling \$124.4 million in the six months ended September 30, 2020, including the payment of \$49.8 million to Acreage shareholders upon implementation of the Amended Arrangement, and the loan advance of \$67.0 million to Acreage Hempco. This compares to strategic investments totaling \$431.6 million in the six months ended September 30, 2019, which most notably included the \$395.2 million investment in the Acreage financial instrument. Finally, in the six months ended September 30, 2020, we made payments totaling \$6.4 million for acquisition-related liabilities, as compared to \$21.4 million in the six months ended September 30, 2019 as we continue to draw-down on the amounts owing in relation to acquisitions completed in prior years.

Additional cash inflows during the six months ended September 30, 2020 related to proceeds of \$18.3 million from the sale of a portfolio of patents in Germany, and \$10.0 million related to a recovery of amounts related to construction financing.

Partially offsetting these decreases in cash outflows was the net purchase of short-term investments in the six months ended September 30, 2020 in the amount of \$367.8 million, as compared to the net redemption of short-term investments of \$388.0 million in the six months ended September 30, 2019. The year-over-year change reflects our investment of the proceeds from CBI exercising their warrants during the quarter (see below) in relatively safe, liquid investments. Comparatively, in the first quarter of fiscal 2020 we redeemed short-term investments for use for the purposes described above.

Financing activities

The cash provided by financing activities totaled \$250.8 million in the six months ended September 30, 2020, as compared to cash used of \$62.5 million in the six months ended September 30, 2019. In the six months ended September 30, 2020, we received proceeds of \$245.0 million in relation to CBI exercising 18.9 million warrants to purchase our common shares. Comparatively, in the six months ended September 30, 2019, we repaid the Alberta Treasury Board financing in the amount of \$95.2 million and made other scheduled debt repayments.

Free Cash Flow (Non-GAAP Measure)

Free cash flow is a non-GAAP measure used by management that is not defined by U.S. GAAP and may not be comparable to similar measures presented by other companies. Management believes that free cash flow presents meaningful information regarding the amount of cash flow required to maintain and organically expand our business, and that the free cash flow measure provides meaningful information regarding our liquidity requirements.

<i>(in thousands of Canadian dollars)</i>	<u>Three months ended September 30,</u>		<u>Six months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net cash used in operating activities	\$ (161,749)	\$ (213,795)	\$ (280,295)	\$ (372,085)
Purchases of and deposits on property, plant and equipment	(28,648)	(228,326)	(90,195)	(440,150)
Free cash flow ¹	<u>\$ (190,397)</u>	<u>\$ (442,121)</u>	<u>\$ (370,490)</u>	<u>\$ (812,235)</u>

¹Free cash flow is a non-GAAP measure, and is calculated as net cash provided by (used in) operating activities, less purchases of and deposits on property, plant and equipment.

Free cash flow in the second quarter of fiscal 2021 was an outflow of \$190.4 million, as compared to an outflow of \$442.1 million in the second quarter of fiscal 2020. The year-over-year decrease in the outflow reflects the decrease in the cash used for operating activities, as described above, and the substantial completion of our cultivation and Cannabis 2.0 infrastructure build-out over the past year and the shift in strategy to an asset-light model in certain markets.

Free cash flow in the six months ended September 30, 2020 was an outflow of \$370.5 million, as compared to an outflow of \$812.2 million in the six months ended September 30, 2019. The year-over-year decrease in the outflow reflects the decrease in the cash used for operating activities, as described above, and the substantial completion of our infrastructure build-out and shift to a sustaining and process improvement investment strategy.

Debt

Since our formation, we have financed our cash requirements primarily through the issuance of capital stock, including the \$5.1 billion investment by CBI in the third quarter of fiscal 2019, and debt. Total debt outstanding as of September 30, 2020 was \$533.7 million, as compared to \$465.4 million as of March 31, 2020. The total principal amount owing, which excludes fair value adjustments related to our convertible senior notes, was \$611.5 million at September 30, 2020, relatively consistent with the principal amount owing of \$615.2 million at March 31, 2020.

Convertible senior notes

In June 2018, we issued convertible senior notes with an aggregate principal amount of \$600.0 million. The notes bear interest at a rate of 4.25% per annum, payable semi-annually on January 15th and July 15th of each year commencing January 15, 2019. The notes mature on July 15, 2023. Holders of the notes may convert the notes at their option at any time from January 15, 2023 to the maturity date. CBI holds \$200.0 million of these notes.

Other

On August 13, 2019, we entered into a \$40.0 million revolving debt facility with FCC. This facility replaced all previous loans with FCC and is secured by our property on Niagara-on-the-Lake, Ontario. The outstanding balance at September 30, 2020 is \$5.3 million, and the facility bears interest of 3.45%, or the FCC prime rate plus 1.0%, and matures on September 3, 2024. The outstanding balance plus accrued interest was repaid in October 2020.

The revolving debt facility agreement with FCC includes affirmative, negative and financial covenants. As of September 30, 2020, we are in compliance with all covenants in the revolving debt facility agreement.

Further information regarding our debt issuances, including the conversion rights of the senior convertible notes, is included in Note 16 of the Interim Financial Statements.

Contractual Obligations and Commitments

Except for the PharmHouse Financial Guarantee, as described in “Recent Developments” above, there have been no material changes to our contractual obligations and commitments from the information provided in the MD&A section in our Annual Report.

Off-Balance Sheet Arrangements

Except for the PharmHouse Financial Guarantee, as described in “Recent Developments” above, we have no off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided in the MD&A section in our Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk is the potential economic loss arising from adverse changes in market factors. As a result of our global operating, acquisition and financing activities, we are exposed to market risk associated with changes in foreign currency exchange rates, interest rates and equity prices. To manage the volatility relating to these risks, we may periodically purchase derivative instruments including foreign currency forwards. We do not enter into derivative instruments for trading or speculative purposes.

Foreign currency risk

Our Interim Financial Statements are presented in Canadian dollars. We are exposed to foreign currency exchange rate risk as the functional currencies of certain subsidiaries, including those in the United States and Europe, are not in Canadian dollars. The translation of foreign currencies to Canadian dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date, and for revenues and expense using an average exchange rate for the period. Therefore, fluctuations in the value of the Canadian dollar affect the reported amounts of net revenue, expenses, assets and liabilities. The resulting translation adjustments are reported as a component of accumulated other comprehensive income or loss on the consolidated balance sheet.

A hypothetical 10% change in the U.S. dollar against the Canadian dollar compared to the exchange rate at September 30, 2020, would affect the carrying value of net assets by approximately \$102.5 million, with a corresponding impact to the foreign currency translation account within accumulated other comprehensive income (loss). A hypothetical 10% change in the euro against the Canadian dollar compared to the exchange rate at September 30, 2020, would affect the carrying value of net assets by approximately \$18.0 million, with a corresponding impact to the foreign currency translation account within accumulated other comprehensive income (loss).

We also have exposure to changes in foreign exchange rates associated with transactions which are undertaken by our subsidiaries in currencies other than their functional currency. As a result, we have been impacted by changes in exchange rates and may be impacted for the foreseeable future.

Foreign currency derivative instruments may be used to hedge existing foreign currency denominated assets and liabilities, forecasted foreign currency denominated sales/purchases to/from third parties as well as intercompany sales/purchases, intercompany principal and interest payments, and in connection with acquisitions, divestitures or investments outside of Canada. Historically, while we have purchased derivative instruments to mitigate the foreign exchange risks associated with certain transactions, the impact of these hedging transactions on our financial statements has been immaterial.

Interest rate risk

Our cash equivalents and short-term investments are held in both fixed-rate and adjustable-rate securities. Investments in fixed-rate instruments carry a degree of interest rate risk. The fair value of fixed-rate securities may be adversely impacted due to a rise in interest rates. Additionally, a falling-rate environment creates reinvestment risk because as securities mature, the proceeds are reinvested at a lower rate, generating less interest income. As at September 30, 2020, our cash and cash equivalents, and short-term investments, consisted of \$1.3 billion, consistent with \$1.3 billion at March 31, 2020, in interest rate sensitive instruments.

Our financial liabilities consist of long-term fixed rate debt and floating-rate debt. Fluctuations in interest rates could impact our cash flows, primarily with respect to the interest payable on floating-rate debt.

	Aggregate Notional Value		Fair Value		Decrease in Fair Value - Hypothetical 1% Rate Increase	
	September 30, 2020	March 31, 2020	September 30, 2020	March 31, 2020	September 30, 2020	March 31, 2020
Convertible senior note	\$ 600,000	\$ 600,000	\$ 522,204	\$ 450,204	\$ (12,330)	\$ (11,490)
Fixed interest rate debt	4,661	5,255	N/A	N/A	N/A	N/A
Variable interest rate debt	6,831	9,956	N/A	N/A	N/A	N/A

Equity price risk

We hold other financial assets and liabilities in the form of investments in shares, warrants, options, put liabilities, and convertible debentures that are measured at fair value and recorded through either net income (loss) or other comprehensive income (loss). We are exposed to price risk on these financial assets, which is the risk of variability in fair value due to movements in equity or market prices.

For our convertible senior notes, a primary driver of its fair value is our share price. An increase in our share price typically results in a fair value increase of the liability.

Information regarding the fair value of financial instrument assets and liabilities that are measured at fair value on a recurring basis, and the relationship between the unobservable inputs used in the valuation of these financial assets and their fair value is presented in Note 23 of the Interim Financial Statements.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, and summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q was made under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer.

Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2020, our disclosure controls and procedures (a) are effective to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is timely recorded, processed, summarized and reported and (b) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our "internal control over financial reporting" (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this quarterly report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

On July 22, 2020, the Company was served with a statement of claim in which it was named, together with several other Canadian licensed cannabis producers, as a defendant in a proposed class action proceeding filed in Calgary, Alberta, Canada. The plaintiffs allege that the defendants, including the Company, marketed and sold medicinal and recreational cannabis products with an advertised content of THC and CBD that was inaccurate and that the amount of the difference between the actual amount of THC and/or CBD in the medicinal and recreational cannabis products and the amounts of THC and/or CBD listed on the label was outside the permissible variability limits. The proposed class has not yet been certified. The Company is currently evaluating the merits of the claim and has not yet been required to respond.

The Company has been named as a defendant, together with all of PharmHouse, Canopy Rivers, TerrAscend Corp. and TerrAscend Canada Inc., in an action commenced in the Ontario Superior Court of Justice sitting at Windsor on August 31, 2020 by the PharmHouse JV Partner. The claim seeks, amongst other things, damages in the amount of \$500,000,000 for bad faith, fraud, civil conspiracy, breach of the duty of honesty and good faith in contractual relations and breach of fiduciary duty. Canopy Growth is party to an offtake agreement with PharmHouse. The statement of claim was never served on the Company. The action was stayed by a court order made September 15, 2020, by the Ontario Superior Court at Toronto (Commercial List) (the "Court") on application made by PharmHouse pursuant to the Companies' Creditors Arrangement Act. On October 30, 2020, the Courts made a further endorsement directing that the PharmHouse JV Partner will discontinue the aforementioned claim against all defendants, entirely without prejudice in all respects to the PharmHouse JV Partner's rights to recommence the claim against all defendants other than PharmHouse. The PharmHouse JV Partner may not recommence the claim until at least January 1, 2021.

Item 1A. Risk Factors.

For information regarding factors that could affect our results of operations, financial condition and liquidity, see the risk factors discussed in Part I, Item 1A in our Annual Report. There have been no material changes to the risk factors previously disclosed in Part I, Item 1A in our Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
3.1	Certificate of Incorporation and Articles of Amendment of Canopy Growth Corporation (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended March 31, 2020, filed on June 1, 2020).
3.2	Bylaws of Canopy Growth Corporation (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed on November 9, 2020).
10.1#	Second Amendment to the Arrangement Agreement, dated as of September 23, 2020, by and between Canopy Growth Corporation and Acreage Holdings, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on September 23, 2020).
10.2#	Debenture, dated as of September 23, 2020, issued by Universal Hemp, LLC to 11065220 Canada Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on September 23, 2020).
10.3*+	Canopy Growth Corporation Amended and Restated Omnibus Incentive Plan.
10.4*+	Canopy Growth Corporation Employee Stock Purchase Plan
31.1*	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document

- * Filed herewith.
- ** This exhibit shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that Section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act or the Exchange Act.
- # Portions of this exhibit are redacted pursuant to Item 601(b)(10)(iv) of Regulation S-K.
- + This document has been identified as a management contract or compensatory plan or arrangement.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

CANOPY GROWTH CORPORATION**AMENDED AND RESTATED OMNIBUS INCENTIVE PLAN****Section 1. Purpose.**

The purpose of the Amended and Restated Canopy Growth Corporation Omnibus Incentive Plan is to attract, retain and reward those employees, directors and other individuals who are expected to contribute significantly to the success of the Corporation and its Affiliates, to incentivize such individuals to perform at the highest level, to strengthen the mutuality of interests between such individuals and the Corporation's shareholders and, in general, to further the best interests of the Corporation and its shareholders. The Plan is intended to comply with Section 422 of the Code (as defined below), with respect to the U.S. employees participating in the Plan, if and when applicable.

