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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2021

OR

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

For the transition period from to

Commission File Number: 001-38496

Canopy Growth Corporation

(Exact name of registrant as specified in its charter)

Canada

(State or other jurisdiction of
incorporation or organization)

1 Hershey Drive

Smiths Falls, Ontario

(Address of principal executive offices)

N/A

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

K7A 0A8

(Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common shares, no par value	CGC	NASDAQ Global Select Market

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

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

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

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

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

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

As of November 5, 2021, there were 393,649,332 common shares of the registrant issued and outstanding.

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

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

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

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

**CANOPY GROWTH CORPORATION
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS**

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

	September 30, 2021	March 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 807,621	\$ 1,154,653
Short-term investments	1,150,325	1,144,563
Restricted short-term investments	12,219	11,332
Amounts receivable, net	92,630	92,435
Inventory	353,309	367,979
Prepaid expenses and other assets	86,905	67,232
Total current assets	2,503,009	2,838,194
Other financial assets	509,284	708,167
Property, plant and equipment	1,123,323	1,074,537
Intangible assets	342,172	308,167
Goodwill	2,004,006	1,889,354
Other assets	8,962	5,061
Total assets	<u>\$ 6,490,756</u>	<u>\$ 6,823,480</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 94,367	\$ 67,262
Other accrued expenses and liabilities	86,076	100,813
Current portion of long-term debt	8,825	9,827
Other liabilities	70,635	106,428
Total current liabilities	259,903	284,330
Long-term debt	1,517,778	1,573,136
Deferred income tax liabilities	25,464	21,379
Liability arising from Acreage Arrangement	162,000	600,000
Warrant derivative liability	104,773	615,575
Other liabilities	105,818	107,240
Total liabilities	2,175,736	3,201,660
Commitments and contingencies		
Redeemable noncontrolling interest	69,400	135,300
Canopy Growth Corporation shareholders' equity:		
Common shares - \$nil par value; Authorized - unlimited number of shares; Issued - 393,383,061 shares and 382,875,179 shares, respectively	7,468,717	7,168,557
Additional paid-in capital	2,485,914	2,415,650
Accumulated other comprehensive loss	(27,448)	(34,240)
Deficit	(5,686,796)	(6,068,156)
Total Canopy Growth Corporation shareholders' equity	4,240,387	3,481,811
Noncontrolling interests	5,233	4,709
Total shareholders' equity	4,245,620	3,486,520
Total liabilities and shareholders' equity	<u>\$ 6,490,756</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)

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Revenue	\$ 145,648	\$ 150,828	\$ 301,071	\$ 269,916
Excise taxes	14,274	15,562	33,488	24,234
Net revenue	131,374	135,266	267,583	245,682
Cost of goods sold	202,514	109,186	311,485	213,107
Gross margin	(71,140)	26,080	(43,902)	32,575
Operating expenses				
Selling, general and administrative expenses	125,756	147,253	238,330	282,645
Share-based compensation	15,953	21,984	29,079	52,669
Expected credit losses on financial assets and related charges	-	94,745	-	94,745
Asset impairment and restructuring costs	2,510	46,363	91,759	59,157
Total operating expenses	144,219	310,345	359,168	489,216
Operating loss	(215,359)	(284,265)	(403,070)	(456,641)
Loss from equity method investments	-	(32,991)	(100)	(40,180)
Other income (expense), net	195,821	221,256	776,487	269,461
(Loss) income before income taxes	(19,538)	(96,000)	373,317	(227,360)
Income tax recovery (expense)	3,207	(552)	307	2,486
Net (loss) income	(16,331)	(96,552)	373,624	(224,874)
Net loss attributable to noncontrolling interests and redeemable noncontrolling interest	(5,273)	(64,491)	(7,736)	(84,312)
Net (loss) income attributable to Canopy Growth Corporation	\$ (11,058)	\$ (32,061)	\$ 381,360	\$ (140,562)
Basic (loss) earnings per share	\$ (0.03)	\$ (0.09)	\$ 0.98	\$ (0.38)
Basic weighted average common shares outstanding	393,274,758	371,520,534	388,696,975	367,663,135
Diluted (loss) earnings per share	\$ (0.03)	\$ (0.09)	\$ 0.72	\$ (0.38)
Diluted weighted average common shares outstanding	393,274,758	371,520,534	409,158,915	367,663,135
Comprehensive income (loss):				
Net (loss) income	\$ (16,331)	\$ (96,552)	\$ 373,624	\$ (224,874)
Other comprehensive income (loss), net of income tax effect				
Fair value changes of own credit risk of financial liabilities	9,420	(37,110)	10,080	(52,470)
Foreign currency translation	24,650	(11,999)	(3,288)	(65,123)
Total other comprehensive income (loss), net of income tax effect	34,070	(49,109)	6,792	(117,593)
Comprehensive income (loss)	17,739	(145,661)	380,416	(342,467)
Comprehensive loss attributable to noncontrolling interests and redeemable noncontrolling interest	(5,273)	(64,491)	(7,736)	(84,312)
Comprehensive income (loss) attributable to Canopy Growth Corporation	\$ 23,012	\$ (81,170)	\$ 388,152	\$ (258,155)

