

# **CANOPY GROWTH CORPORATION**

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2021**  
**(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)

	<b>June 30, 2021</b>	<b>March 31, 2021</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 559,840	\$ 1,154,653
Short-term investments	1,491,286	1,144,563
Restricted short-term investments	14,336	11,332
Amounts receivable, net	106,455	92,435
Inventory	411,675	367,979
Prepaid expenses and other assets	91,584	67,232
Total current assets	2,675,176	2,838,194
Other financial assets	791,658	708,167
Property, plant and equipment	1,142,614	1,074,537
Intangible assets	347,063	308,167
Goodwill	2,000,458	1,889,354
Other assets	9,514	5,061
Total assets	<u>\$ 6,966,483</u>	<u>\$ 6,823,480</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 91,339	\$ 67,262
Other accrued expenses and liabilities	79,938	100,813
Current portion of long-term debt	15,705	9,827
Other liabilities	69,148	106,428
Total current liabilities	256,130	284,330
Long-term debt	1,545,073	1,573,136
Deferred income tax liabilities	26,570	21,379
Liability arising from Acreage Arrangement	450,000	600,000
Warrant derivative liability	299,318	615,575
Other liabilities	109,038	107,240
Total liabilities	2,686,129	3,201,660
Commitments and contingencies		
Redeemable noncontrolling interest	135,300	135,300
Canopy Growth Corporation shareholders' equity:		
Common shares - \$nil par value; Authorized - unlimited number of shares; Issued - 393,119,100 shares and 382,875,179 shares, respectively	7,463,557	7,168,557
Additional paid-in capital	2,413,779	2,415,650
Accumulated other comprehensive loss	(61,518)	(34,240)
Deficit	(5,675,738)	(6,068,156)
Total Canopy Growth Corporation shareholders' equity	4,140,080	3,481,811
Noncontrolling interests	4,974	4,709
Total shareholders' equity	4,145,054	3,486,520
Total liabilities and shareholders' equity	<u>\$ 6,966,483</u>	<u>\$ 6,823,480</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)

	<b>Three months ended June 30,</b>	
	<b>2021</b>	<b>2020</b>
Revenue	\$ 155,423	\$ 119,088
Excise taxes	19,214	8,672
Net revenue	136,209	110,416
Cost of goods sold	108,971	103,921
Gross margin	27,238	6,495
Operating expenses		
Selling, general and administrative expenses	112,574	135,392
Share-based compensation	13,126	30,685
Asset impairment and restructuring costs	89,249	12,794
Total operating expenses	214,949	178,871
Operating loss	(187,711)	(172,376)
Loss from equity method investments	(100)	(7,189)
Other income (expense), net	580,666	48,205
Income (loss) before income taxes	392,855	(131,360)
Income tax (expense) recovery	(2,900)	3,038
Net income (loss)	389,955	(128,322)
Net loss attributable to noncontrolling interests and redeemable noncontrolling interest	(2,463)	(19,821)
Net income (loss) attributable to Canopy Growth Corporation	<u>\$ 392,418</u>	<u>\$ (108,501)</u>
Basic earnings (loss) per share	\$ 1.02	\$ (0.30)
Basic weighted average common shares outstanding	384,055,133	363,763,347
Diluted earnings (loss) per share	\$ 0.84	\$ (0.30)
Diluted weighted average common shares outstanding	404,546,243	363,763,347
Comprehensive loss:		
Net income (loss)	\$ 389,955	\$ (128,322)
Other comprehensive income (loss), net of income tax effect		
Fair value changes of own credit risk of financial liabilities	660	(15,360)
Foreign currency translation	(27,938)	(53,124)
Total other comprehensive income (loss), net of income tax effect	(27,278)	(68,484)
Comprehensive income (loss)	362,677	(196,806)
Comprehensive income (loss) attributable to noncontrolling interests and redeemable noncontrolling interest	(2,463)	(19,821)
Comprehensive income (loss) attributable to Canopy Growth Corporation	<u>\$ 365,140</u>	<u>\$ (176,985)</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, 2021	\$ 7,168,557	\$ 480,786	\$ 2,568,438	\$ (512,340)	\$ (121,234)	\$ (34,240)	\$ (6,068,156)	\$ 4,709	\$ 3,486,520
Other issuances of common shares and warrants	285,915	(25,692)	-	-	-	-	-	-	260,223
Replacement equity instruments from the acquisition of Supreme Cannabis	-	5,566	13,350	-	-	-	-	-	18,916
Exercise of Omnibus Plan stock options	5,522	(1,930)	-	-	-	-	-	-	3,592
Share-based compensation	-	12,861	-	-	-	-	-	-	12,861
Issuance and vesting of restricted share units	3,563	(3,563)	-	-	-	-	-	-	-
Changes in redeemable noncontrolling interest	-	-	-	-	(2,463)	-	-	2,463	-
Ownership changes relating to noncontrolling interests	-	-	-	-	-	-	-	265	265
Comprehensive (loss) income	-	-	-	-	-	(27,278)	392,418	(2,463)	362,677
Balance at June 30, 2021	<u>\$ 7,463,557</u>	<u>\$ 468,028</u>	<u>\$ 2,581,788</u>	<u>\$ (512,340)</u>	<u>\$ (123,697)</u>	<u>\$ (61,518)</u>	<u>\$ (5,675,738)</u>	<u>\$ 4,974</u>	<u>\$ 4,145,054</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)

	Additional paid-in capital					Accumulated other comprehensive income (loss)	Deficit	Noncontrolling interests	Total
	Common shares	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	26,214	(26,798)	-	-	-	-	-	-	(584)
Exercise of warrants	315,256	-	(70,266)	-	-	-	-	-	244,990
Exercise of Omnibus Plan stock options	9,231	(4,509)	-	-	-	-	-	-	4,722
Share-based compensation	-	29,140	-	-	-	-	-	-	29,140
Changes in redeemable noncontrolling interest	-	-	-	-	(22,513)	-	-	10,663	(11,850)
Ownership changes relating to noncontrolling interests	-	-	-	162	-	-	-	2,647	2,809
Comprehensive income (loss)	-	-	-	-	-	(68,484)	(108,501)	(19,821)	(196,806)
Balance at June 30, 2020	<u>\$ 6,724,245</u>	<u>\$ 515,574</u>	<u>\$ 2,568,685</u>	<u>\$ (501,241)</u>	<u>\$ (62,647)</u>	<u>\$ 152,415</u>	<u>\$ (4,431,737)</u>	<u>\$ 215,247</u>	<u>\$ 5,180,541</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)