Section 2. Definition.

As used in the Plan, the following terms shall have the meanings set forth below:

- (a) **"Affiliate"** shall mean: (i) any entity that, directly or indirectly, controls (as well as is controlled by or under common or joint control with) the Corporation; or (ii) any entity in which the Corporation has a significant equity interest, in either case as determined by the Committee; provided that, unless otherwise determined by the Committee, the Shares subject to any Options or SAR that are granted to a service provider of an Affiliate constitutes "service recipient stock" for purposes of Section 409A of the Code or otherwise does not subject the Award to the excise tax under Section 409A of the Code, provided that in respect of any Option granted to a Canadian Grantee, an Affiliate shall only include a corporation that deals at non-arm's length, within the meaning of the ITA, with the Company, and further provided that, in respect of any Deferred Share Unit granted to a Canadian Grantee, an Affiliate shall only include a corporation that is related to the Corporation, within the meaning of the ITA.
- (b) **"Award"** shall mean any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Deferred Stock Unit, annual or long-term Performance Award or Other Stock-Based Award granted under the Plan, which may be denominated or settled in Shares, cash or in such other forms as provided for herein.
- (c) **"Award Agreement"** shall mean the agreement (whether in written or electronic form) or other instrument or document evidencing any Award granted under the Plan, which may, but need not, be executed or acknowledged by a Participant.
- (d) **"Beneficiary"** shall mean a person or persons entitled to receive payments or other benefits or exercise rights that are available under the Plan in the event of the Participant's death. If no such person is named by a Participant, such individual's Beneficiary shall be the individual's estate.
- (e) **"Blackout Period"** means a period when the Participant is prohibited from trading in the Corporation's securities pursuant to securities regulatory requirements or the Corporation's insider trading policy or other applicable policy or requirement of the Corporation.
- (f) **"Board"** shall mean the board of directors of the Corporation.

- (g) **“Canadian Award”** shall mean an Award pursuant to which, as applicable: (i) the Exercise Price is stated and payable in Canadian dollars or the basis upon which it is to be settled (whether in cash or in Shares) is stated in Canadian dollars); (ii) in the case of freestanding SARs (as defined below), the base price is stated in Canadian dollars and any cash amount payable in settlement thereof shall be paid in Canadian dollars; (iii) in the case of Restricted Share Units, Deferred Share Units or Performance Awards, any cash amount payable in settlement thereof shall be paid in Canadian dollars; or (iv) in the case of Other Stock-Based Awards the price or value of such Shares is stated in Canadian dollars.
- (h) **“Canadian Grantee”** shall mean a Participant who is a resident of Canada for the purposes of the ITA, or who is granted an Award under the Plan in respect of services performed in Canada for the Company or any of its Affiliates.
- (i) **“Cashless Exercise”** shall have the meaning set out in Section 6(e) hereof.
- (j) **“Change in Control”** shall mean the occurrence of:
- any individual, entity or group of individuals or entities acting jointly or in concert (other than the Corporation, its Affiliates or an employee benefit plan or trust maintained by the Corporation or its Affiliates, or any company owned, directly or indirectly, by the shareholders of the Corporation in substantially the same proportions as their ownership of Shares of the Corporation) acquiring beneficial ownership, directly or indirectly, of more than 50% of the combined voting power of the Corporation's then outstanding securities (excluding any "person" who becomes such a beneficial owner (x) in connection with a transaction described in clause (A) of paragraph (ii) below;
 - the consummation of (A) a merger or consolidation of the Corporation or any direct or indirect subsidiary of the Corporation with any other corporation, other than a merger or consolidation which would result in the voting securities of the Corporation outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or being converted into voting securities of the surviving entity or any parent thereof) more than 30% of the combined voting power or the total fair market value of the securities of the Corporation or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; provided, however, that a merger or consolidation effected to implement a recapitalization of the Corporation (or similar transaction) in which no person (other than those covered by the exceptions in paragraph (i) of this definition) acquires more than 50% of the combined voting power of the Corporation's then outstanding securities shall not constitute a Change in Control of the Corporation; or
 - a complete liquidation or dissolution of the Corporation or the consummation of any sale, lease, exchange or other transfer (in one transaction or a series of transactions) of all or substantially all of the assets of the Corporation; other than such liquidation, sale or disposition to a person or persons who beneficially own, directly or indirectly, more than 30% of the combined voting power of the outstanding voting securities of the Corporation at the time of the sale.

- Notwithstanding the foregoing, with respect to any Award that is characterized as "nonqualified deferred compensation" within the meaning of Section 409A of the Code, an event shall not be considered to be a Change in Control under the Plan for purposes of payment of such Award unless such event is also a "change in ownership," a "change in effective control" or a "change in the ownership of a substantial portion of the assets" of the Corporation within the meaning of Section 409A of the Code.
- (k) “**Code**” shall mean the U.S. Internal Revenue Code of 1986, as amended from time to time. Any reference to any section of the Code shall also be a reference to any successor provision and any treasury regulation promulgated thereunder.
- (l) “**Committee**” shall mean the Corporation’s Compensation and Governance Committee appointed by the Board or such other committee as may be designated by the Board to administer the Plan; provided, however, with respect to any decision relating to a Reporting Person, including, without limitation, approval of the grant of an Award, the Committee shall consist solely of two or more Directors who are “Non-Employee Directors” within the meaning of Rule 16b-3. If the Board does not designate the Committee, references herein to the "Committee" shall refer to the Board.
- (m) “**Consultant**” means a consultant as defined in section 2.22 of National Instrument 45-106 Prospectus Exemptions engaged by the Corporation or its Affiliates and shall only include those persons who may participate in an “Employee Benefit Plan” as set forth in Rule 405 of the U.S. Securities Act.
- (n) “**Corporation**” shall mean Canopy Growth Corporation.
- (o) “**Covered Employee**” means an individual who is (i) a "covered employee" within the meaning of Section 162(m)(3) of the Code, or any successor provision thereto and (ii) any individual who is designated by the Committee, in its discretion, at the time of any Award or at any subsequent time, as reasonably expected to be a "covered employee" with respect to the taxable year of the Corporation in which any applicable Award will be paid.
- (p) “**Deferred Stock Unit**” shall mean a contractual right to receive Shares or other Awards or a combination thereof at the end of a specified deferral period, granted under Section 9.
- (q) “**Dividend Equivalent**” means a right, granted to a Participant under the plan, to receive cash, shares, other Awards or other property equal in value to dividends paid with respect to Shares.
- (r) “**Director**” means a member of the Board.
- (s) “**Effective Date**” shall mean the date on which the Plan receives approval from the holders of the Shares in accordance with the rules of the TSX and the U.S. Exchange.
- (t) “**Exchange Act**” means the United States Securities Exchange Act of 1934, as amended.

- (u) **“Fair Market Value”** means, for purposes of the Plan, unless otherwise required by any applicable provision of the Code, any regulations issued thereunder or other applicable law or by any applicable accounting standard for the Corporation’s desired accounting for Awards or by the rules of the applicable Stock Exchange, a price that is determined by the Committee, provided that such price cannot be less than:
- i. For Canadian Awards, as long as Shares are listed on the TSX, the greater of the volume weighted average trading price of the Shares on the TSX for the five trading days immediately prior to the grant date or the closing price of the Shares on the TSX on the trading day immediately prior to the grant date.
 - ii. For U.S. Awards, as long as the Shares are listed on a U.S. Exchange, the greater of the volume weighted average trading price of the Shares on the U.S. Exchange for the five trading days immediately prior to the grant date or the closing price of the Shares on the U.S. Exchange on the trading day immediately prior to the grant date.
 - iii. Unless prohibited by applicable law or rules of a Stock Exchange, Canadian Awards or U.S. Awards may be made to a Participant without regard to such Participant’s domicile or residence for tax purposes. Thus, for example, U.S. taxpayers that are Participants may receive Canadian Awards. The Corporation may take such actions with respect to its filings, records and reporting, as it deems appropriate to reflect the conversion of Awards from Canadian dollars to U.S. dollars and vice versa.
 - iv. If the Shares are not traded, listed or otherwise reported or quoted, the Committee shall determine in good faith the Fair Market Value in whatever manner it considers appropriate taking into account the requirements of the ITA, Section 409A of the Code and any other applicable law.
 - v. For purposes of the grant of any Award, the applicable date shall be the date on which the Award is granted. For purposes of the exercise of any Award, the applicable date shall be the date a notice of exercise is received by the Committee or its designee, as applicable, or, if not a day on which the applicable market is open, the next day that it is open. In the event that the Committee determines that the date of grant of an Award shall be a future date because the Corporation is in a Blackout Period, the applicable date shall be deemed to occur on the seventh day following the termination of the Blackout Period and the Fair Market Value shall be the weighted average trading price of the Shares on the TSX or U.S. Exchange as applicable for a Canadian Award or U.S. Award, for the five most recent trading days preceding the applicable date (e.g. trading days two to six following the lifting of the Blackout Period). In the event an additional Blackout Period commences such that six consecutive trading days (excluding weekends and statutory holidays) do not elapse following the expiry of the initial Blackout Period, the applicable date and market price shall be determined by reference to the seventh consecutive trading day following the expiry of the subsequent Blackout Period.
- (v) **“Incentive Stock Option”** shall mean an option representing the right to purchase Shares from the Corporation, granted under and in accordance with the terms of Section 6, that is intended to be and is designated as an "Incentive Stock Option" within the meaning of Section 422 of the Code.

- (w) “**ITA**” shall mean the Income Tax Act (Canada) and any regulations thereunder as amended from time to time.
- (x) “**Non-Employee Director**” shall mean a Director who is not otherwise an Employee or a Consultant of the Company or of any Affiliate at the date an Award is granted.
- (y) “**Non-Qualified Stock Option**” shall mean an option representing the right to purchase Shares from the Corporation, granted under and in accordance with the terms of Section 6, that is not an Incentive Stock Option.
- (z) “**Option**” shall mean an Incentive Stock Option or a Non-Qualified Stock Option.
- (aa) “**Other Stock-Based Award**” means an Award granted pursuant to Section 11 of the Plan.
- (bb) “**Participant**” shall mean the recipient of an Award granted under the Plan.
- (cc) “**Performance Award**” means an Award granted pursuant to Section 10 of the Plan.
- (dd) “**Performance Goals**” means goals established by the Committee as contingencies for Awards to vest and/or become exercisable or distributable based on one or more performance goals. Performance Goals may be applied to either the Corporation as a whole or to a business unit or to a single or group of Affiliates, either individually, alternatively or in any combination, and measured either in total, incrementally or cumulatively over a specified performance period, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group.
- (ee) “**Performance Period**” means the period established by the Committee at the time any Performance Award is granted or at any time thereafter during which any Performance Goals specified by the Committee with respect to such Award are measured or must be satisfied.
- (ff) “**Plan**” shall mean this Amended and Restated Canopy Growth Corporation Omnibus Incentive Plan, as the same may be amended or supplemented from time to time.
- (gg) “**Prior Plan**” means the Corporation’s stock option plan as it existed prior to August 4, 2017.
- (hh) “**Reporting Person**” means an officer or Director, who is required to file reports pursuant to Rule 16a-3 under the Exchange Act.
- (ii) “**Restricted Stock**” shall mean any Share granted under Section 8.
- (jj) “**Restricted Stock Unit**” shall mean a contractual right granted under Section 8 that is denominated in Shares. Each Restricted Stock Unit represents a right to receive one Share or the value of one Share upon the terms and conditions set forth in the Plan and the applicable Award Agreement.
- (kk) “**Rule 16b-3**” means Rule 16b-3 promulgated under the Exchange Act, as amended from time to time, or any successor provision.
- (ll) “**SAR**” or “**Stock Appreciation Right**” shall mean any right granted to a Participant pursuant to Section 7 to receive, upon exercise by the Participant, the excess of (i) the Fair Market Value of one Share on the date of exercise over (ii) the grant price of the right on the date of grant, or if granted in connection with an outstanding Option on the date of grant of the related Option, as

specified by the Committee in its sole discretion, which, except in the case of Substitute Awards, shall not be less than the Fair Market Value of one Share on such date of grant of the right or the related Option, as the case may be.