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	288,493	(26,097)	-	-	-	-	-	-	262,396
Replacement equity instruments from the acquisition of Supreme Cannabis	-	5,566	13,350	-	-	-	-	-	18,916
Exercise of Omnibus Plan stock options	7,812	(2,926)	-	-	-	-	-	-	4,886
Share-based compensation	-	28,554	-	-	-	-	-	-	28,554
Issuance and vesting of restricted share units	3,855	(3,855)	-	-	-	-	-	-	-
Changes in redeemable noncontrolling interest	-	-	-	-	58,164	-	-	7,736	65,900
Ownership changes relating to noncontrolling interests	-	-	-	-	-	-	-	524	524
Redemption of redeemable noncontrolling interest	-	-	-	2,617	(5,109)	-	-	-	(2,492)
Comprehensive income (loss)	-	-	-	-	-	6,792	381,360	(7,736)	380,416
Balance at September 30, 2021	<u>\$ 7,468,717</u>	<u>\$ 482,028</u>	<u>\$ 2,581,788</u>	<u>\$ (509,723)</u>	<u>\$ (68,179)</u>	<u>\$ (27,448)</u>	<u>\$ (5,686,796)</u>	<u>\$ 5,233</u>	<u>\$ 4,245,620</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 income (loss)	-	-	-	-	-	(117,593)	(140,562)	(84,312)	(342,467)
Balance at September 30, 2020	<u>\$ 6,745,255</u>	<u>\$ 529,896</u>	<u>\$ 2,568,685</u>	<u>\$ (501,760)</u>	<u>\$ (63,709)</u>	<u>\$ 103,306</u>	<u>\$ (4,463,798)</u>	<u>\$ 151,287</u>	<u>\$ 5,069,162</u>

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

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

	Six months ended September 30,	
	2021	2020
Cash flows from operating activities:		
Net income (loss)	\$ 373,624	\$ (224,874)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property, plant and equipment	37,108	36,373
Amortization of intangible assets	16,804	29,432
Share of loss on equity method investments	100	40,180
Share-based compensation	29,079	52,669
Asset impairment and restructuring costs	80,690	59,157
Expected credit losses on financial assets and related charges	-	94,745
Income tax recovery	(307)	(2,486)
Non-cash fair value adjustments	(834,090)	(268,143)
Change in operating assets and liabilities, net of effects from purchases of businesses:		
Amounts receivable	12,354	1,498
Prepaid expenses and other assets	(3,423)	(6,604)
Inventory	40,208	(23,500)
Accounts payable and accrued liabilities	3,778	(11,408)
Other, including non-cash foreign currency	(7,670)	(57,334)
Net cash used in operating activities	<u>(251,745)</u>	<u>(280,295)</u>
Cash flows from investing activities:		
Purchases of and deposits on property, plant and equipment	(35,658)	(90,195)
Purchases of intangible assets	(2,729)	(7,604)
Proceeds on sale of property, plant and equipment	2,290	-
Proceeds on sale of intangible assets	-	18,337
Purchases of short-term investments	(705)	(367,779)
Net cash proceeds on sale of subsidiaries	10,324	-
(Investments in) sale of other financial assets	110	(7,526)
Investment in Acreage Arrangement	-	(49,849)
Loan advanced to Acreage Hempco	-	(66,995)
Net cash outflow on acquisition of subsidiaries	(9,070)	-
Other investing activities	(10,859)	3,481
Net cash used in investing activities	<u>(46,297)</u>	<u>(568,130)</u>
Cash flows from financing activities:		
Proceeds from issuance of common shares and warrants	1,460	-
Proceeds from exercise of stock options	4,886	10,756
Proceeds from exercise of warrants	-	244,990
Issuance of long-term debt	-	1,564
Repayment of long-term debt	(49,991)	(5,920)
Other financing activities	(3,036)	(585)
Net cash (used in) provided by financing activities	<u>(46,681)</u>	<u>250,805</u>
Effect of exchange rate changes on cash and cash equivalents	(2,309)	(32,269)
Net decrease in cash and cash equivalents	(347,032)	(629,889)
Cash and cash equivalents, beginning of period	1,154,653	1,303,176
Cash and cash equivalents, end of period	<u>\$ 807,621</u>	<u>\$ 673,287</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)