	<b>Three months ended June 30,</b>	
	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 389,955	\$ (128,322)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property, plant and equipment	17,116	17,415
Amortization of intangible assets	8,016	16,632
Share of loss on equity method investments	100	7,189
Share-based compensation	13,126	30,685
Asset impairment and restructuring costs	89,249	12,794
Income tax expense (recovery)	2,900	(3,038)
Non-cash foreign currency	(17,846)	8,688
Interest paid	(23,666)	(57)
Change in operating assets and liabilities, net of effects from purchases of businesses:		
Amounts receivable	(4,946)	17,577
Prepaid expenses and other assets	(8,804)	(16,059)
Inventory	44,228	(10,772)
Accounts payable and accrued liabilities	(16,960)	3,755
Other, including non-cash fair value adjustments	(658,248)	(75,033)
Net cash used in operating activities	<u>(165,780)</u>	<u>(118,546)</u>
<b>Cash flows from investing activities:</b>		
Purchases of and deposits on property, plant and equipment	(20,279)	(61,547)
Purchases of intangible assets	(833)	(3,088)
Proceeds on sale of intangible assets	-	18,337
Purchases of short-term investments	(346,603)	(382,486)
Net cash proceeds on sale of subsidiaries	10,324	-
Sale of (investments in) other financial assets	56	(2,564)
Recovery of amounts related to construction financing	-	10,000
Payment of acquisition related liabilities	(8,367)	(4,511)
Net cash outflow on acquisition of noncontrolling interests	-	(125)
Net cash outflow on acquisition of subsidiaries	(8,857)	-
Net cash used in investing activities	<u>(374,559)</u>	<u>(425,984)</u>
<b>Cash flows from financing activities:</b>		
Payment of share issue costs	(444)	(595)
Proceeds from issuance of shares by RIV Capital	-	92
Proceeds from exercise of stock options	3,592	4,722
Proceeds from exercise of warrants	-	244,990
Issuance of long-term debt	-	4,439
Repayment of long-term debt	(48,116)	(6,345)
Net cash (used in) provided by financing activities	<u>(44,968)</u>	<u>247,303</u>
Effect of exchange rate changes on cash and cash equivalents	(9,506)	(30,079)
Net decrease in cash and cash equivalents	(594,813)	(327,306)
Cash and cash equivalents, beginning of period	1,154,653	1,303,176
Cash and cash equivalents, end of period	<u>\$ 559,840</u>	<u>\$ 975,870</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)

	Three months ended June 30,	
	2021	2020
<b>Supplemental disclosure of cash flow information</b>		
Cash received during the period:		
Income taxes	\$ 33	\$ 2,000
Cash paid during the period:		
Income taxes	\$ 330	\$ 408
Noncash investing and financing activities		
Additions to property, plant and equipment	\$ 4,776	\$ 17,337

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 a diverse range of cannabis and cannabinoid-based products for both adult recreational and medical purposes under a portfolio of distinct brands in Canada pursuant to the *Cannabis Act*, which came into effect on October 17, 2018 and regulates both the medical and recreational cannabis markets in Canada. The Company has also expanded to jurisdictions outside of Canada where federally lawful, permissible and regulated for cannabis and/or hemp, and the Company, through its subsidiaries, operates in the United States, Germany, and certain other global markets. Additionally, the Company produces, distributes and sells a range of other consumer products globally, including vaporizers; beauty, skincare, wellness and sleep products; and sports nutrition beverages.

**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, 2021 (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 20.

***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***

***Income Taxes***

In December 2019, the Financial Accounting Standards Board (“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. The Company adopted ASU 2019-12 as of April 1, 2021. There was no impact of adopting ASU 2019-12 on the condensed interim consolidated financial statements.

#### *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 Company adopted ASU 2020-01 as of April 1, 2021. There was no impact of adopting ASU 2020-01 on the condensed interim consolidated financial statements.

#### **Accounting Guidance not yet adopted**

##### *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 three months ended June 30, 2021, the Company recorded charges related to operational changes resulting from the continuing strategic review of its business as a result of recent acquisition activities, and the partial outcome of certain integration initiatives. Additionally, the Company recognized incremental costs associated with the closure of certain of its Canadian production facilities in December 2020. Charges totaling \$89,249 were recognized in the three months ended June 30, 2021, primarily representing the difference between the net book value of the associated long-lived assets and their estimated fair value.

### **4. CASH AND CASH EQUIVALENTS**

The components of cash and cash equivalents are as follows:

	June 30, 2021	March 31, 2021
Cash	\$ 367,284	\$ 436,588
Cash equivalents	192,556	718,065
	<u>\$ 559,840</u>	<u>\$ 1,154,653</u>

### **5. SHORT-TERM INVESTMENTS**

The components of short-term investments are as follows:

	June 30, 2021	March 31, 2021
Term deposits	\$ 442,916	\$ 463,824
Government securities	92,360	136,620
Asset-backed securities	252,848	16,342
Commercial paper and other	703,162	527,777
	<u>\$ 1,491,286</u>	<u>\$ 1,144,563</u>

The amortized cost of short-term investments at June 30, 2021 is \$1,492,227 (March 31, 2021 – \$1,145,364).

## 6. AMOUNTS RECEIVABLE, NET

The components of amounts receivable, net are as follows:

	June 30, 2021	March 31, 2021
Accounts receivable, net	\$ 87,582	\$ 67,106
Indirect taxes receivable	8,674	8,281
Interest receivable	6,052	5,140
Other receivables	4,147	11,908
	<u>\$ 106,455</u>	<u>\$ 92,435</u>

Included in the accounts receivable, net balance at June 30, 2021 is an allowance for doubtful accounts of \$1,582 (March 31, 2021 – \$1,411).