- (mm) **“Service”** shall mean the active performance of services for the Corporation or an Affiliate by a person who is an employee or director of the Corporation or an Affiliate. Notwithstanding the foregoing, with respect to any Award that is characterized as "nonqualified deferred compensation" within the meaning of Section 409A of the Code, an event shall not be considered to be a termination of "Service" under the Plan for purposes of payment of such Award unless such event is also a "separation from service" within the meaning of Section 409A of the Code.
- (nn) **“Shares”** shall mean the common shares in the capital of the Corporation. (kk) **“Stock Exchanges”** shall mean the U.S. Exchange and the TSX.
- (oo) **“Subsidiary”** shall mean any corporation of which shares representing at least 50% of the ordinary voting power is owned, directly or indirectly, by the Corporation.
- (pp) **“Substitute Awards”** shall mean Awards granted in assumption of, or in substitution for, outstanding awards previously granted by a company acquired by the Corporation or with which the Corporation combines.
- (qq) **“Transfer”** means: (a) when used as a noun, any direct or indirect transfer, sale, assignment, pledge, hypothecation, encumbrance or other disposition (including the issuance of equity in any entity), whether for value or no value and whether voluntary or involuntary (including by operation of law), and (b) when used as a verb, to directly or indirectly transfer, sell, assign, pledge, encumber, charge, hypothecate or otherwise dispose of (including the issuance of equity in any entity) whether for value or for no value and whether voluntarily or involuntarily (including by operation of law). "Transferred" and "Transferable" shall have a correlative meaning.
- (rr) **“TSX”** means the Toronto Stock Exchange and at any time the Shares are not listed and posted for trading on the TSX, shall be deemed to mean such other stock exchange or trading platform in Canada upon which the Shares trade and which has been designated by the Committee.
- (ss) **“U.S. Award”** shall mean an Award pursuant to which, as applicable: (i) in the case of Options (including tandem SARs (as defined below)), the Exercise Price is stated and payable in United States dollars (and in the case of tandem SARs, any cash amount payable in settlement thereof shall be paid in United States dollars), (ii) in the case of freestanding SARs (as defined below), the base price is stated in United States dollars and any cash amount payable in settlement thereof shall be paid in United States dollars; (iii) in the case of Restricted Share Units, Deferred Share Units or Performance Awards, any cash amount payable in settlement thereof shall be paid in United States dollars; or (iv) in the case of Other Stock-Based Awards the price or value of such Shares is stated in United States dollars.
- (tt) **“U.S. Exchange”** shall mean the New York Stock Exchange or such other national securities exchange or trading system on which the Corporation’s shares are listed in the United States.
- (uu) **“U.S. Securities Act”** means the United States Securities Act of 1933, as amended.

Section 3. Eligibility.

(a) Any employee, officer, director, Consultant or, subject to applicable securities laws, other advisor of, or any other individual who provides services to, the Corporation or any Affiliate, shall be eligible to be selected to receive an Award under the Plan. All Awards shall be granted by an Award Agreement. Notwithstanding the foregoing, only eligible employees of the Corporation, its subsidiaries and its parent (as determined in accordance with Section 422(b) of the Code in the case of US employees) are eligible to be granted Incentive Stock Options under the Plan. Eligibility for the grant of Awards and actual participation in the Plan shall be determined by the Committee in its sole discretion.

(b) An individual who has agreed to accept employment by the Corporation or an Affiliate shall be deemed to be eligible for Awards hereunder as of the date of such acceptance; provided that vesting and exercise of Awards granted to such individual are conditioned upon such individual actually becoming an employee of the Corporation or an Affiliate.

(c) Holders of options and other types of incentive awards granted by a company acquired by the Corporation or with which the Corporation combines are eligible for grant of Substitute Awards hereunder.

Section 4. Administration.

(a) The Plan shall be administered by the Committee. Subject to Section 15, the Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan and perform all acts, including the delegation of its responsibilities (to the extent permitted by applicable law and applicable stock exchange rules), as it shall, from time to time, deem advisable; to construe and interpret the terms and provisions of the Plan and any Award issued under the Plan (and any agreements relating thereto); and to otherwise supervise the administration of the Plan. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any agreement relating thereto in the manner and to the extent it shall deem necessary to effectuate the purpose and intent of the Plan. The Committee may adopt special guidelines and provisions for persons who are residing in or employed in, or subject to, the taxes of, any domestic or foreign jurisdictions to comply with applicable tax and securities laws of such domestic or foreign jurisdictions. To the extent applicable, the Plan and Awards intended to be "performance-based," the applicable provisions of Section 162(m) of the Code, and the Plan shall be limited, construed and interpreted in a manner so as to comply therewith.

(b) Subject to the terms of the Plan and applicable law and the rules of the Stock Exchanges that the Shares are listed at the relevant time and in addition to those authorities provided in Section 4(a), the Committee (or its delegate) shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards (including Substitute Awards) to be granted to each Participant under the Plan; (iii) determine the number of Shares to be covered by (or with respect to which payments, rights, or other matters are to be calculated in connection with) Awards, including whether an Award shall be a Canadian Award or a U.S. Award; (iv) authorize and approve the applicable form and determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder (including, but not limited to, the exercise or purchase price (if any), any restriction or limitation, any vesting schedule or acceleration thereof, or any forfeiture restrictions or waiver thereof, regarding any Award and the Shares relating thereto, based on such factors, if any, as the Committee shall determine, in its sole discretion); (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, Shares, other securities, or other Awards, or canceled, forfeited or suspended, and the method or methods by which Awards may be settled, exercised, canceled, forfeited or suspended; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other securities, other Awards, and

other amounts payable with respect to an Award under the Plan shall be deferred either automatically or at the election of the holder thereof or of the Committee, taking into consideration the requirements of Section 409A of the Code; (vii) determine whether to require a Participant, as a condition of the granting of any Award, to not sell or otherwise dispose of shares acquired pursuant to the exercise of an Award for a period of time as determined by the Committee, in its sole discretion, following the date of the acquisition of such Award; (viii) to determine whether an Option is an Incentive Stock Option or Non-Qualified Option; (ix) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan; (x) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; (xi) to permit accelerated vesting or lapse of restrictions of any Award at any time; and (xii) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan.

(c) All decisions of the Committee shall be final, conclusive and binding upon all parties, including the Corporation, the shareholders and the Participants.

(d) Notwithstanding the foregoing, the Committee shall not have any discretion under this Section 4 or any other provision of the Plan that would modify the terms or conditions of any (i) Performance Goal or waive the satisfaction thereof with respect to any Award that is intended to qualify as "performance-based compensation" for purposes of Section 162(m) of the Code if the exercise of such discretion would cause the Award not to so qualify, (ii) any other Award that is intended to be exempt from the definition of "salary deferral arrangement" in the ITA if the exercise of such discretion would cause the Award to not be or cease to be exempt; or (iii) any Option granted to a Canadian Grantee if the exercise of such discretion would cause the Option to not be or cease to be governed by section 7 of the ITA. The Committee will also exercise its discretion in good faith in accordance with the Corporation's intention that the terms of Awards and the modifications or waivers permitted hereby are in compliance with applicable law and the rule of the Stock Exchanges.

(e) No member of the Committee or the Board generally shall be liable for any action or determination made in good faith pursuant to the Plan or any instrument of grant evidencing any Award granted under the Plan. To the fullest extent permitted by law, the Corporation shall indemnify and save harmless, and shall advance and reimburse the expenses of, each Person made, or threatened to be made, a party to any action or proceeding in respect of the Plan by reason of the fact that such Person is or was a member of the Committee or is or was a member of the Board in respect of any claim, loss, damage or expense (including legal fees) arising therefrom.

Section 5. Shares Available for Awards; Per Person Limitations.

(a) Subject to adjustment as provided below, the maximum number of Shares available for issuance under the Plan shall not exceed 15% of the issued and outstanding Shares from time-to-time when taken together with all other Security Based Compensation Arrangements of the Corporation; provided that all Shares reserved and available under the Plan shall constitute the maximum number of Shares that can be issued for Incentive Stock Options. Every three years after the Effective Date of the Plan, all unallocated Awards under the Plan shall be submitted for approval to the Board and the shareholders of the Corporation. With respect to Stock Appreciation Rights settled in Shares, upon settlement, only the number of Shares delivered to a Participant (based on the difference between the Fair Market Value of the Shares subject to such Stock Appreciation Right on the date such Stock Appreciation Right is exercised and the exercise price of each Stock Appreciation Right on the date such Stock Appreciation Right was awarded) shall count against the aggregate and individual share limitations set forth under this Section 5. If any Option, Stock Appreciation Right or Other Stock-Based Awards granted under the Plan expires, terminates or is canceled for any reason without having been exercised in full, the number of Shares underlying any unexercised Award shall again be available for the purpose of Awards under the Plan. If any shares of Restricted Stock,

Performance Awards or Other Stock-Based Awards denominated in Shares awarded under the Plan to a Participant are forfeited for any reason, the number of forfeited shares of Restricted Stock, Performance Awards or Other Stock-Based Awards denominated in Shares shall again be available for purposes of Awards under the Plan. Any Award under the Plan settled in cash shall not be counted against the foregoing maximum share limitations. On exercise of any Option, Stock Appreciation Right or Other Stock-Based Awards granted under the Plan, the number of Shares underlying such Award shall again be available for the purpose of Awards under the Plan. Any Shares subject to any Award or award granted under a Prior Plan that is outstanding on the date which this Plan was approved by shareholders of the Corporation (or any portion thereof) that has expired or is forfeited, surrendered, cancelled or otherwise terminated prior to, or that is otherwise settled so that there is no, issuance or transfer of such Shares shall not be counted against the foregoing maximum share limitations.

(b) Any Shares delivered pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares or Shares acquired by the Corporation.

(c) To the extent required by Section 162(m) of the Code for Awards under the Plan to qualify as "performance-based compensation," the following individual Participant limitations shall apply:

(i) Subject to Section 21 below, the maximum number of Shares subject to any Award of Options, or Stock Appreciation Rights, shares of Restricted Stock, Restricted Stock Units or Other Stock-Based Awards for which the grant of such Award or the lapse of the relevant restriction period is subject to the attainment of Performance Goals in accordance with Section 10 which may be granted under the Plan during any fiscal year of the Corporation to any Participant shall be 1,000,000 Shares per type of Award (which shall be subject to any further increase or decrease pursuant to Section 5(d)) provided that the maximum number of Shares for all types of Awards granted to any Participant does not exceed 1,000,000 Shares (which shall be subject to any further increase or decrease pursuant to Section 5(d)) during any fiscal year of the Corporation. If a Stock Appreciation Right is granted in tandem with an Option, it shall apply against the Participant's individual share limitations for both Stock Appreciation Rights and Options.

(ii) Subject to Section 5(g), Section 5(h) and Section 21, there are no annual individual share limitations applicable to Participants on Options, Restricted Stock, Restricted Stock Units or Other Stock-Based Awards for which the grant, vesting or payment (as applicable) of any such Award is not subject to the attainment of Performance Goals.

(iii) The individual Participant limitations set forth in this Section 5(c) shall be cumulative; that is, to the extent that Shares for which Awards are permitted to be granted to a Participant during a fiscal year are not covered by an Award to such Participant in a fiscal year, the number of Shares available for Awards to such Participant shall automatically increase in the subsequent fiscal years during the term of the Plan until used.

(d) Changes

(i) The existence of the Plan and the Awards granted hereunder shall not affect in any way the right or power of the Board or the shareholders of the Corporation to make or authorize (a) any adjustment, recapitalization, reorganization or other change in the Corporation's capital structure or its business, (b) any arrangement, merger or consolidation of the Corporation or any Affiliate, (c) any issuance of bonds, debentures, preferred or prior preference stock ahead of or affecting the Shares (d) the dissolution or liquidation of the Corporation or any Affiliate, (e) any sale or transfer of all or part of the assets or business of the Corporation or any Affiliate or (f) any other corporate act or proceeding.

(ii) If there shall occur any such change in the capital structure of the Corporation by reason of any stock split, reverse stock split, stock dividend, extraordinary dividend, subdivision, combination or reclassification of shares that may be issued under the Plan, any recapitalization, any arrangement, any merger, any consolidation, any spin off, any reorganization or any partial or complete liquidation, or any other corporate transaction or event having an effect similar to any of the foregoing (a "Corporate Event"), then (i) the aggregate number and/or kind of shares that thereafter may be issued under the Plan, (ii) the number and/or kind of shares or other property (including cash) to be issued upon exercise of an outstanding Award granted under the Plan, and/or (iii) the purchase price thereof, shall be appropriately adjusted. In addition, if there shall occur any change in the capital structure or the business of the Corporation that is not a Corporate Event (an "Other Extraordinary Event"), including by reason of any ordinary dividend (whether cash or stock), any conversion, any adjustment, any issuance of any class of securities convertible or exercisable into, or exercisable for, any class of stock, or any sale or transfer of all or substantially all of the Corporation's assets or business, then the Committee, in its sole discretion, may adjust any Award and make such other adjustments to the Plan. Any adjustment pursuant to this Section 5(d) shall be consistent with the applicable Corporate Event or the applicable Other Extraordinary Event, as the case may be, and in such manner as the Committee may, in its sole discretion, deem appropriate and equitable to prevent substantial dilution or enlargement of the rights granted to, or available for, Participants under the Plan. Any such adjustment determined by the Committee shall be final, binding and conclusive on the Corporation and all Participants and their respective heirs, executors, administrators, successors and permitted assigns. Except as expressly provided in this Section 5(d) or in the applicable Award Agreement, a Participant shall have no rights by reason of any Corporate Event or any Other Extraordinary Event.