	Six months ended September 30,	
	2021	2020
Supplemental disclosure of cash flow information		
Cash received during the period:		
Income taxes	\$ 87	\$ 2,000
Interest	\$ 9,269	\$ 11,768
Cash paid during the period:		
Income taxes	\$ 334	\$ 15,587
Interest	\$ 60,017	\$ 12,837
Noncash investing and financing activities		
Additions to property, plant and equipment	\$ 2,961	\$ 24,840

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 cannabis and/or hemp is federally lawful, permissible and regulated, 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 material 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 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, which will result in the closure of its Niagara-on-the-Lake, Ontario and Langley, British Columbia facilities. Additionally, the Company recognized costs associated with the closure of previously-identified Canadian production facilities in December 2020.

In the three months ended September 30, 2021, the Company recognized incremental costs associated with the closure of previously-identified Canadian production facilities in December 2020.

As a result, in the three and six months ended September 30, 2021, the Company recognized asset impairment and restructuring costs of \$2,510 and \$91,759, respectively, 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:

	September 30, 2021	March 31, 2021
Cash	\$ 469,355	\$ 436,588
Cash equivalents	338,266	718,065
	<u>\$ 807,621</u>	<u>\$ 1,154,653</u>

5. SHORT-TERM INVESTMENTS

The components of short-term investments are as follows:

	September 30, 2021	March 31, 2021
Term deposits	\$ 394,404	\$ 463,824
Government securities	31,697	136,620
Asset-backed securities	147,916	16,342
Commercial paper and other	576,308	527,777
	<u>\$ 1,150,325</u>	<u>\$ 1,144,563</u>

The amortized cost of short-term investments at September 30, 2021 is \$1,151,334 (March 31, 2021 – \$1,145,364).

6. AMOUNTS RECEIVABLE, NET

The components of amounts receivable, net are as follows:

	September 30, 2021	March 31, 2021
Accounts receivable, net	\$ 75,565	\$ 67,106
Indirect taxes receivable	6,960	8,281
Interest receivable	5,054	5,140
Other receivables	5,051	11,908
	<u>\$ 92,630</u>	<u>\$ 92,435</u>

Included in the accounts receivable, net balance at September 30, 2021 is an allowance for doubtful accounts of \$1,324 (March 31, 2021 – \$1,411).

7. INVENTORY

The components of inventory are as follows:

	September 30, 2021	March 31, 2021
Raw materials, packaging supplies and consumables	\$ 60,239	\$ 55,554
Work in progress	149,103	223,652
Finished goods	143,967	88,773
	<u>\$ 353,309</u>	<u>\$ 367,979</u>

In the three and six months ended September 30, 2021, the Company recorded write-downs related to inventory in cost of goods sold of \$86,837 and \$92,851 (three and six months ended September 30, 2020 – \$4,945 and \$24,331).

8. PREPAID EXPENSES AND OTHER ASSETS

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

	September 30, 2021	March 31, 2021
Prepaid expenses	\$ 40,072	\$ 28,349
Deposits	23,720	18,316
Prepaid inventory	606	1,496
Other assets	22,507	19,071
	<u>\$ 86,905</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	Interest income	Exercise of options / disposal of shares	Balance at September 30, 2021
TerrAscend Exchangeable Shares	Exchangeable shares	\$ 385,000	\$ (113,000)	\$ -		\$ -	\$ 272,000
TerrAscend Canada - October 2019	Term loan / debenture	10,240	520	-		-	10,760
TerrAscend Canada - March 2020	Term loan / debenture	56,330	3,220	-		-	59,550
Arise Bioscience	Term loan / debenture	13,077	1,338	154		-	14,569
TerrAscend - October 2019	Warrants	17,250	(8,300)	-		-	8,950
TerrAscend - March 2020	Warrants	152,910	(66,670)	-		-	86,240
TerrAscend - December 2020	Warrants	13,240	(6,370)	-		-	6,870
TerrAscend	Option	10,600	(3,100)	-		-	7,500
Acreage Hempco ¹	Debenture	27,448	2,697	287	(3,867)	-	26,565
SLANG	Warrants	9,400	(5,320)	-		-	4,080
Other - at fair value through net income (loss)	Various	5,487	(295)	-	-	(92)	5,100
Other - classified as held for investment	Loan receivable	7,185	-	-		(85)	7,100
		<u>\$ 708,167</u>	<u>\$ (195,280)</u>	<u>\$ 441</u>	<u>\$ (3,867)</u>	<u>\$ (177)</u>	<u>\$ 509,284</u>

¹ See Note 27 for information regarding Acreage Hempco.