## 7. INVENTORY

The components of inventory are as follows:

	June 30, 2021	March 31, 2021
Raw materials, packaging supplies and consumables	\$ 66,006	\$ 55,554
Work in progress	219,816	223,652
Finished goods	125,853	88,773
	<u>\$ 411,675</u>	<u>\$ 367,979</u>

In the three months ended June 30, 2021, the Company recorded write-downs related to inventory in cost of goods sold of \$6,014 (three months ended June 30, 2020 – \$19,386).

## 8. PREPAID EXPENSES AND OTHER ASSETS

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

	June 30, 2021	March 31, 2021
Prepaid expenses	\$ 44,412	\$ 28,349
Deposits	21,008	18,316
Prepaid inventory	1,157	1,496
Other assets	25,007	19,071
	<u>\$ 91,584</u>	<u>\$ 67,232</u>

## 9. OTHER FINANCIAL ASSETS

The following table outlines changes in other financial assets. Additional details on how the fair value of significant investments is calculated are included in Note 21.

Entity	Instrument	Balance at March 31, 2021	Fair value changes	Foreign currency translation adjustments	Exercise of options / disposal of shares	Balance at June 30, 2021
TerrAscend Exchangeable Shares	Exchangeable shares	\$ 385,000	\$ 53,000	\$ -	\$ -	\$ 438,000
TerrAscend Canada - October 2019	Term loan / debenture	10,240	540	-	-	10,780
TerrAscend Canada - March 2020	Term loan / debenture	56,330	3,350	-	-	59,680
Arise Bioscience	Term loan / debenture	13,077	1,376	(171)	-	14,282
TerrAscend - October 2019	Warrants	17,250	2,780	-	-	20,030
TerrAscend - March 2020	Warrants	152,910	22,820	-	-	175,730
TerrAscend - December 2020	Warrants	13,240	1,840	-	-	15,080
TerrAscend	Option	10,600	1,500	-	-	12,100
Acreage Hempco <sup>1</sup>	Debenture	27,448	1,302	(359)	-	28,391
SLANG	Warrants	9,400	(4,000)	-	-	5,400
Other - at fair value through net income (loss)	Various	5,487	(356)	-	(100)	5,031
Other - classified as held for investment	Loan receivable	7,185	-	-	(31)	7,154
		<u>\$ 708,167</u>	<u>\$ 84,152</u>	<u>\$ (530)</u>	<u>\$ (131)</u>	<u>\$ 791,658</u>

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

## 10. PROPERTY, PLANT AND EQUIPMENT

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

	June 30, 2021	March 31, 2021
Buildings and greenhouses	\$ 833,426	\$ 651,166
Production and warehouse equipment	210,671	216,925
Leasehold improvements	101,163	106,837
Office and lab equipment	35,053	30,546
Land	33,158	34,747
Computer equipment	22,719	26,431
Right-of-use-assets		
Buildings and greenhouses	100,530	100,517
Production and warehouse equipment	530	530
Assets in process	26,653	129,428
	<u>1,363,903</u>	<u>1,297,127</u>
Less: Accumulated depreciation	(221,289)	(222,590)
	<u>\$ 1,142,614</u>	<u>\$ 1,074,537</u>

Depreciation expense included in cost of goods sold for the three months ended June 30, 2021 is \$10,462 (three months ended June 30, 2020 – \$14,786). Depreciation expense included in selling, general and administrative expenses for the three months ended June 30, 2021 is \$6,654 (three months ended June 30, 2020 – \$2,629).

## 11. INTANGIBLE ASSETS

The components of intangible assets are as follows:

	June 30, 2021		March 31, 2021	
	Gross Carrying Amount	Net Carrying Amount	Gross Carrying Amount	Net Carrying Amount
<u>Finite lived intangible assets</u>				
Intellectual property	\$ 211,069	\$ 165,077	\$ 212,100	\$ 168,655
Distribution channel	76,599	35,208	73,756	35,176
Software and domain names	29,655	18,193	27,836	18,149
Brands	21,102	7,241	21,812	8,894
Operating licenses	10,500	10,500	-	-
Amortizable intangibles in process	875	875	1,952	1,952
Total	<u>\$ 349,800</u>	<u>\$ 237,094</u>	<u>\$ 337,456</u>	<u>\$ 232,826</u>
<u>Indefinite lived intangible assets</u>				
Acquired brands		\$ 101,969		\$ 67,341
Operating licenses		8,000		8,000
Total intangible assets		<u>\$ 347,063</u>		<u>\$ 308,167</u>

Amortization expense included in cost of goods sold for the three months ended June 30, 2021 is \$18 (three months ended June 30, 2020 – \$702). Amortization expense included in selling, general and administrative expenses for the three months ended June 30, 2021 is \$7,998 (three months ended June 30, 2020 – \$15,930).

## 12. GOODWILL

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

Balance, March 31, 2020	\$ 1,954,471
Foreign currency translation adjustments	(65,117)
Balance, March 31, 2021	\$ 1,889,354
Purchase accounting allocations	122,374
Disposal of consolidated entities	(5,245)
Foreign currency translation adjustments	(6,025)
Balance, June 30, 2021	<u>\$ 2,000,458</u>

## 13. OTHER ACCRUED EXPENSES AND LIABILITIES

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

	June 30, 2021	March 31, 2021
Employee compensation	\$ 36,061	\$ 47,237
Taxes and government fees	14,250	13,550
Professional fees	7,303	11,544
Other	22,324	28,482
	<u>\$ 79,938</u>	<u>\$ 100,813</u>

## 14. DEBT

The components of debt are as follows:

	Maturity Date	June 30, 2021	March 31, 2021
Convertible senior notes at 4.25% interest with semi-annual interest payments	July 15, 2023		
Principal amount		\$ 600,000	\$ 600,000
Accrued interest		12,042	5,664
Non-credit risk fair value adjustment		52,620	109,710
Credit risk fair value adjustment		(28,620)	(27,960)
		636,042	687,414
Convertible debentures	September 10, 2025	30,532	-
Accretion debentures	September 10, 2025	9,802	-
Credit facility	March 18, 2026	880,927	891,677
Other revolving debt facility, loan, and financings		3,475	3,872
		1,560,778	1,582,963
Less: current portion		(15,705)	(9,827)
Long-term portion		<u>\$ 1,545,073</u>	<u>\$ 1,573,136</u>

### *Credit Facility*

On March 18, 2021, the Company entered into a credit agreement (the "Credit Agreement") providing for a five-year, first lien senior secured term loan facility in an aggregate principal amount of US\$750,000 (the "Credit Facility"). The Company also has the ability to obtain up to an additional US\$500,000 of incremental senior secured debt pursuant to the Credit Agreement.