(iii) Fractional shares of Shares resulting from any adjustment in Awards pursuant to Section 5(d)(i) or Section 5(d)(ii) shall be aggregated until, and eliminated at, the time of exercise by rounding-down for fractions less than one-half and rounding-up for fractions equal to or greater than one-half. No cash settlements shall be made with respect to fractional shares eliminated by rounding. Notice of any adjustment shall be given by the Committee to each Participant whose Award has been adjusted and such adjustment (whether or not such notice is given) shall be effective and binding for all purposes of the Plan.

(e) Shares underlying Awards that can only be settled in cash shall not reduce the number of Shares remaining available for issuance under the Plan.

(f) Notwithstanding any provision of the Plan to the contrary, if authorized but previously unissued Shares are issued under the Plan, such shares shall not be issued for a consideration that is less than as permitted under applicable law and the rules of the TSX.

(g) (i) The equity value of Options granted to a Non-Employee Director, within a one-year period, pursuant to the Plan shall not exceed \$100,000; and (ii) the aggregate equity value of all awards, that are eligible to be settled in Shares granted to a Non-Employee Director, within a one-year period, pursuant to all Security Based Compensation Arrangements (including, for greater certainty, the Plan) shall not exceed \$150,000.

(h) In the event that a Participant holds 20% or more of the issued and outstanding Shares or the settlement of an Award in Shares would cause the Participant to hold 20% or more of the issued and outstanding Shares, such Participant shall only be granted Awards that can be settled incash.

Section 6. Options.

The Committee is hereby authorized to grant Options to Participants with the following terms and conditions and with such additional terms and conditions, in either case not inconsistent with the provisions of the Plan, as the Committee shall determine:

(a) The purchase price per Share under an Option shall be determined by the Committee; provided, however, that, except in the case of Substitute Awards, such purchase price shall not be less than 100% (or 110% in the case of an Incentive Stock Option granted to a person owning stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation, its subsidiaries or its parent, determined in accordance with Section 422(b)(6) of the Code) of the Fair Market Value of a Share on the date of grant of such Option. In the event that the Committee determines and has authorized the Chief Executive Officer of the Corporation to grant such Options on a future date because the Corporation is in a Blackout Period, the date of grant shall be deemed to occur on the second trading day following the termination of the Blackout Period and the Fair Market Value shall be the closing price on the first business day following the date on which the relevant Blackout Period has expired, unless the relevant grant of Options occurs after the close of trading on the date of grant, in which case the Fair Market Value shall be equal to the closing price on the date of grant. In the event an additional Blackout Period commences such that two consecutive trading days (excluding weekends and statutory holidays) do not elapse following the expiry of the initial Blackout Period, the grant date and Fair Market Value shall be determined by reference to the second consecutive trading day following the expiry of the subsequent Blackout Period.

(b) The term of each Option shall be fixed by the Committee but shall not exceed 10 years from the date of grant thereof. Except as otherwise provided by the Committee in an Award Agreement, the term of each grant of Option shall be 10 years from the date of the grant thereof. Notwithstanding the foregoing, if the term of an Option (other than an Incentive Stock Option) held by any Participant not subject to Section 409A of the Code would otherwise expire during, or within ten business days of the expiration of a Blackout Period applicable to such Participant, then the term of such Option shall be extended to the close of business on the tenth business day following the expiration of the Blackout Period.

(c) The Committee shall determine the time or times at which an Option may be exercised in whole or in part. Except as otherwise provided by the Committee in an Award Agreement, the Options will vest and become exercisable as follows:

- (i) as to one-third on the first anniversary of the date of the grant thereof;
- (ii) as to one-third on the second anniversary of the date of the grant thereof; and
- (iii) as to the final one-third on the third anniversary of the date of the grant thereof.

(d) To the extent vested and exercisable, Options may be exercised in whole or in part at any time during the Option term, by giving written notice of exercise to the Corporation specifying the number of Shares to be purchased. Such notice shall be accompanied by payment in full of the purchase price (the "Option Price") as follows: (i) by certified cheque, bank draft or money order payable to the order of the Corporation; (ii) solely to the extent permitted by applicable law, if the Shares are traded on a national securities exchange, and the Committee authorizes, through a procedure whereby the Participant delivers irrevocable instructions to a broker reasonably acceptable to the Committee to deliver promptly to the Corporation an amount equal to the purchase price; or (iii) on such other terms and conditions as may be acceptable to the Committee (including, without limitation, having the Corporation withhold Shares

issuable upon exercise of the Option, or by payment in full or in part in the form of Shares owned by the Participant, based on the Fair Market Value of the Shares on the payment date as determined by the Committee). No Shares shall be issued until payment therefor, as provided herein, has been made or provided for.

(e) Notwithstanding Section 6(d), with the approval of the Committee, in its sole and unfettered discretion, a Participant may elect to exercise an Option, in whole or in part, without payment of the aggregate Option Price due on such exercise by electing to receive Shares equal in value to the difference between the Option Price and the Fair Market Value on the date of exercise (any such exercise a "Cashless Exercise") computed by using the following formula, with either a partial or full deduction of the number of underlying Shares from the Plan reserve:

$$X = \frac{Y(A-B)}{A}$$

Where X = the number of Shares to be issued to the Participant upon such Cashless Exercise;
Y = the number of Shares purchasable under the Option (at the date of such calculation);
A = Fair Market Value of one Share of the Corporation (at the date of such calculation, if greater than the Option Price); and
B = Option Price (as adjusted to the date of such calculation)

In the event that the Shares are not listed on the Exchange as at the date of an exercise of an Option, it shall be a condition precedent to the exercise of any Option that the Participant agree to be bound by the terms of any unanimous shareholders agreement or similar agreements generally applicable to all of the shareholders of the Corporation then in force, and further that the Participant agree to enter into voting trust generally applicable to employee shareholders of the Corporation then in force and provide a power of attorney in support of such voting trust

(f) The terms of any Incentive Stock Option granted under the Plan shall comply in all respects with the provisions of Section 422 of the Code, or any successor provision thereto, and any regulations promulgated thereunder. To the extent that the aggregate Fair Market Value (determined as of the time of grant) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by a Participant Employee during any calendar year under the Plan and/or any other stock option plan of the Corporation, any subsidiary or any parent exceeds \$100,000, such Options shall be treated as Non-Qualified Options. Should any provision of the Plan not be necessary in order for the Options to qualify as Incentive Stock Options, or should any additional provisions be required, the Committee may amend the Plan accordingly, without the necessity of obtaining the approval of the shareholders of the Corporation, subject to the rules of the TSX. To the extent that any such Option does not qualify as an Incentive Stock Option (whether because of its provisions or the time or manner of its exercise or otherwise), such Option or the portion thereof which does not so qualify shall constitute a separate Non- Qualified Stock Option.

Section 7. Stock Appreciation Rights.

(a) The Committee is hereby authorized to grant Stock Appreciation Rights ("SARs") to Participants with terms and conditions as the Committee shall determine not inconsistent with the provisions of the Plan.

(b) SARs may be granted hereunder to Participants either alone ("freestanding") or in addition to other Awards granted under the Plan ("tandem") and may, but need not, relate to a specific Options granted under Section 6.

(c) Any tandem SAR related to an Option may be granted at the same time such Option is granted to the Participant. In the case of any tandem SAR related to any Option, the SAR or applicable portion thereof shall not be exercisable until the related Option or applicable portion thereof is exercisable and shall terminate and no longer be exercisable upon the termination or exercise of the related Option, except that a SAR granted with respect to less than the full number of Shares covered by a related Option shall not be reduced until the exercise or termination of the related Option exceeds the number of Shares not covered by the SAR. Any Option related to any tandem SAR shall no longer be exercisable to the extent the related SAR has been exercised.

(d) A freestanding SAR shall not have a term of greater than 10 years or, unless it is a Substitute Award, an exercise price less than 100% of Fair Market Value of the Share on the date of grant. Notwithstanding the foregoing, if the term of a SAR held by any Participant not subject to Section 409A of the Code would otherwise expire during, or within ten business days of the expiration of a Blackout Period applicable to such Participant, then the term of such SAR shall be extended to the close of business on the tenth business day following the expiration of the Blackout Period.

Section 8. Restricted Stock and Restricted Stock Units.

(a) The Committee is hereby authorized to grant Awards of Restricted Stock and Restricted Stock Units to Participants.

(b) Shares of Restricted Stock and Restricted Stock Units shall be subject to such restrictions as the Committee may impose (including, without limitation, any limitation on the right to receive any dividend or dividend equivalent or other right), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise, as the Committee may deem appropriate. To the extent required by law, Participants holding Restricted Stock granted hereunder shall have the right to exercise full voting rights with respect to those Restricted Stocks during the any period of restriction. A Participant shall have no voting rights with respect to any Restricted Stock Units granted hereunder.

(c) Any share of Restricted Stock granted under the Plan may be evidenced in such manner as the Committee may deem appropriate including, without limitation, book-entry registration or issuance of a share certificate or certificates. In the event any share certificate is issued in respect of shares of Restricted Stock granted under the Plan, such certificate shall be registered in the name of the Participant and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock. If share certificates are issued in respect of shares of Restricted Stock, the Committee may require that any share certificates evidencing such Shares be held in custody by the Corporation until the restrictions thereon shall have lapsed, and that, as a condition of any grant of Restricted Stock, the Participant shall have delivered a duly signed stock power or other instruments of assignment (including a power of attorney), each endorsed in blank with a guarantee of signature if deemed necessary or appropriate by the Corporation, which would permit transfer to the Corporation of all or a portion of the shares subject to the Restricted Stock Award in the event that such Award is forfeited in whole or part.

(d) The Committee may in its discretion, when it finds that a waiver would be in the best interests of the Corporation, waive in whole or in part any or all restrictions with respect to Shares of Restricted Stock or Restricted Stock Units.

(e) The Committee, in its discretion, may award Dividend Equivalents with respect to Awards of Restricted Stock Units. The entitlements on such Dividend Equivalents will not be available until the vesting of the Award of Restricted Stock Units.

(f) If the Committee intends that an Award under this Section 8 shall constitute or give rise to "qualified performance based compensation" under Section 162(m) of the Code, such Award may be structured in accordance with the requirements of Section 10, including without limitation, the Performance Goals and the Award limitation set forth therein, and any such Award shall be considered a Performance Award for purposes of the Plan.

(g) No Restricted Stock Unit shall vest later than three years after the date of grant.

Section 9. Deferred Stock Unit.

The Committee is authorized to grant Deferred Stock Units to Participants, subject to the following terms and conditions:

(a) Deferred Stock Units shall be settled upon expiration of the deferral period specified for an Award of Deferred Stock Unit by the Committee (or, if permitted by the Committee, as elected by the Participant). In addition, Deferred Stock Units shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, which restrictions may lapse at the expiration of the deferral period or at earlier specified times (including based on achievement of performance goals and/or future service requirements), separately or in combination, in installments or otherwise, and under such other circumstances as the Committee may determine at the date of grant or thereafter. Deferred Stock Units may be satisfied by delivery of Shares, other Awards, or a combination thereof, as determined by the Committee at the date of grant or thereafter.

(b) The Committee, in its discretion, may award Dividend Equivalents with respect to Awards of Deferred Stock Units. The entitlements on such Dividend Equivalents will not be available until the expiration of the deferral period for the Award of Deferred Stock Units.

(c) Except as otherwise provided in the Award Agreement, each Participant shall be entitled to redeem his or her Deferred Stock Units during the period commencing on the business day immediately following the Director Termination Date and ending on the 90th day following the Director Termination Date by providing a written notice of redemption, on a prescribed form, to the Corporation (the "**Redemption Date**"). In the event of death of a Participant, the notice of redemption shall be filed by the administrator or liquidator of the estate of the Participant. For greater certainty, the administrator shall have a maximum of 180 days following the Director Termination Date to provide such written notice. In the case of a U.S. Participant and except as otherwise provided in an Award Agreement, however, the redemption will be deemed to be made on the earlier of (i) December 31 of the year following the year of a "separation from service" within the meaning of Section 409A of the Code, or (ii) within 90 days of the U.S. Participant's death, or retirement from, or loss of office or employment with the Company, within the meaning of paragraph 6801(d) of the regulations under the ITA, including the Participant's resignation, retirement, removal from the Board, death or otherwise.

Section 10. Performance Awards.

