

# **CANOPY GROWTH CORPORATION**

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2020**  
**(IN CANADIAN DOLLARS)**

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**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
<b>ASSETS</b>		
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	<u>\$ 6,573,730</u>	<u>\$ 6,857,745</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
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	<u>\$ 6,573,730</u>	<u>\$ 6,857,745</u>

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)

	<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>
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>

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**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>
<b>Cash flows from operating activities:</b>		
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>
<b>Cash flows from investing activities:</b>		
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>
<b>Cash flows from financing activities:</b>		
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>
<b>Supplemental disclosure of cash flow information</b>		
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:

<b>Entity</b>	<b>Instrument</b>	<b>Ownership percentage</b>	<b>Balance at March 31, 2020</b>	<b>Share of net (loss) income</b>	<b>Impairment losses</b>	<b>Balance at September 30, 2020</b>
PharmHouse <sup>1</sup>	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>

<sup>1</sup> 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:

<b>Entity</b>	<b>Current assets</b>	<b>Non-current assets</b>	<b>Current liabilities</b>	<b>Non-current liabilities</b>	<b>Revenue</b>	<b>Net loss</b>
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 <sup>1</sup>	Debenture	-	66,995	(23,314)	-	-	43,681
PharmHouse <sup>2</sup>	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>

<sup>1</sup> See Note 27 for information regarding Acreage Hempco.

<sup>2</sup> 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, C<sup>3</sup> Cannabinoid Compound Company (“C<sup>3</sup>”) 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 <sup>1</sup>	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>

<sup>1</sup> 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 <sup>1</sup>	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 <sup>1</sup>	<u>127,330,609</u>	<u>\$ 58.30</u>	<u>\$ 2,568,685</u>

<sup>1</sup> 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 <sup>1</sup>	<u>146,299,443</u>	<u>\$ 52.44</u>	<u>\$ 2,638,951</u>

<sup>1</sup> 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:

	<b>Options issued</b>	<b>Weighted average exercise price</b>
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:

	<b>September 30, 2020</b>	<b>September 30, 2019</b>
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)	
<b>September 30, 2020</b>				
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
<b>March 31, 2020</b>				
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:

<b>Financial asset / financial liability</b>	<b>Valuation techniques</b>	<b>Significant unobservable inputs</b>	<b>Relationship of unobservable inputs to fair value</b>
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.