The Credit Facility has no principal payments, matures on March 18, 2026, has a coupon of LIBOR plus 8.50% and is subject to a LIBOR floor of 1.00%. In the event that LIBOR can no longer be adequately ascertained or is no longer available, an alternative rate as permitted under the Credit Agreement will be used. The Company's obligations under the Credit Facility are guaranteed by material wholly-owned Canadian and U.S. subsidiaries of the Company. The Credit Facility is secured by substantially all of these assets, including material real property, of the borrowers and each of the guarantors. The Credit Agreement contains representations and warranties, and affirmative and negative covenants, including a financial covenant requiring minimum liquidity of US\$200,000 at the end of each fiscal quarter.

The proceeds from the Credit Facility were \$893,160, and the carrying amount is reflected net of financing costs.

### ***Convertible Notes***

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 the Company in November 2018, and no holders of Notes 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 the 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 months ended June 30, 2021, was a decrease of \$51,372 (three months ended June 30, 2020, an increase of \$35,694), which included contractual interest of \$6,378 (three months ended June 30, 2020, interest of \$6,444). Refer to Note 21 for additional details on how the fair value of the Notes is calculated.

### ***Supreme Cannabis Convertible Debentures and Accretion Debentures***

On October 19, 2018, Supreme Cannabis (as defined below) entered into an indenture with Computershare Trust Company of Canada (the “Trustee”) pursuant to which Supreme Cannabis issued 6.0% senior unsecured convertible debentures (the “Supreme Debentures”) for gross proceeds of \$100,000. On September 9, 2020, Supreme Cannabis and the Trustee entered into a supplemental indenture to effect certain amendments to the Supreme Debentures, which included among other things: (i) the cancellation of \$63,500 of principal amount of the Supreme Debentures; (ii) an increase in the interest rate to 8% per annum; (iii) the extension of the maturity date to September 10, 2025; and (iv) a reduction in the conversion price to \$0.285.

In addition, on September 9, 2020, Supreme Cannabis issued new senior unsecured non-convertible debentures (“Accretion Debentures”). The principal amount began at \$nil and accretes at a rate of 11.06% per annum based on the remaining principal amount of the Supreme Debentures of \$36,500 to a maximum of \$13,500, compounding on a semi-annual basis commencing on September 9, 2020, and ending on September 9, 2023. The Accretion Debentures are payable in cash, but do not bear cash interest and are not

convertible into Supreme Shares. The principal amount of the Accretion Debentures will amortize, or be paid, at 1.0% per month over the 24 months prior to maturity.

As a result of the Supreme Arrangement (as defined below), the Supreme Debentures remain outstanding as securities of Supreme Cannabis, which, upon conversion will entitle the holder thereof to receive, in lieu of the number of Supreme Shares (as defined below) to which such holder was theretofore entitled, the consideration payable under the Supreme Arrangement that such holder would have been entitled to be issued and receive if, immediately prior to the effective time of the Supreme Arrangement, such holder had been the registered holder of the number of Supreme Shares to which such holder was theretofore entitled.

In connection with the Supreme Arrangement, the Company, Supreme Cannabis and the Trustee entered into a supplemental indenture whereby the Company agreed to issue common shares upon conversion of any Supreme Debenture. In addition, the Company may force conversion of the Supreme Debentures outstanding with 30 days' notice if the daily volume weighted average trading price of the Company's common shares is greater than \$38.59 for any 10 consecutive trading days.

Prior to September 9, 2023, the Supreme Debentures are not redeemable. Beginning on and after September 9, 2023, Supreme Cannabis may from time to time, upon providing 60 days prior written notice to the Trustee, redeem the Convertible Debentures outstanding, provided that the Accretion Debentures have already been redeemed in full.

### ***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 \$nil (March 31, 2021 – \$nil) with an interest rate of 3.45%, or FCC prime rate plus 1.0%.

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.

## **15. OTHER LIABILITIES**

The components of other liabilities are as follows:

	As at June 30, 2021			As at March 31, 2021		
	Current	Long-term	Total	Current	Long-term	Total
Lease liabilities	\$ 36,862	\$ 93,174	\$ 130,036	\$ 42,061	\$ 94,164	\$ 136,225
Acquisition consideration related liabilities	10,095	10,393	20,488	16,577	7,808	24,385
Refund liability	8,387	-	8,387	6,441	-	6,441
Settlement liabilities and other	13,804	5,471	19,275	41,349	5,268	46,617
	<u>\$ 69,148</u>	<u>\$ 109,038</u>	<u>\$ 178,186</u>	<u>\$ 106,428</u>	<u>\$ 107,240</u>	<u>\$ 213,668</u>

## **16. REDEEMABLE NONCONTROLLING INTEREST**

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

	Vert Mirabel	BioSteel	Total
As at March 31, 2021	\$ 11,500	\$ 123,800	\$ 135,300
Net income (loss) attributable to redeemable noncontrolling interest	1,293	(3,756)	(2,463)
Adjustments to redemption amount	(1,293)	3,756	2,463
As at June 30, 2021	<u>\$ 11,500</u>	<u>\$ 123,800</u>	<u>\$ 135,300</u>
	Vert Mirabel	BioSteel	Total
As at March 31, 2020	\$ 20,250	\$ 49,500	\$ 69,750
Net loss attributable to redeemable noncontrolling interest	(9,253)	(1,410)	(10,663)
Adjustments to redemption amount	18,803	3,710	22,513
As at June 30, 2020	<u>\$ 29,800</u>	<u>\$ 51,800</u>	<u>\$ 81,600</u>



## 17. SHARE CAPITAL

### CANOPY GROWTH

#### Authorized

An unlimited number of common shares.

#### (i) Equity financings

There were no equity financings during the three months ended June 30, 2021 (three months ended June 30, 2020 - none).