(a) The Committee may grant a Performance Award to a Participant payable upon the attainment of specific Performance Goals. The Committee may grant Performance Awards that are intended to qualify as "performance-based compensation" under Section 162(m) of the Code, as well as Performance Awards that are not intended to qualify as "performance-based compensation" under Section 162(m) of the Code. If the Performance Award is payable in shares of Restricted Stock, such shares shall be transferable to the Participant only upon attainment of the relevant Performance Goal in accordance with Section 8. If the Performance Award is payable in cash, it may be paid upon the attainment of the relevant Performance Goals either in cash or in shares of Restricted Stock (based on the then current Fair Market Value of such

shares), as determined by the Committee, in its sole and absolute discretion. Each Performance Award shall be evidenced by an Award Agreement in such form that is not inconsistent with the Plan and that the Committee may from time to time approve. With respect to Performance Awards that are intended to qualify as "performance-based compensation" under Section 162(m) of the Code, the Committee shall condition the right to payment of any Performance Award upon the attainment of objective Performance Goals established pursuant to Section 10(b)(iii).

(b) Terms and Conditions. Performance Awards awarded pursuant to this Section 10 shall be subject to the following terms and conditions:

(i) Earning of Performance Award. At the expiration of the applicable Performance Period, the Committee shall determine the extent to which the Performance Goals established pursuant to Section 10(b) are achieved and the percentage of each Performance Award that has been earned.

(ii) Non-Transferability. Subject to the applicable provisions of the Award Agreement and the Plan, Performance Awards may not be Transferred during the Performance Period.

(iii) Objective Performance Goals, Formulae or Standards. With respect to Performance Awards that are intended to qualify as "performance-based compensation" under Section 162(m) of the Code, the Committee shall establish the objective Performance Goals for the earning of Performance Awards based on a Performance Period applicable to each Participant or class of Participants in writing prior to the beginning of the applicable Performance Period or at such later date as permitted under Section 162(m) of the Code and while the outcome of the Performance Goals are substantially uncertain. Such Performance Goals may incorporate, if and only to the extent permitted under Section 162(m) of the Code, provisions for disregarding (or adjusting for) the impact of any of the following that the Committee determines to be appropriate: (i) corporate transactions (including, without limitation, dispositions and acquisitions) and other similar type events or circumstances, (ii) restructurings, discontinued operations, extraordinary items or events, and other unusual or non-recurring charges as described in the Corporation's Management Discussion & Analysis; (iii) an event either not directly related to the operations of the Corporation or any of its Affiliates or not within the reasonable control of the Corporation's management, (iv) a change in tax law or accounting standards required by generally accepted accounting principles, or (v) such other exclusions or adjustments as the Committee specifies at the time the Award is granted. To the extent that any such provision would create impermissible discretion under Section 162(m) of the Code or otherwise violate Section 162(m) of the Code, such provision shall be of no force or effect, with respect to Performance Awards that are intended to qualify as "performance-based compensation" under Section 162(m) of the Code.

(c) Dividends. Unless otherwise determined by the Committee in an Award Agreement, amounts equal to dividends declared during the Performance Period with respect to the number of Shares covered by a Performance Award will not be paid to the Participant. In all cases, such dividends would not become payable until the expiration of the applicable Performance Period.

(d) Payment. Following the Committee's determination in accordance with Section 10(b)(i) the Corporation shall settle Performance Awards, in such form (including, without limitation, in Shares or in cash) as determined by the Committee, in an amount equal to such Participant's earned Performance Awards. Notwithstanding the foregoing, the Committee may, in its sole discretion, award an amount less than the earned Performance Awards and/or subject the payment of all or part of any Performance Award to additional vesting, forfeiture and deferral conditions as it deems appropriate.

(e) Termination. Subject to the applicable provisions of the Award Agreement and the Plan, upon a Participant's termination of Service for any reason during the Performance Period for a given Performance Award, the Performance Award in question will vest or be forfeited in accordance with the terms and conditions established by the Committee at grant.

(f) Accelerated Vesting. Based on service, performance and/or such other factors or criteria, if any, as the Committee may determine, the Committee may, at or after grant, due to such service, performance and/or such other factors or criteria relating to the Participant's performance to date accelerate on a pro rata basis the vesting of all or any part of any Performance Award.

(g) When and if Performance Awards become payable, a Participant having received the grant of such units shall be entitled to receive payment from the Company in settlement of such units in cash, Shares of equivalent value (based on the Fair Market Value), in some combination thereof, or in any other form determined by the Committee at its sole discretion. With respect to any Canadian Participant, the Company shall deliver the payout in settlement of any Performance Award to such Canadian Participant by or before December 31 of the third year following the year of the grant.

Section 11. Other Stock-Based Awards.

The Committee is authorized, subject to limitations under applicable law, the approval of the TSX and shareholder approval, if required, to grant to Participants such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Shares or factors that may influence the value of Shares, including, without limitation, convertible or exchangeable debt securities, other rights convertible or exchangeable into Shares, purchase rights for Shares, Awards with value and payment contingent upon performance of the Corporation or business units thereof, Shares awarded purely as a bonus and not subject to restrictions or conditions, or any other factors designated by the Committee. The Committee shall determine the terms and conditions of such Awards. Shares delivered pursuant to an Award in the nature of a purchase right granted under this Section 11 shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, cash, Shares, other Awards, notes, or other property, as the Committee shall determine. Unless otherwise determined by the Committee in an Award Agreement, the recipient of an Award under this Section 11 shall not be entitled to receive, currently or on a deferred basis, dividends or Dividend Equivalents in respect of the number of Shares covered by the Award. In all cases, such dividends or Dividend Equivalents would not become payable until the expiration of any applicable performance period.

Section 12. Effect of Termination of Service on Awards.

(a) The Committee may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, the circumstances in which Awards shall be exercised, vested, paid or forfeited in the event a Participant ceases to provide Service to the Corporation or any Affiliate prior to the end of a performance period or exercise or settlement of such Award.

(b) Except as otherwise provided by the Committee in an Award Agreement:

(i) if a Participant resigns their office or employment, or the employment of a Participant is terminated, or a Participant's contract as a Consultant terminates, only the portion of the Options that have vested and are exercisable at the date of any such resignation or termination may be exercised by the participant during the period ending 90 days after the date of resignation or termination, as applicable, after which period all Options expire; and

(ii) any Options, whether vested or unvested, will expire immediately upon the Participant being dismissed from their office or employment for cause or on a Participant's contract as a Consultant being terminated before its normal termination date for cause, including where a participant resigns their office or employment or terminates their contract as a Consultant after being requested to do so by the Corporation as an alternative to being dismissed or terminated by the Corporation for cause.

Section 13. Change in Control Provisions.

Except as otherwise provided by the Committee in an Award Agreement:

(a) the occurrence of a Change in Control will not result in the vesting of unvested Awards nor the lapse of any period of restriction pertaining to any Restricted Stock or Restricted Stock Unit (such Awards collectively referred to as "**Unvested Awards**"), provided that: (i) such Unvested Awards will continue to vest in accordance with the Plan and the Award Agreement; (ii) the level of achievement of performance goals prior to the date of the Change in Control shall be based on the actual performance achieved to the date of the Change in Control and the level of achievement of performance goals for the applicable period completed following the date of the Change in Control shall be based on the assumed achievement of 100% of the performance goals; and (iii) any successor entity agrees to assume the obligations of the Corporation in respect of such Unvested Awards.

(b) For the period of 24 months following a Change in Control, where a Participant's employment or term of office or engagement is terminated for any reason, other than for Cause: (i) any Unvested Awards as at the date of such termination shall be deemed to have vested, and any period of restriction shall be deemed to have lapsed, as at the date of such termination and shall become payable as at the date of termination; and (ii) the level of achievement of performance goals for any Unvested Awards that are deemed to have vested pursuant to (i) above, shall be based on the actual performance achieved at the end of the applicable period immediately prior to the date of termination.

(c) With respect to Awards for a U.S. Participant to the extent applicable, the Committee shall have the discretion to unilaterally determine that all outstanding Awards shall be cancelled up on a Change in Control, and that the value of such Awards, as determined by the Committee in accordance with the terms of the Plan and the Award Agreements, shall be paid out in cash in an amount based on the Change in Control Price within a reasonable time subsequent to the Change in Control; provided, however, that no such payment shall be made on account of an ISO using a value higher than the Fair Market Value of the underlying Shares on the date of settlement. For purposes of this Section, "Change in Control Price" shall mean the highest price per Share paid in any transaction related to a Change in Control of the Corporation.

(d) Notwithstanding the above, no cancellation, acceleration of vesting, lapsing of restrictions, payment of an Award, cash settlement or other payment shall occur with respect to any Award if the Committee reasonably determines in good faith prior to the occurrence of a Change in Control that such Award shall be honoured or assumed, or new rights substituted therefor (with such honoured, assumed or substituted Award hereinafter referred to as an "Alternative Award") by any successor to the Corporation or an Affiliate; provided, however, that any such Alternative Award must: (i) be based on stock which is traded on the TSX and/or an established U.S. securities market; (ii) provide such Participant with rights and entitlements substantially equivalent to or better than the rights, terms and conditions applicable under such Award, including, but not limited to, an identical or better exercise or vesting schedule and identical or better timing and methods of payment; (iii) recognize, for the purposes of vesting provisions, the time that the Award has been held prior to the Change in Control; (iv) have substantially equivalent economic value to such Award (determined prior to the time of the Change in Control); and (v) have terms and conditions which provide that in the event that the Participant's employment with the Corporation, an Affiliate or any

successor is involuntarily terminated or constructively terminated at any time within at least twelve months following a Change in Control, any conditions on a Participant's rights under, or any restrictions on transfer or exercisability applicable to, each such Alternative Award shall be waived or shall lapse, as the case may be.

(e) In the event that any accelerated Award vesting or payment received or to be received by a Participant pursuant to the above (the "Benefit") would (i) constitute a "parachute payment" within the meaning of and subject to Section 280G of the Code and (ii) but for this Section, be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then such Benefit shall be reduced to the extent necessary to that no portion of the Benefit will be subject to the Excise Tax, as determined in good faith by the Committee; provided, however, that if, in the absence of any such reduction (or after such reduction), the Participant believes that the Benefit or any portion thereof (as reduced, if applicable) would be subject to the Excise Tax, the Benefit shall be reduced (or further reduced) to the extent determined by the Participant in his or her discretion so that the Excise Tax would not apply. To the extent that such Benefit or any portion thereof is subject to Section 409A of the Code, then such Benefit or portion thereof shall be reduced by first reducing or eliminating any payment or Benefit payable in cash and then any payment or Benefit not payable in cash, in each case in reverse order beginning with payments or Benefits which are to be paid the further in time from the date of a Change in Control. If, notwithstanding any such reduction (or in the absence of such reduction), the Internal Revenue Service ("IRS") determines that the Participant is liable for Excise Tax as a result of the Benefit, then the Participant shall be obliged to return to the Corporation, within thirty days of such determination by the IRS, a portion of the Benefit sufficient such that none of the Benefit retained by the Participant constitutes a "parachute payment" within the meaning of Section 280G of the Code that is subject to the Excise Tax. In no event shall the Corporation have any obligation to pay any Excise Tax imposed on a Participant or to indemnify a Participant therefor.

(f) Notwithstanding any other provision of this Plan, this Section shall not apply with respect to any Deferred Stock Units held by a Canadian Participant where such Deferred Stock Units are governed under regulation 6801(d) of the ITA or any successor to such provision.

Section 14. General Provisions Applicable to Awards.

(a) Awards may be granted for no cash consideration or for such minimal cash consideration as may be required by applicable law.

(b) Awards may, in the discretion of the Committee, be granted either alone or in addition to or in tandem with any other Award or any award granted under any other plan of the Corporation. Awards granted in addition to or in tandem with other Awards, or in addition to or in tandem with awards granted under any other plan of the Corporation, may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

(c) Subject to the terms of the Plan, payments or transfers to be made by the Corporation upon the grant, exercise or payment of an Award may be made in the form of cash, Shares, other securities or other Awards, or any combination thereof, as determined by the Committee in its discretion at the time of grant, and may be made in a single payment or transfer, in installments, or on a deferred basis, in each case in accordance with rules and procedures established by the Committee and in compliance with Section 409A of the Code. Such rules and procedures may include, without limitation, provisions for the payment or crediting of reasonable interest (or no interest) on installment or deferred payments or the grant or crediting of dividend equivalents in respect of installment or deferred payments.

(d) Except as may be permitted by the Committee or as specifically provided in an Award Agreement, (i) no Award or other benefit payable under the Plan shall, except as otherwise specifically provided by law or permitted by the Committee, be Transferable in any manner other than by will or the law of descent, and any attempt to Transfer any such benefit shall be void, and any such benefit shall not in any manner be liable for or subject to the debts, contracts, liabilities, engagements or torts of any person who shall be entitled to such benefit, nor shall it be subject to attachment or legal process for or against such person, and (ii) each Award, and each right under any Award, shall be exercisable during the Participant's lifetime only by the Participant or, if permissible under applicable law, by the Participant's guardian or legal representative. The provisions of this paragraph shall not apply to any Award which has been fully exercised, earned or paid, as the case may be, and shall not preclude forfeiture of an Award in accordance with the terms thereof.

(e) A Participant may designate a Beneficiary or change a previous beneficiary designation at such times prescribed by the Committee by using forms and following procedures approved or accepted by the Committee for that purpose. If no Beneficiary designated by the Participant is eligible to receive payments or other benefits or exercise rights that are available under the Plan at the Participant's death, the Beneficiary shall be the Participant's estate.

(f) All certificates for Shares and/or Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Ontario Securities Commission, any stock exchange upon which such Shares or other securities are then listed, and any applicable Federal or state securities laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(g) It is a condition of each grant of an Award that if: (a) the Participant fails to comply with any obligation to the Corporation or an Affiliate (A) to maintain the confidentiality of information relating to the Corporation or the Affiliate and/or its business, (B) not engage in employment or business activities that compete with the business of the Corporation or the Affiliate, whether during or after employment with the Corporation or Affiliate, and whether such obligation is set out in an Award Agreement issued under the Plan or other agreement between the Participant and the Corporation or Affiliate, including, without limitation, an employment agreement or otherwise; (C) not solicit employees or other service providers, customers and/or suppliers of the Corporation or the Affiliate, whether during or after employment with the Corporation or Affiliate, and whether such obligation is set out in an Award Agreement issued under the Plan or other agreement between the Participant and the Corporation or Affiliate, including, without limitation, an employment agreement, or otherwise (collectively, a “**Restrictive Covenant**”); (b) the Participant is terminated for cause, or the Board reasonably determines after employment termination that the Participant’s employment could have been terminated for cause; (c) the Board reasonably determines that the Participant engaged in conduct that causes material financial or reputational harm to the Corporation or its Affiliates, or engaged in gross negligence, willful misconduct or fraud in respect of the performance of the Participant’s duties for the Company or an Affiliate; or (d) the Corporation’s financial statements (the “**Original Statements**”) are required to be restated (other than as a result of a change in accounting policy by the Corporation or under International Financial Reporting Standards applicable to the Corporation) and such restated financial statements (the “**Restated Statements**” disclose, in the opinion of the Board, acting reasonably, materially worse financial results than those contained in the Original Statements, then the Board may, in its sole discretion, to the full extent permitted by governing law and to the extent it determines that such action is in the best interest of the Corporation, and for a U.S. Participant, in a manner in accordance with Section 409A of the Code to the extent applicable, and in addition to any other rights that the Corporation or an Affiliate may have at law or under any agreement, take any or all of the following actions, as applicable): (i) require the Participant to reimburse the Corporation for any amount paid to the Participant in respect of an Award in cash in excess of the amount that should otherwise have

been paid in respect of such Award had the determination of such compensation been based upon the Restated Statements in the event clause (d) above is applicable, or that was paid in the twelve (12) months prior to (x) the date on which the Participant fails to comply with a Restrictive Covenant, (y) the date on which the Participant's employment is terminated for cause, or the Board makes a determination under paragraph (b) or (c) above, less, in any event, the amount of tax withheld pursuant to the ITA or other relevant taxing authority in respect of the amount paid in cash in the year of payment; (ii) reduce the number or value of, or cancel and terminate, any one or more unvested grants of Options, Restricted Stock Units, Deferred Stock Units, Performance Awards or SARs on or prior to the applicable maturity or vesting dates, or cancel or terminate any outstanding Awards which have vested in the twelve (12) months prior to (x) the date on which the Participant fails to comply with a Restrictive Covenant, (y) the date on which the Participant's employment is terminated for cause or the Board makes a determination under paragraph (b) or (c) above, or (z) the date on which the Board determines that the Corporation's Original Statements are required to be restated, in the event paragraph (d) above applies (each such date provided for in clause (x), (y) and (z) of this paragraph (ii) being a **"Relevant Equity Recoupment Date"**); and/or (iii) require payment to the Corporation of the value of any Shares of the Corporation acquired by the Participant pursuant to an Award granted in the twelve (12) months prior to a Relevant Equity Recoupment Date (less any amount paid by the Participant) to acquire such Shares and less the amount of tax withheld pursuant to the ITA or other relevant taxing authority in respect of such Shares).

(h) All Awards issued pursuant to the Plan which may be denominated or settled in Shares, and all such Shares issued pursuant to the Plan, will be issued pursuant to the registration requirements of the U.S. Securities Act or an exemption from such registration requirements.

Section 15. Amendments and Termination.

(a) The Board may amend, alter, suspend, discontinue or terminate the Plan and any outstanding Awards granted hereunder, in whole or in part, at any time without notice to or approval by the shareholders of the Corporation, for any purpose whatsoever, provided that all material amendments to the Plan shall require the prior approval of the shareholders of the Corporation and must comply with the rules of the TSX. Examples of the types of amendments that are not material that the Board is entitled to make without shareholder approval include, without limitation, the following:

(i) ensuring continuing compliance with applicable law, the rules of the TSX or other applicable stock exchange rules and regulations or accounting or tax rules and regulations;

(ii) amendments of a "housekeeping" nature, which include amendments to correct any defect, supply any omission, or reconcile any inconsistency in the Plan or any Award Agreement in the manner and to the extent it shall deem desirable to carry the Plan into effect;

(iii) changing the vesting provision of the Plan or any Award (subject to the limitations for Awards subject to Section 10(b));

(iv) waiving any conditions or rights under any Award (subject to the limitations for Awards subject to Section 10(b));

(v) changing the termination provisions of any Award that does not entail an extension beyond the original expiration date thereof;

(vi) adding or amending a cashless exercise provision;

(vii) adding or amending a financial assistance provision;

(viii) changing the process by which a Participant who wishes to exercise his or her Award can do so, including the required form of payment for the Shares being purchased, the form of written notice of exercise provided to the Corporation and the place where such payments and notices must be delivered; and

(ix) delegating any or all of the powers of the Committee, other than powers with respect to Reporting Persons, to administer the Plan to officers of the Corporation.

(b) Notwithstanding anything contained herein to the contrary, no amendment to the Plan requiring the approval of the shareholders of the Corporation under any applicable securities laws or requirements shall become effective until such approval is obtained. In addition to the foregoing, the approval of the holders of a majority of the Shares present and voting in person or by proxy at a meeting of shareholders shall be required for:

(i) an increase in the maximum number of Shares that may be made the subject of Awards under the Plan;

(ii) any adjustment (other than in connection with a stock dividend, recapitalization or other transaction where an adjustment is permitted or required under Section 5(d)(i) or Section 5(d)(ii) or amendment that reduces or would have the effect of reducing the exercise price of an Option or Stock Appreciation Right previously granted under the Plan, whether through amendment, cancellation or replacement grants, or other means (provided that, in such a case, insiders of the Corporation who benefit from such amendment are not eligible to vote their Shares in respect of the approval);

(iii) an increase in the limits on Awards that may be granted to any Participant under Section 5(c) and Section 5(g) or to Insiders under Section 21;

(iv) an extension of the term of an outstanding Option or Stock Appreciation Right beyond the expiry date thereof;

(v) permitting Options granted under the Plan to be Transferrable other than for normal estate settlement purposes; and

(vi) any amendment to the plan amendment provisions set forth in this Section 15 which is not an amendment within the nature of Section 15(a)(i) or Section 15(a)(ii),

unless the change results from application of Section 5(d)(i) or Section 5(d)(ii).

Furthermore, except as otherwise permitted under the Plan, no change to an outstanding Award that will adversely impair the rights of a Participant may be made without the consent of the Participant except to the extent that such change is required to comply with applicable law, stock exchange rules and regulations or accounting or tax rules and regulations.

Section 16. Miscellaneous.

(a) The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payment as to which a Participant has a fixed and vested interest, but which are not yet made to a Participant by the Corporation, nothing contained herein shall give any such Participant any right that is greater than those of a general unsecured creditor of the Corporation.

(b) No employee, Participant or other person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of employees, Participants, or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to each recipient. Any Award granted under the Plan shall be a one-time Award which does not constitute a promise of future grants. The Corporation, in its sole discretion, maintains the right to make available future grants hereunder.

(c) The Corporation shall have the right to deduct from any payment to be made pursuant to the Plan, or to otherwise require, prior to the issuance or delivery of Shares or the payment of any cash hereunder, payment by the Participant of, any federal, provincial, state or local taxes required by law to be withheld. Upon the vesting of Restricted Stock (or other Award that is taxable upon vesting), or upon making an election under Section 83(b) of the Code, a Participant shall pay all required withholding to the Corporation. Any statutorily required withholding obligation with regard to any Participant may be satisfied, subject to the consent of the Committee, by reducing the number of Shares otherwise deliverable or by delivering Shares already owned. Any fraction of a Share required to satisfy such tax obligations shall be disregarded and the amount due shall be paid instead in cash by the Participant.

(d) Nothing contained in the Plan shall prevent the Corporation from adopting or continuing in effect other or additional compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

(e) The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of, or to continue to provide services to, the Corporation or any Affiliate. Further, the Corporation or the applicable Affiliate may at any time dismiss a Participant, free from any liability, or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement or in any other agreement binding the parties. The receipt of any Award under the Plan is not intended to confer any rights on the receiving Participant except as set forth in such Award.

(f) If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction, or as to any person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, person or Award, and the remainder of the Plan and any such Award shall remain in full force and effect.

(g) Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Corporation and a Participant or any other person. To the extent that any person acquires a right to receive payments from the Corporation pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Corporation.

(h) No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash or other securities shall be paid or transferred in lieu of any fractional Shares, or whether such fractional Shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

(i) No Award or other benefit payable under the Plan shall, except as otherwise specifically provided by law or permitted by the Committee, be Transferable in any manner, and any attempt to Transfer any such benefit shall be void, and any such benefit shall not in any manner be liable for or subject to the debts, contracts, liabilities, engagements or torts of any person who shall be entitled to such benefit, nor shall it be subject to attachment or legal process for or against such person.

(j) Unless otherwise determined by the Committee, as long as the Shares are listed on a national securities exchange including the TSX or system sponsored by a national securities association, the issuance of Shares pursuant to an Award shall be conditioned upon such shares being listed on such exchange or system. The Corporation shall have no obligation to issue such Shares unless and until such Shares are so listed, and the right to exercise any Option or other Award with respect to such Shares shall be suspended until such listing has been effected. If at any time counsel to the Corporation shall be of the opinion that any sale or delivery of Shares pursuant to an Option or other Award is or may in the circumstances be unlawful or result in the imposition of excise taxes on the Corporation under the statutes, rules or regulations of any applicable jurisdiction, the Corporation shall have no obligation to make such sale or delivery, or to make any application or to effect or to maintain any qualification or registration with respect to Shares or Awards, and the right to exercise any Option or other Award shall be suspended until, in the opinion of said counsel, such sale or delivery shall be lawful or will not result in the imposition of excise taxes on the Corporation. A Participant shall be required to supply the Corporation with certificates, representations and information that the Corporation requests and otherwise cooperate with the Corporation in obtaining any listing, registration, qualification, exemption, consent or approval the Corporation deems necessary or appropriate.

(k) No Award granted or paid out under the Plan shall be deemed compensation for purposes of computing benefits under any retirement plan of the Corporation or its Affiliates nor affect any benefit under any other benefit plan now or subsequently in effect under which the availability or amount of benefits is related to the level of compensation. The provisions of Awards need not be the same with respect to each Participant, and such Awards to individual Participants need not be the same in subsequent years.

(l) The Plan shall be binding on all successors and permitted assigns of a Participant, including, without limitation, the estate of such Participant and the executor, administrator or trustee of such estate. Any benefit payable to or for the benefit of a minor, an incompetent person or other person incapable of receipt thereof shall be deemed paid when paid to such person's guardian or to the party providing or reasonably appearing to provide for the care of such person, and such payment shall fully discharge the Committee, the Board, the Corporation, its Affiliates and their employees, agents and representatives with respect thereto.

Section 17. Effective Date of the Plan.

The Plan shall be effective as of the Effective Date, which is the date of adoption by the Board, subject to the approval of the Plan by the shareholders of the Corporation in accordance with the requirements of the laws of the Province of Ontario.

Section 18. Term of the Plan.

No Award shall be granted under the Plan after ten years from the Effective Date. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award theretofore granted may extend beyond such date, and the authority of the Committee to amend, alter, adjust, suspend, discontinue, or terminate any such Award, or to waive any conditions or rights under any such Award, and the authority of the Board to amend the Plan, shall extend beyond such date.

Section 19. Section 409A of the Code.