#### (ii) Other issuances of common shares

During the three months ended June 30, 2021, 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
Acquisition of Supreme Cannabis	9,013,400	\$ 260,668	\$ -
Completion of acquisition milestones	875,401	25,247	(25,692)
Total	<u>9,888,801</u>	<u>\$ 285,915</u>	<u>\$ (25,692)</u>

During the three months ended June 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	751,922	\$ 12,079	\$ (12,079)
Other issuances	412,417	14,135	(14,719)
Total	<u>1,164,339</u>	<u>\$ 26,214</u>	<u>\$ (26,798)</u>

#### (iii) Warrants

	Number of whole warrants	Average exercise price	Warrant value
Balance outstanding at March 31, 2021 <sup>1</sup>	127,073,136	\$ 58.33	\$ 2,568,438
Supreme Cannabis warrants	1,265,742	\$ 25.61	\$ 13,350
Expiry of warrants	(145,831)	32.61	-
Balance outstanding at June 30, 2021 <sup>1</sup>	<u>128,193,047</u>	<u>\$ 58.04</u>	<u>\$ 2,581,788</u>

<sup>1</sup> This balance excludes the Tranche C Warrants (as defined below), 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, 2020 <sup>1</sup>	146,299,443	\$ 52.44	\$ 2,638,951
Exercise of warrants	(18,876,901)	12.98	(70,266)
Balance outstanding at June 30, 2020 <sup>1</sup>	<u>127,422,542</u>	<u>\$ 58.29</u>	<u>\$ 2,568,685</u>

<sup>1</sup> This balance excludes the Tranche C Warrants (as defined below), which represent a derivative liability and have nominal value. See Note 27.

## 18. 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. On May 27, 2021, the Board of Directors of the Company approved certain amendments to the Omnibus Plan in order to reduce the maximum number of shares available for issuance under the Omnibus Plan from 15% of the issued and outstanding shares, to 10% of the issued and outstanding shares from time to time less the number of shares issuable pursuant to other security-based compensation arrangements of the Company. 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, performance awards, or other shares-based awards (collectively, the "Awards") under the Omnibus Plan.

The maximum number of common shares reserved for Awards is 39,311,910 at June 30, 2021. As of June 30, 2021, the only Awards issued have been Options, RSUs and PSUs under the Omnibus Plan.

The Omnibus Plan is administered by the Corporate Governance, Compensation and Nominating committee of the Company ("CGC&N Committee") which 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, subject to the capacity of the CGC&N Committee pursuant to the Omnibus Plan to provide for an expiry date in an award agreement for the grant of options which is less than ten years from issuance. The CGC&N Committee has the discretion to amend general vesting provisions and the term of any award, subject to limits contained in the Omnibus Plan.

Under the Company's Employee Share Purchase Plan (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. For the three months ended June 30, 2021, no common shares were issued under the Purchase Plan.

The following is a summary of the changes in the Options outstanding during the three months ended June 30, 2021:

	Options issued	Weighted average exercise price
Balance outstanding at March 31, 2021	17,704,311	\$ 36.79
Options granted	560,085	30.87
Replacement options issued as a result of the acquisition of Supreme Cannabis	140,159	80.53
Options exercised	(205,335)	17.50
Options forfeited	(809,960)	43.79
Balance outstanding at June 30, 2021	<u>17,389,260</u>	<u>\$ 36.50</u>

The following is a summary of the Options as at June 30, 2021:

Range of Exercise Prices	Options Outstanding		Options Exercisable	
	Outstanding at June 30, 2021	Weighted Average Remaining Contractual Life (years)	Exercisable at June 30, 2021	Weighted Average Remaining Contractual Life (years)
\$0.06 - \$24.62	2,357,356	3.15	1,407,826	2.43
\$24.63 - \$33.53	4,491,920	4.11	2,090,648	3.36
\$33.54 - \$36.80	3,405,640	3.42	2,186,429	3.42
\$36.81 - \$42.84	2,992,796	3.68	2,034,251	3.22
\$42.85 - \$171.54	4,141,548	3.64	2,469,037	3.56
	<u>17,389,260</u>	<u>3.65</u>	<u>10,188,191</u>	<u>3.25</u>

At June 30, 2021, the weighted average exercise price of Options outstanding and Options exercisable was \$36.50 and \$37.23, respectively (March 31, 2021 – \$36.79 and \$36.97, respectively).

The Company recorded \$8,044 in share-based compensation expense related to Options issued to employees and contractors for the three months ended June 30, 2021 (three months ended June 30, 2020 – \$22,328). The share-based compensation expense for the three months ended June 30, 2021 includes an amount related to 1,559,413 Options being provided in exchange for services which are subject to performance conditions (for the three months ended June 30, 2020 – 2,060,068).

During the three months ended June 30, 2021, the Company issued replacement options to employees in relation to the acquisition of Supreme Cannabis (Note 26) and recorded share-based compensation expense of \$823.

The Company uses the Black-Scholes option pricing model to establish the fair value of Options granted during the three months ended June 30, 2021 and 2020, on their measurement date by applying the following assumptions:

	June 30, 2021	June 30, 2020
Risk-free interest rate	0.67%	0.33%
Expected life of options (years)	3 - 5	3 - 5
Expected volatility	76%	76%
Expected forfeiture rate	18%	16%
Expected dividend yield	nil	nil
Black-Scholes value of each option	\$17.25	\$12.31

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 three months ended June 30, 2021, 205,335 Options were exercised ranging in price from \$2.68 to \$36.34 for gross proceeds of \$3,592 (for the three months ended June 30, 2020 – 711,472 Options were exercised ranging in price from \$1.32 to \$27.99 for gross proceeds of \$4,722).

For the three months ended June 30, 2021, the Company recorded \$2,295, in share-based compensation expense related to RSUs (for the three months ended June 30, 2020 – \$3,842). The following is a summary of the changes in the Company's RSUs during the three months ended June 30, 2021:

	<u>Number of RSUs</u>
Balance outstanding at March 31, 2021	753,310
RSUs granted	536,314
RSUs released	(149,785)
RSUs cancelled and forfeited	(24,334)
Balance outstanding at June 30, 2021	<u>1,115,505</u>

During the three months ended June 30, 2021, the Company recorded \$1,699 (for the three months ended June 30, 2020 – \$2,970), in share-based compensation expense related to acquisition milestones.