(a) The Plan is intended to comply with the applicable requirements of Section 409A of the Code and shall be limited, construed and interpreted in accordance with such intent. To the extent that any Award is subject to Section 409A of the Code, it shall be paid in a manner that will comply with Section 409A of the Code, including proposed, temporary or final regulations or any other guidance issued by the Secretary of the Treasury and the Internal Revenue Service with respect thereto. Notwithstanding anything herein to the contrary, any provision in the Plan that is inconsistent with Section 409A of the Code shall be deemed to be amended to comply with Section 409A of the Code and to the extent such provision cannot be amended to comply therewith, such provision shall be null and void. The Corporation shall have no liability to a Participant, or any other party, if an Award that is intended to be exempt from, or compliant with, Section 409A of the Code is not so exempt or compliant or for any action taken by the Committee or the Corporation and, in the event that any amount or benefit under the Plan becomes subject to penalties under Section 409A of the Code, responsibility for payment of such penalties shall rest solely with the affected Participants and not with the Corporation. Notwithstanding any contrary provision in the Plan or Award Agreement, any payment(s) of "nonqualified deferred compensation" (within the meaning of Section 409A of the Code) that are otherwise required to be made under the Plan to a "specified employee" (as defined under Section 409A of the Code) as a result of such employee's separation from service (other than a payment that is not subject to Section 409A of the Code) shall be delayed for the first six (6) months following such separation from service (or, if earlier, the date of death of the specified employee) and shall instead be paid (in a manner set forth in the Award Agreement) upon expiration of such delay period.

(b) Notwithstanding the foregoing, the Corporation does not make any representation to any Participant or Beneficiary as to the tax consequences of any Awards made pursuant to this Plan, and the Corporation shall have no liability or other obligation to indemnify or hold harmless the Participant or any Beneficiary for any tax, additional tax, interest or penalties that the Participant or any Beneficiary may incur as a result of the grant, vesting, exercise or settlement of an Award under this Plan.

Section 20. Governing Law.

This Plan shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable in the Province of Ontario.

Section 21. TSX Requirements.

The number of Shares issuable to Insiders, at any time, under all Security Based Compensation Arrangements of the Corporation, may not exceed 10% of the Corporation's issued and outstanding Shares; and the number of Shares issued to Insiders within any one-year period, under all Security Based Compensation Arrangements of the Corporation, may not exceed 10% of the Corporation's issued and outstanding Shares. For the purpose of this Section 21, "Insider" shall mean any "reporting insiders" as defined in *National Instrument 55-104 – Insider Reporting Requirements*, and "Security Based Compensation Arrangement" shall mean any (i) any stock option plans for the benefit of employees, insiders, service providers or any one of such groups; (ii) individual stock options granted to employees, service providers or insiders if not granted pursuant to a plan previously approved by the Corporation's security holders; (iii) treasury based share purchase plans where the Corporation provides financial assistance or where the Corporation matches the whole or a portion of the securities being purchased; (iv) stock appreciation rights involving issuances of securities from treasury; any other compensation or incentive mechanism involving the issuance or potential issuances of securities of the Corporation; and (vi) security purchases from treasury by an employee, insider or service provider which is financially assisted by the Corporation by any means whatsoever.

APPROVED: September 21, 2020

CANOPY GROWTH CORPORATION
EMPLOYEE STOCK PURCHASE PLAN

1. Plan Description

The Canopy Growth Corporation (the “**Company**”) Employee Stock Purchase Plan is intended to promote the interests of the Company and its subsidiaries by providing eligible employees an opportunity to acquire a proprietary interest in the Company through a stock purchase plan. The Plan includes two components: a 423 Component and a Non-423 Component. The Company intends (but makes no undertaking or representation to maintain) for the 423 Component to qualify as an “employee stock purchase plan” under Section 423 of the Code. The provisions of the 423 Component, accordingly, will be construed in a manner that is consistent with the requirements of Section 423 of the Code. In addition, this Plan authorizes grants of purchase rights under the Non-423 Component that do not meet the requirements of Section 423 of the Code. Except as otherwise provided in the Plan or determined by the Committee, the Non-423 Component will operate and be administered in the same manner as the 423 Component.

2. Definitions

“**423 Component**” means the part of the Plan, which excludes the Non-423 Component, pursuant to which purchase rights that satisfy the requirements for an employee stock purchase plan under Section 423 of the Code may be granted to Eligible Persons, and such purchase rights are intended to be exempt from the application of Section 409A of the Code under U.S. Treasury Regulation Section 1.409A-1(b)(5)(ii).

“**Affiliate**” has the meaning assigned by the *Securities Act* (Ontario), as amended from time to time.

“**Associate**” has the meaning assigned by the *Securities Act* (Ontario), as amended from time to time.

“**Annual Compensation**” means, for each Participant, the annualized gross salary of that Participant, i.e., regular compensation earned during each payroll period, before any deductions or withholding, but excluding commissions, overtime pay, bonuses, amounts paid as reimbursements of expenses and other additional compensation, under rules uniformly applied by the Committee (for Employees who have a compensation plan with a base and incentive portion comprising a target, Annual Compensation shall mean the base for that individual).

“**Blackout Period**” means a period when the Eligible Person is prohibited by law, by the policies of the Exchange or by the policies of the Company from trading in Common Shares.

“**Board of Directors**” means the board of directors of the Company.

“**Business Day**” means any day which is a trading day on the Exchange.

“Change in Control” shall mean:

- (i) when any person, together with any Affiliate or Associate of such person (other than the Company or its subsidiaries, or an employee benefit plan of the Company or its subsidiaries, including any trustee of such plan acting as trustee) hereafter acquires, the direct or indirect **“beneficial ownership”**, as defined by the *Canada Business Corporations Act* (the **“CBCA”**), of securities of the Company representing fifty (50%) percent or more of the combined voting power of the Company’s then outstanding securities; or
- (ii) the occurrence of a transaction requiring approval of the Company’s shareholders involving the acquisition of the Company or all or substantially all of its business by an entity through purchase of assets by amalgamation, arrangement or otherwise;

“Code” means the U.S. Internal Revenue Code of 1986, as amended, including any applicable regulations and guidance thereunder.

“Committee” means the compensation committee appointed by the Board of Directors to administer the Plan. All references in the Plan to the Committee means the Board of Directors if no Committee has been appointed.

“Designated Company” means any Subsidiary or Affiliate that has been designated by the Committee in its sole discretion as eligible to participate in the Plan. For purposes of the 423 Component, only the Company and its Subsidiaries may be Designated Companies, provided that a Subsidiary that is a Designated Company under the 423 Component may not simultaneously be a Designated Company under the Non-423 Component.

“Common Shares” means common shares in the capital of the Company.

“Eligible Person” means an Employee who is eligible to participate in the Plan pursuant to Section 4.

“Employee” means a full or part time employee of the Company or any of its Subsidiaries (provided such part time employees work a minimum of 28 hours per week on a non-seasonal basis, and, for purposes of the 423 Component, such part time employees work a minimum of 20 hours per week and more than five (5) months per calendar year).

“Exchange” means the Toronto Stock Exchange or such other exchange upon which the Company may be listed, should it no longer be listed on the Toronto Stock Exchange.

“Fair Market Value” per Common Share shall be the volume-weighted average price of Common Shares on the Exchange for the ten trading days immediately preceding the applicable date, calculated by dividing the total value by the total volume of securities traded for the ten trading days immediately preceding the applicable date.

“Insider” means:

- (i) an insider of the Company as defined by the *Securities Act* (Ontario) as amended from time to time; and
- (ii) an Associate or Affiliate of any person who is an Insider by virtue of clause (i) of this definition.

“Leave of Absence” has the meaning ascribed thereto in Section 8 hereof.

“Non-423 Component” means the part of the Plan, which excludes the 423 Component, pursuant to which purchase rights that are not intended to satisfy the requirements for an employee stock purchase plan under Section 423 of the Code may be granted to Eligible Persons. The Non-423 Component is intended to be exempt from the application of Section 409A of the Code, to the extent applicable, as rights granted thereunder are intended to constitute “short term deferrals” and any ambiguities herein will be interpreted such that those rights shall so be exempt from Section 409A of the Code.

“Offering” means the grant to Eligible Persons of rights to purchase Common Shares pursuant to the Plan, with the exercise of those purchase rights automatically occurring at the end of each Offering Period.

“Offering Period” means, unless otherwise provided by the Committee, one of the six month periods commencing in each year either on the third Business Day after the first public announcement of the Company’s first quarter financial results or on the third Business Day after the first public announcement of the Company’s third quarter financial results; provided, however, that if an Offering Period is scheduled to commence during a Blackout Period, the Offering Period will instead begin on the first Business Day following the expiration of the Blackout Period. Notwithstanding the foregoing, the Committee may establish an Offering Period with a duration that is shorter or longer than six (6) months (provided that for the 423 Component, an Offering Period may not be longer than twenty-seven (27) months) and/or has a different commencement date.

“Parent” means a “parent corporation”, whether now or hereafter existing, as defined in Section 424(e) of the Code.

“Participant” means an Eligible Person who is participating in the Plan pursuant to Section 3.

“Payroll Deduction” has the meaning ascribed thereto in Sub-section 5(b) hereof.

“**Plan**” means this Canopy Growth Corporation Employee Stock Purchase Plan.

“**Plan Account**” means, for each Participant, an account maintained by the Company or its designated record keeper to which such Participant’s payroll deductions are credited and against which funds used to purchase Common Shares are charged and to which Common Shares purchased are credited.

“**Purchase Date**” means the first Business Day which is six months (unless the Committee specifies a different duration, which shall not exceed twenty-seven (27) months with respect to the 423 Component) following the first Business Day of each Offering Period in respect of any Offering Period.

“**Purchase Price**” means the lesser of (i) 90% of the Fair Market Value of the Common Shares on the first day of the Offering Period in which the Purchase Date falls, and (ii) 90% of the Fair Market Value of the Common Shares on the Purchase Date for that Offering Period.

“**Subsidiary**” means a “subsidiary corporation”, whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Shares Subject to the Plan

Subject to Section 13, the aggregate number of Common Shares which may be sold under the Plan is 600,000. The maximum number of Common Shares which may be issued under the Plan in any one fiscal year shall not exceed 300,000. No fractional shares may be purchased or issued hereunder. The following restrictions shall also apply to this Plan as well as all other plans or stock option agreements to which the Company may be a party:

- (i) the aggregate number of Common Shares issuable to Insiders, at any time, under all of the Company’s security-based compensation arrangements, cannot exceed 10% of the issued and outstanding Common Shares of the Company; and
- (ii) Insiders shall not be issued, under this Plan and all of the Company’s other security-based compensation arrangements, within any one year period, a number of Common Shares which exceeds 10% of the issued and outstanding Common Shares of the Company.

4. Eligible Persons

Each Employee (an “**Eligible Person**”) who has provided services to the Company or any of its subsidiaries for at least three months and who is continuing to provide such services may participate in the Plan. The Committee may exclude all, but not less than all, of the Employees of any subsidiary of the Company located outside of Canada where participation by such Employees would be impractical.

5. Offering Periods and Participation in the Plan

- a. Common Shares shall be offered for purchase under the Plan through a series of successive Offering Periods until such time as: (i) the maximum number of Common Shares available for purchase under the Plan shall have been purchased; or (ii) the Plan shall have been terminated in accordance with the terms hereof. With respect to the 423 Component, an Offering will comply with the requirement of Section 423(b)(5) of the Code that all Eligible Persons granted purchase rights will have the same rights and privileges.
- b. An Eligible Person who is an Employee may participate in the Plan by electronically enrolling using the Company's equity management software prior to the tenth day of an Offering Period (or such other date as the Committee may determine) a subscription agreement and an electronic election form which authorizes payroll deductions (the "**Payroll Deductions**") from such Employee's pay for the purposes of acquiring Common Shares. Such Payroll Deductions shall commence on the first regularly scheduled payroll day of the applicable Offering Period following the receipt by the Company of the electronic election form. Such Payroll Deductions shall continue until such Employee terminates participation in the Plan or the Plan is terminated prior to such time. Unless otherwise specified in an electronic election form or a new electronic election form is filed pursuant to Section 7 of the Plan or participation in the Plan is terminated pursuant to Section 7 of the Plan, Employees who have filed a completed subscription agreement and electronic election form shall be deemed to participate in the Plan in subsequent Offering Periods.
- c. Notwithstanding the foregoing, an Eligible Person shall not be entitled to purchase Common Shares under this Plan on any Purchase Date if the purchase would not comply with the restrictions respecting the issuance/sale of Common Shares set forth in Section 3.
- d. If the aggregate number of Common Shares subscribed for pursuant to the Plan exceeds the total number of Common Shares permitted to be issued under the Plan or the maximum number of Common Shares permitted to be issued under the Plan in respect of a fiscal year, the Common Shares available will be allocated by the Company on a pro rata basis in proportion to each Participant's balance in his or her Plan Account, and a cash payment for the balance remaining will be refunded to the Participant on the Purchase Date, such calculation and allotment by the Company to be final and binding on all Participants.
- e. Any provisions of the Plan to the contrary notwithstanding, with respect to any Offering under the 423 Component, no Eligible Person will be granted an option under the Plan (i) to the extent that, immediately after the grant, such Eligible Person (or any other person whose stock would be attributed to such Eligible Person pursuant to Section 424(d) of the Code) would own capital stock of the Company or any Parent or Subsidiary of the Company and/or hold outstanding options or rights to purchase such stock possessing five percent (5%) or more of the total

combined voting power or value of all classes of the capital stock of the Company or of any Parent or Subsidiary of the Company, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans (as defined in Section 423 of the Code) of the Company or any Parent or Subsidiary of the Company accrues at a rate that exceeds twenty-five thousand dollars (\$25,000) worth of stock (determined at the Fair Market Value of the stock at the time such option is granted) for each calendar year in which such option is outstanding at any time, as determined in accordance with Section 423 of the Code.

6. Limits on Payroll Deductions

Payroll Deductions shall be made from the amounts paid to each Participant for each payroll period in such amounts as such Participant shall authorize in such Participant's electronic election form. The maximum Payroll Deduction for each Participant shall be 5% of the Participant's Annual Compensation, and the minimum Payroll Deduction for each Participant shall be 1% of the Participant's Annual Compensation. If a Participant's Annual Compensation is insufficient in any pay period to allow the entire Payroll Deduction elected under the Plan, no deduction shall be made for such pay period. Payroll Deductions will resume with the next regularly scheduled payroll period in which the Participant has pay sufficient to permit the Payroll Deduction. Payroll Deductions under the Plan shall be made in any period only after all other withholdings, deductions, garnishments and the like have been made.

7. Changes in Payroll Deductions

Subject to the minimum and maximum deductions set forth above in Section 6, a Participant may change the amount of such Participant's Payroll Deductions by filing a new electronic election form with the Company during such period as the Committee may determine with respect to an Offering Period, which change shall be effective for such Offering Period.

8. Termination of Participation in Plan

A Participant's participation in the Plan shall be terminated upon the termination of such Employee's employment with the Company or a Designated Company for any reason and such Participant shall cease to be an Eligible Person at such time. Unless determined otherwise by the Committee, a Participant whose employment transfers between entities through a termination with an immediate rehire (with no break in service) by the Company or a Designated Company shall not be treated as terminated under the Plan or an Offering; however, if a Participant transfers from an Offering under the 423 Component to an Offering under the Non-423 Component, the exercise of the Participant's purchase right will be qualified under the 423 Component only to the extent such exercise complies with Section 423 of the Code and does not cause any option thereunder to fail to comply with Section 423 of the Code. If a Participant transfers from an Offering under the Non-423 Component to an Offering under the 423 Component, the exercise of the purchase right will remain non-qualified under the Non-423 Component. In the event that a Participant's participation in the Plan is voluntarily or involuntarily terminated, Payroll Deductions under the Plan shall

cease and any payments credited to such Participant's Plan Account prior to such time shall be returned to the Participant. For purposes of this Section 8, the date of termination of an Employee's employment shall be the date designated in writing by the Company (or by its subsidiary, as the case may be) as the effective date of termination, notwithstanding any period of notice or reasonable notice that the Company (or subsidiary, as the case may be) may be required by contract or at law to provide to the Participant in connection with such termination. For greater clarity, a temporary leave of absence (whether with or without pay) of a Participant from his or her employment with the Company (a "**Leave of Absence**") shall not be treated as terminating such Participant's participation in any Offering Period, provided, however, that (a) in the event of any Leave of Absence of a Participant without pay, such Participant's Payroll Deductions under the Plan, if any, shall be suspended for the duration of such Leave of Absence, (b) any such suspension of Payroll Deductions shall not be deemed to be a change made pursuant to Sections 7 or 8 hereof for the determination of the amount of the Purchase Price related to any Common Shares to be purchased in an Offering Period, and (c) with respect to the 423 Component, where the Leave of Absence exceeds three (3) months and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship will be deemed to have terminated three (3) months and one (1) day following the commencement of such leave.

9. Purchase of Shares

- a. On each Purchase Date, the Company shall apply the funds credited to each Participant's Plan Account to the purchase (without commissions or fees) of that number of whole Common Shares determined by dividing the Purchase Price into the balance in the Participant's Plan Account on the Purchase Date. Any amount remaining shall be carried forward to the next Purchase Date unless the Plan Account is closed.
- b. As soon as practicable after each Purchase Date, an electronic statement shall be delivered to each Participant through the Company's equity management software which shall include the number of Common Shares purchased on the Purchase Date on behalf of such Participant under the Plan.

10. Rights as a Shareholder

As of the Purchase Date, a Participant shall be treated as record owner of his/her Common Shares purchased pursuant to the Plan.

11. Rights Not Transferable

Rights under the Plan are not transferrable by a Participant other than by will or the laws of succession, and are exercisable during the Participant's lifetime only by the Participant or by the Participant's guardian or legal representative. No rights or Payroll Deductions of a Participant shall be subject to execution, attachment, levy, garnishment or similar process.

12. Application of Funds

All funds of Participant's received or held by the Company under the Plan before purchase of the Common Shares shall be held by the Company without liability for interest or other increment.

13. Adjustments in Case of Changes Affecting Common Shares

In the event of a subdivision or consolidation of outstanding Common Shares of the Company, or the payment of a stock dividend, the number of Common Shares approved for the Plan shall be increased or decreased proportionately, and such other adjustment shall be made as may be deemed equitable by the Committee (including, without limitation, the class and number of securities subject to, and the purchase price applicable to outstanding Offerings and purchase rights). In the event of any other change affecting the Common Shares, such adjustment shall be made as shall be deemed equitable by the Committee to give proper effect to such event. If the Committee determines that such change will constitute a change requiring shareholder approval, it may refrain from making such adjustments. The Committee or the Board of Directors shall determine the adjustments to be made under this Section 13, and its determination shall be conclusive.

14. Administration of the Plan

The Plan shall be administered by the Committee. The Committee shall have the authority to construe and interpret the provisions of the Plan and make rules and regulations for the administration of the Plan, and its interpretations and decisions with regard to the Plan and such rules and regulations shall be final and conclusive on all persons affected thereby unless otherwise determined by the Board of Directors. The day-to-day administration of the Plan may be delegated to such officers and employees of the Company or its subsidiaries as the Committee shall determine. In addition, the provisions of the 423 Component will be interpreted and construed so as to extend and limit Plan participation in a uniform and nondiscriminatory basis consistent with the requirements of Section 423 of the Code.

15. Amendments to the Plan

- a. Subject to the rules and policies of any stock exchange on which the Common Shares are listed and applicable law, the Board of Directors may, without notice or shareholder approval, at any time or from time to time, amend the Plan for the purposes of:
 - i. making any amendments to the provisions set out in Section 8 of the Plan;
 - ii. making any amendments to add covenants of the Company for the protection of Participants, provided that the Board of Directors shall be of the good faith opinion that such additions will not be prejudicial to the rights or interests of the Participants;
 - iii. making any amendments not inconsistent with the Plan as may be necessary or desirable with respect to matters or questions, which in the good faith opinion of the Board of Directors, having in mind the best interests of the Participants, it may be expedient to make, provided that the Board of Directors shall be of the opinion that such amendments and modifications will not be prejudicial to the interests of the Participants; or
 - iv. making any such changes or corrections which, on the advice of counsel to the Company, are required for the purpose of curing or correcting any ambiguity or defect or inconsistent provision or clerical omission or mistake or manifest error, provided that the Board of Directors shall be of the opinion that such changes or corrections will not be prejudicial to the rights and interests of the Participants.
- b. Notwithstanding any other provision of this Plan, none of the following amendments shall be made to this Plan without approval of the Exchange (to the extent the Company has any securities listed on such exchange) and the approval of shareholders:
 - i. amendments to the Plan which would increase the number of Common Shares issuable under the Plan, otherwise than in accordance with Section 13 of this Plan;
 - ii. amendments to the Plan which would increase the number of Common Shares issuable to Insiders under the Plan, otherwise than in accordance with Section 13 of this Plan;
 - iii. amendments to the Plan which would increase the number of Common Shares issuable to Directors under the Plan, otherwise than in accordance with Section 13 of this Plan;
 - iv. amendments that would reduce the Purchase Price payable by Insiders;

- v. amendments to the Plan that would result in an extension of the term, under a security based compensation arrangement benefiting an insider of the issuer;
 - vi. amendments that would increase the percentage discounts set forth in the definition of Purchase Price;
 - vii. increase the maximum percentage of the Annual Compensation that any Participant may direct be contributed, pursuant to the Plan, towards the purchase of Common Shares on his or her behalf through Payroll Deductions;
 - viii. the addition of any form of financial assistance to a Participant;
 - ix. the adoption of an employer matching contribution; and
 - x. any amendment to the Plan that would result in an amendment to an amending provision within the Plan.
- c. Subject to Sections 18 and 24, the Board of Directors shall not alter or impair any rights or increase any obligation with respect to previously agreed upon terms under the Plan without the consent of the Participant.

16. Termination of the Plan

The Plan shall terminate upon the earlier of (a) the termination of the Plan by the Board of Directors of the Company as specified below, or (b) the date no more Common Shares remain to be purchased under the Plan. The Board of Directors of the Company may terminate the Plan as of any date, and the date of termination shall be deemed a Purchase Date. If on such Purchase Date Participants in the aggregate have options to purchase more Common Shares than are available for purchase under the Plan, each Participant shall be eligible to purchase a reduced number of Common Shares on a pro rata basis, and any excess Payroll Deductions shall be returned to Participants, all as provided by rules and regulations adopted by the Committee.

17. Costs

All costs and expenses incurred in administering the Plan shall be paid by the Company.

18. Governmental Regulations

The Company's obligation to sell and deliver its Common Shares pursuant to the Plan is subject to:

- a. the satisfaction of all requirements under applicable securities law in respect thereof and obtaining all regulatory approvals as the Company shall determine to be necessary or advisable in connection with the authorization, issuance or sale thereof, including shareholder approval, if required;
- b. the admission of such Common Shares to listing on any stock exchange on which Common Shares may then be listed; and
- c. the receipt from the Participant of such representations, agreements and undertakings as to future dealings in such Common Shares as the Company determines to be necessary or advisable in order to safeguard against the violation of the securities law of any jurisdiction.

In this connection, the Company shall take all reasonable steps to obtain such approvals and registrations as may be necessary for the issuance of such Common Shares in compliance with applicable securities law and for the listing of such Common Shares on any stock exchange on which such Common Shares are then listed.

19. Applicable Law

The Plan is established under the laws of the Province of Ontario and the rights of all parties and the construction and effect of each provision of the Plan shall be according to the laws of the Province of Ontario and the laws of Canada applicable therein.

20. Effect on Employment

The provisions of this Plan shall not affect the right of the Company or any subsidiary or any Participant to terminate the Participant's employment with the Company or any subsidiary.

21. Withholding

The Company reserves the right to withhold from stock or cash distributed to a Participant any amounts which it is required by law to withhold.

22. Change in Control

In the event of a proposed or actual Change in Control, the Company shall require that each outstanding right hereunder be assumed or an equivalent right be substituted by the successor or purchaser corporation

unless the Plan is terminated; provided, however, that if any successor or purchaser corporation (or its parent company) does not assume or continue purchase rights granted pursuant to the 423 Component or does not substitute similar rights for such purchase rights, then the accumulated contributions in the Plan Accounts of the Participants in the 423 Component will be used to purchase Common Shares within ten business days prior to the Change in Control, and the purchase rights under the 423 Component will terminate immediately after such purchase.

23. Approvals

The Plan shall be subject to acceptance by the Exchange in compliance with all conditions imposed by the Exchange. Any rights to purchase Common Shares granted prior to such acceptance shall be conditional upon such acceptance being given and any conditions complied with and no such right may be exercised unless such acceptance is given and such conditions are complied with.

24. Corporate Action

Nothing contained in the Plan shall be construed so as to prevent the Company or any subsidiary of the Company from taking corporate action which is deemed by the Company or any subsidiary of the Company to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan.

25. Limitation on Sale of Common Shares Purchased Under the Plan

The Plan is intended to provide Common Shares for investment and not for resale. The Company does not, however, intend to restrict or influence any Participant with respect to any dealings with Common Shares save and except as provided in Sub-section 18(c). A Participant may, therefore, sell Common Shares purchased under the Plan provided he/she complies with all applicable securities laws. Participants assume the risk of any market fluctuations in the price of the Common Shares.

26. Administration

Administration of the Plan shall be managed solely through the Company's equity management software. All enrollments, Payroll Deductions (elections) and requests to withdraw from the Plan shall be effective solely through the Participant's use of the Company's equity management software. Participant questions may be directed to stockadmin@canopygrowth.com.

27. Shareholder Approval

The Plan shall become effective on the date it is adopted by the Board of Directors of the Company, provided that the shareholders of the Company approve it within 12 months after such date and then reapprove every five (5) years.

APPROVED: September 21, 2020

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Canopy Growth Corporation (the “Company”) on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David Klein, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 9, 2020

/s/ David Klein

David Klein
Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to Canopy Growth Corporation and will be retained by Canopy Growth Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Canopy Growth Corporation (the “Company”) on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael Lee, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 9, 2020

/s/ Michael Lee

Michael Lee
Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to Canopy Growth Corporation and will be retained by Canopy Growth Corporation and furnished to the Securities and Exchange Commission or its staff upon request.