During the three months ended June 30, 2021, 9,888,801 common shares, (during the three months ended June 30, 2020 – 751,922) were released on completion of acquisition milestones. At June 30, 2021, there were up to 645,509 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 June 30, 2021. 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. and Canindica Capital Ltd. 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 June 30, 2021, BioSteel had 1,549,800 (March 31, 2021 – 1,581,000) 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 \$265 of share-based compensation expense related to the BioSteel options during the three months ended June 30, 2021 (three months ended June 30, 2020 – \$244), with a corresponding increase in noncontrolling interest.

### *RIV Capital Inc. (“RIV Capital”) share-based payments*

For the three months ended June 30, 2020, the Company recorded \$1,301 in share-based compensation expense related to its former subsidiary, RIV Capital. The Company disposed of its investment in RIV Capital on February 23, 2021.

## 19. 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, 2021	\$ (28,246)	\$ (5,994)	\$ (34,240)
Other comprehensive income (loss)	(27,938)	660	(27,278)
As at June 30, 2021	<u>\$ (56,184)</u>	<u>\$ (5,334)</u>	<u>\$ (61,518)</u>
	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	(53,124)	(15,360)	(68,484)
As at June 30, 2020	<u>\$ 73,599</u>	<u>\$ 78,816</u>	<u>\$ 152,415</u>

## 20. NONCONTROLLING INTERESTS

The net change in the noncontrolling interests is as follows:

	Vert Mirabel	BioSteel	Other non- material interests	Total
As at March 31, 2021	\$ -	\$ 1,658	\$ 3,051	\$ 4,709
Comprehensive income (loss)	1,293	(3,756)	-	(2,463)
Net (income) loss attributable to redeemable noncontrolling interest	(1,293)	3,756	-	2,463
Share-based compensation	-	265	-	265
Ownership changes	-	-	-	-
Warrants	-	-	-	-
As at June 30, 2021	<u>\$ -</u>	<u>\$ 1,923</u>	<u>\$ 3,051</u>	<u>\$ 4,974</u>

	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	(3,883)	(14,528)	(1,410)	-	(19,821)
Net loss attributable to redeemable noncontrolling interest	-	9,253	1,410	-	10,663
Share-based compensation	1,301	-	244	-	1,545
Ownership changes	852	-	-	-	852
Warrants	250	-	-	-	250
As at June 30, 2020	<u>\$ 209,606</u>	<u>\$ 1,857</u>	<u>\$ 733</u>	<u>\$ 3,051</u>	<u>\$ 215,247</u>

## 21. 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>June 30, 2021</b>				
Assets:				
Short-term investments	\$ 1,491,286	\$ -	\$ -	\$ 1,491,286
Restricted short-term investments	14,336	-	-	14,336
Other financial assets	268	-	784,236	784,504
Liabilities:				
Convertible senior notes	-	636,042	-	636,042
Liability arising from Acreage Arrangement	-	-	450,000	450,000
Warrant derivative liability	-	-	299,318	299,318
<b>March 31, 2021</b>				
Assets:				
Short-term investments	\$ 1,144,563	\$ -	\$ -	\$ 1,144,563
Restricted short-term investments	11,332	-	-	11,332
Other financial assets	254	-	700,728	700,982
Liabilities:				
Convertible senior notes	-	687,414	-	687,414
Liability arising from Acreage Arrangement	-	-	600,000	600,000
Warrant derivative liability	-	-	615,575	615,575

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 notes	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
		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, TerrAscend Option	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
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 - October 2019, March 2020, December 2020	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
Arise Bioscience term loan, TerrAscend Canada term loan - October 2019, March 2020	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
SLANG Worldwide Warrant	Black-Sholes 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
Warrant derivative liability	Monte Carlo simulation model	Volatility of Canopy Growth share price	Increase or decrease in volatility will result in an increase or decrease in fair value
BioSteel redeemable NCI	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 three months ended June 30, 2021 and June 30, 2020, there were no transfers of amounts between levels.

## 22. REVENUE

Revenue is disaggregated as follows:

	Three months ended	
	June 30, 2021	June 30, 2020
Canadian recreational cannabis net revenue		
Business-to-business <sup>1</sup>	\$ 42,693	\$ 34,934
Business-to-consumer	17,344	9,330
	60,037	44,264
Canadian medical cannabis net revenue <sup>2</sup>	13,492	13,910
	73,529	58,174
International and other revenue		
C <sup>3</sup>	11,443	15,369
Other	7,967	5,739
	19,410	21,108
Global cannabis net revenue	92,939	79,282
Other consumer products		
Storz & Bickel	24,070	17,120
This Works	6,551	6,049
BioSteel	6,661	2,448
Other	5,988	5,517
Other consumer products revenue	43,270	31,134
Net revenue	<u>\$ 136,209</u>	<u>\$ 110,416</u>

<sup>1</sup>Canadian recreational business-to-business net revenue reflects excise taxes of \$17,834 (three months ended June 30, 2020 – \$7,246).

<sup>2</sup>Canadian medical cannabis net revenue reflects excise taxes of \$1,380 (three months ended June 30, 2020 – \$1,426).

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 \$3,000 for the three months ended June 30, 2021 (three months ended June 30, 2020 – \$3,400). As of June 30, 2021, the liability for estimated returns and price adjustments was \$8,387 (March 31, 2021 – \$6,441).

## 23. OTHER INCOME (EXPENSE), NET

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

	Three months ended	
	June 30, 2021	June 30, 2020
Fair value changes on other financial assets	\$ 84,152	\$ 21,807
Fair value changes on liability arising from Acreage Arrangement	150,000	(35,000)
Fair value changes on convertible senior notes	50,712	(20,334)
Fair value change on warrant derivative liability	316,257	35,369
Fair value changes on acquisition related contingent consideration	(199)	39,983
Interest income	2,647	8,993
Interest expense	(24,564)	(1,155)
Foreign currency loss	1,030	(5,959)
Loss on disposal of consolidated entity	(2,339)	-
Other income (expense), net	2,970	4,501
	<u>\$ 580,666</u>	<u>\$ 48,205</u>

## 24. INCOME TAXES

There have been no material changes to income tax matters in connection with normal course operations during the three months ended June 30, 2021.

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 that 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.

## 25. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share are calculated using the following numerators and denominators:

	Three months ended	
	June 30, 2021	June 30, 2020
<b>Basic earnings (loss) per share computation</b>		
Net income (loss) attributable to common shareholders of Canopy Growth	\$ 392,418	\$ (108,501)
Weighted average number of common shares outstanding	384,055,133	363,763,347
<b>Basic earnings (loss) per share</b>	<b>\$ 1.02</b>	<b>\$ (0.30)</b>
<b>Diluted earnings (loss) per share computation</b>		
Net income (loss) used in the computation of basic earnings (loss) per share	\$ 392,418	\$ (108,501)
Numerator adjustments for diluted earnings (loss) per share:		
Adjustment to net loss attributable to noncontrolling interests and redeemable noncontrolling interest	(2,463)	-
Removal of fair value changes on convertible senior notes	(50,712)	-
Net income (loss) used in the computation of diluted earnings (loss) per share	\$ 339,243	\$ (108,501)
Weighted average number of common shares outstanding used in the computation of basic earnings (loss) per share	384,055,133	363,763,347
Denominator adjustments for diluted earnings (loss) per share:		
Dilutive impact of assumed exercise or conversion of:		
Convertible senior notes	13,214,767	-
Redeemable noncontrolling interest	4,289,296	-
Stock options	1,190,278	-
Other securities	1,796,769	-
Weighted average number of common shares for computation of diluted earnings (loss) per share	404,546,243	363,763,347
<b>Diluted earnings (loss) per share<sup>1</sup></b>	<b>\$ 0.84</b>	<b>\$ (0.30)</b>

<sup>1</sup> In computing diluted earnings per share, incremental common shares are not considered in periods in which a net loss is reported, as the inclusion of the common share equivalents would be anti-dilutive.



## 26. ACQUISITIONS

The following table summarizes the consolidated balance sheet impact at acquisition of the Company's business combinations that occurred in the three months ended June 30, 2021:

	Ace Valley (i)	Supreme Cannabis (ii)	Total
Cash and cash equivalents	\$ 1,544	\$ 41,306	\$ 42,850
Inventory	878	33,681	34,559
Other current assets	2,249	15,145	17,394
Property, plant and equipment	105	179,123	179,228
Intangible assets			
Brands	14,000	20,900	34,900
Distribution channel	-	3,000	3,000
Operating licenses	-	10,500	10,500
Goodwill	36,464	85,910	122,374
Accounts payable and other accrued expenses and liabilities	(1,148)	(13,258)	(14,406)
Debt and other liabilities	-	(90,482)	(90,482)
Deferred income tax liabilities	-	(6,157)	(6,157)
<b>Net assets acquired</b>	<b>\$ 54,092</b>	<b>\$ 279,668</b>	<b>\$ 333,760</b>
Consideration paid in cash	\$ 51,623	\$ 84	\$ 51,707
Consideration paid in shares	-	260,668	260,668
Replacement options	-	629	629
Replacement warrants	-	13,350	13,350
Other consideration	2,469	4,937	7,406
<b>Total consideration</b>	<b>\$ 54,092</b>	<b>\$ 279,668</b>	<b>\$ 333,760</b>
Consideration paid in cash	\$ 51,623	\$ 84	\$ 51,707
Less: Cash and cash equivalents acquired	(1,544)	(41,306)	(42,850)
<b>Net cash outflow (inflow)</b>	<b>\$ 50,079</b>	<b>\$ (41,222)</b>	<b>\$ 8,857</b>

The table above summarizes the fair value of the consideration given and the fair values assigned to the assets acquired and liabilities assumed for each acquisition. Goodwill arose in these acquisitions because the cost of acquisition included a control premium. In addition, the consideration paid for the combination reflected the benefit of expected revenue growth and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on these acquisitions is expected to be deductible in the computation of income for tax purposes.

### *(i) Ace Valley*

On April 1, 2021, the Company entered into a share purchase agreement (the "AV Share Purchase Agreement") with Tweed Inc., AV Cannabis Inc. ("Ace Valley"), and the shareholders of Ace Valley (the "AV Vendors") pursuant to which the Company indirectly acquired 100% of the issued and outstanding shares of Ace Valley for cash consideration of \$51,623. Ace Valley is an Ontario-based cannabis brand with a focus on premium, ready-to-enjoy products including vapes, pre-roll joints and gummies. Pursuant to the terms of the AV Share Purchase Agreement, the Company may be required to make certain earn-out payments to the AV Vendors, which may result in an additional cash payment or the issuance of common shares, subject to the fulfillment of certain conditions by April 1, 2023. This represents liability-classified contingent consideration. Management has estimated the fair value of this consideration to be \$2,469 by assessing the probability and timing of the fulfillment of the specified conditions and discounting the expected cash outflows to present value.

Due to the timing of this acquisition, the purchase price allocation for the acquisition of Ace Valley is provisional. The fair value assigned to the consideration paid, intangible assets and net assets acquired is based on management's best estimate using the information currently available and may be revised by the Company as additional information is received.

### *(ii) Supreme Cannabis*

On June 22, 2021, the Company and the Supreme Cannabis Company, Inc. ("Supreme Cannabis") completed an arrangement (the "Supreme Arrangement") pursuant to which the Company acquired 100% of the issued and outstanding common shares of Supreme Cannabis (the "Supreme Shares"). Supreme Cannabis is a producer of recreational, wholesale and medical cannabis products, with a diversified portfolio of distinct cannabis companies, products and brands. Pursuant to the Supreme Arrangement, the Company issued 9,013,400 common shares with a fair value on closing of \$260,668 and made a cash payment of \$84 to former Supreme Cannabis shareholders in consideration for their Supreme Shares.

The Company also assumed the obligation to issue 1,265,742 common shares upon the exercise of outstanding warrants of Supreme Cannabis and issued 140,159 replacement options. The fair value of the obligation upon the exercise of the outstanding warrants of Supreme Cannabis was estimated to be \$13,350 using a Black-Scholes model. The replacement options' fair value totaled \$1,452, calculated using a Black-Scholes model, of which \$629 was included in consideration paid as it related to pre-combination services and the residual \$823 fair value was recognized immediately in share-based compensation expense after the completion of the acquisition.

On June 22, 2021, Supreme Cannabis had convertible debentures outstanding with a principal amount of \$26,968 which were convertible into 94,625,183 Supreme Shares. As a result of the acquisition the conversion feature was adjusted in accordance with an exchange ratio of 0.011659. The fair value of these convertible debentures on June 22, 2021 was estimated to be \$36,751, of which \$4,937 was allocated to the conversion feature and \$31,814 to the debt component.

Due to the timing of this acquisition, the purchase price allocation for the acquisition of Supreme Cannabis is provisional. The fair value assigned to the consideration paid, intangible assets and net assets acquired is based on management's best estimate using the information currently available and may be revised by the Company as additional information is received.

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

### **Acreage Arrangement**

On September 23, 2020, the Company and Acreage Holdings, Inc. ("Acreage") entered into a second amendment (the "Acreage Amending Agreement") to the arrangement agreement (the "Acreage Arrangement Agreement") between the Company and Acreage dated April 18, 2019, as amended on May 15, 2019, and implemented an amended and restated plan of arrangement (the "Acreage Amended Arrangement"). The Acreage Amended Arrangement provides for, among other things, the following:

- Following the occurrence or waiver (at the discretion of Canopy Growth) 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 Acreage Arrangement Agreement (as modified in connection with the Acreage Amending Agreement), Canopy Growth will acquire all of the issued and outstanding Class E subordinated voting shares (the "Fixed Shares") based on an amended exchange ratio equal to 0.3048 of a common share to be received for each Fixed Share held. The foregoing exchange ratio for the Fixed Shares is subject to adjustment in accordance with the Acreage Amended Arrangement if, among other things, Acreage issues greater than the permitted number of Fixed Shares;
- 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 Class D subordinated voting shares (the "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 Canadian Securities Exchange, 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 Acreage 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;
- Immediately prior to the acquisition of the Fixed Shares, each issued and outstanding Class F multiple voting 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 by September 23, 2030, Canopy Growth's rights to acquire both the Fixed Shares and the Floating Shares will terminate;
- Upon implementation of the Acreage Amended Arrangement, Canopy Growth made a cash payment to the shareholders of Acreage and holders of certain convertible securities 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 June 30, 2021, the right and the obligation (the "Acreage financial instrument") to acquire the Fixed Shares represents a financial liability of \$450,000 (March 31, 2021 – \$600,000), 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 \$150,000 were recognized in other income (expense), net in the three months ended June 30, 2021 (three months ended June 30, 2020 – \$35,000) (see Note 23). The fair value determination includes a high degree of subjectivity and judgment, which results in significant estimation uncertainty. See Note 21 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 Acreage Amended Arrangement, on September 23, 2020, 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 on 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 9), and the Company has elected the fair value option under ASC 825 (see Note 21). At June 30, 2021, the estimated fair value of the debenture issued to an affiliate of the Company by Acreage Hempco was \$28,391 (March 31, 2021 – \$27,448), measured using a discounted cash flow model, and fair value changes and foreign currency translation adjustments totaling \$943 were recognized in other income (expense), net in the three months ended June 30, 2021 (see Note 23). 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 June 30, 2021.

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 June 30, 2021, the fair value of the warrant derivative liability was \$299,318 (March 31, 2021 – \$615,575), and fair value changes of \$316,257 have been recognized in other income (expense), net in the three months ended June 30, 2021 (three months ended June 30, 2020 – gain of \$35,369) (see Note 23). The fair value determination includes a high degree of subjectivity and judgment, which results in significant estimation uncertainty. See Note 21 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 June 30, 2021.

## **28. SEGMENT INFORMATION**

### **Reportable segments**

The Company is reporting its financial results for the following two operating segments, which are also its reportable segments: (i) global cannabis, and (ii) other consumer products. These segments reflect how the Company’s operations are managed, how the Company’s Chief Executive Officer, who is the chief operating decision maker (“CODM”), allocates resources and evaluates performance, and how the Company’s internal management financial reporting is structured.

The Company’s global cannabis segment encompasses the production, distribution and sale of a diverse range of cannabis and cannabinoid-based consumer products in Canada and internationally pursuant to applicable international and domestic legislation, regulations and permits. The Company’s other consumer products segment comprises the production, distribution and sale of consumer products, including (i) Storz & Bickel vaporizers; (ii) This Works beauty, skincare, wellness and sleep products; (iii) BioSteel sports nutrition beverages, mixes, protein, gum and mints; and (iv) other revenue sources. The Company’s CODM evaluates the performance of these two segments focusing on (i) segment net revenue, and (ii) segment gross margin and gross margin

percentage as the measure of segment profit or loss. Accordingly, information regarding segment net revenue and segment gross margin for the comparative periods has been recast to reflect the aforementioned change in reportable segments.

	Three months ended	
	June 30, 2021	June 30, 2020
Segmented net revenue		
Global cannabis	\$ 92,939	\$ 79,282
Other consumer products	43,270	31,134
	<u>\$ 136,209</u>	<u>\$ 110,416</u>
Segmented gross margin:		
Global cannabis	\$ 13,369	\$ (6,858)
Other consumer products	13,869	13,353
	27,238	6,495
Selling, general and administrative expenses	112,574	135,392
Share-based compensation	13,126	30,685
Asset impairment and restructuring costs	89,249	12,794
Operating loss	(187,711)	(172,376)
Loss from equity method investments	(100)	(7,189)
Other income (expense), net	580,666	48,205
Net income (loss) before incomes taxes	<u>\$ 392,855</u>	<u>\$ (131,360)</u>

Asset information by segment is not provided to, or reviewed by, the Company's CODM as it is not used to make strategic decisions, allocate resources, or assess performance.

#### Entity-wide disclosures

Disaggregation of net revenue by geographic area:

	Three months ended	
	June 30, 2021	June 30, 2020
Canada	\$ 82,612	\$ 65,717
Germany	26,106	27,997
United States	19,867	10,445
Other	7,624	6,257
	<u>\$ 136,209</u>	<u>\$ 110,416</u>

Disaggregation of property, plant and equipment by geographic area:

	June 30, 2021	March 31, 2021
Canada	\$ 931,042	\$ 847,678
United States	143,283	143,747
Other	68,289	83,112
	<u>\$ 1,142,614</u>	<u>\$ 1,074,537</u>

For the three months ended June 30, 2021, one customer represented more than 10% of the Company's net revenue (three months ended June 30, 2020 – one).