10. PROPERTY, PLANT AND EQUIPMENT

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

	September 30, 2021	March 31, 2021
Buildings and greenhouses	\$ 841,347	\$ 651,166
Production and warehouse equipment	200,295	216,925
Leasehold improvements	101,164	106,837
Office and lab equipment	33,004	30,546
Land	33,159	34,747
Computer equipment	24,881	26,431
Right-of-use-assets		
Buildings and greenhouses	99,961	100,517
Production and warehouse equipment	418	530
Assets in process	27,879	129,428
	<u>1,362,108</u>	<u>1,297,127</u>
Less: Accumulated depreciation	(238,785)	(222,590)
	<u>\$ 1,123,323</u>	<u>\$ 1,074,537</u>

Depreciation expense included in cost of goods sold for the three and six months ended September 30, 2021 is \$14,388 and \$24,850, respectively (three and six months ended September 30, 2020 – \$14,449 and \$29,235, respectively). Depreciation expense included in selling, general and administrative expenses for the three and six months ended September 30, 2021 is \$5,604 and \$12,258, respectively (three and six months ended September 30, 2020 – \$4,509 and \$7,138, respectively).

11. INTANGIBLE ASSETS

The components of intangible assets are as follows:

	September 30, 2021		March 31, 2021	
	Gross Carrying Amount	Net Carrying Amount	Gross Carrying Amount	Net Carrying Amount
Finite lived intangible assets				
Intellectual property	\$ 211,964	\$ 163,417	\$ 212,100	\$ 168,655
Distribution channel	76,577	32,351	73,756	35,176
Software and domain names	30,846	15,330	27,836	18,149
Brands	21,904	8,760	21,812	8,894
Operating licenses	10,500	10,500	-	-
Amortizable intangibles in process	1,961	1,961	1,952	1,952
Total	<u>\$ 353,752</u>	<u>\$ 232,319</u>	<u>\$ 337,456</u>	<u>\$ 232,826</u>
Indefinite lived intangible assets				
Acquired brands		\$ 101,853		\$ 67,341
Operating licenses		8,000		8,000
Total intangible assets		<u>\$ 342,172</u>		<u>\$ 308,167</u>

Amortization expense included in cost of goods sold for the three and six months ended September 30, 2021 is \$25 and \$43, respectively (three and six months ended September 30, 2020 – \$(739) and \$(37), respectively). Amortization expense included in selling, general and administrative expenses for the three and six months ended September 30, 2021 is \$8,763 and \$16,761, respectively (three and six months ended September 30, 2020 – \$13,539 and \$29,469, respectively).

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	119,851
Disposal of consolidated entities	(5,245)
Foreign currency translation adjustments	46
Balance, September 30, 2021	<u>\$ 2,004,006</u>

13. OTHER ACCRUED EXPENSES AND LIABILITIES

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

	September 30, 2021	March 31, 2021
Employee compensation	\$ 30,082	\$ 47,237
Taxes and government fees	6,664	13,550
Professional fees	11,612	11,544
Other	37,718	28,482
	<u>\$ 86,076</u>	<u>\$ 100,813</u>

14. DEBT

The components of debt are as follows:

	Maturity Date	September 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		5,598	5,664
Non-credit risk fair value adjustment		16,290	109,710
Credit risk fair value adjustment		(38,040)	(27,960)
		583,848	687,414
Convertible debentures	September 10, 2025	30,710	-
Accretion debentures	September 10, 2025	7,240	-
Credit facility	March 18, 2026	901,565	891,677
Other revolving debt facility, loan, and financings		3,240	3,872
		1,526,603	1,582,963
Less: current portion		(8,825)	(9,827)
Long-term portion		<u>\$ 1,517,778</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 any indebtedness under the revolving debt facility with FCC, as defined below. 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 (a “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 and six months ended September 30, 2021, was a decrease of \$52,194 and \$103,566, respectively (three and six months ended September 30, 2020, an increase of \$36,306 and \$72,000, respectively), which included contractual interest of \$6,306 and \$12,684 (three and six months ended September 30, 2020, interest of \$6,306 and \$12,750, respectively). 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 (the “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 (as defined below). 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 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. The Company, Supreme Cannabis and the Trustee entered into a further supplemental indenture whereby the Company agreed to guarantee the obligations of Supreme Cannabis pursuant to the Supreme Debentures and the Accretion Debentures.

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 September 30, 2021			As at March 31, 2021		
	Current	Long-term	Total	Current	Long-term	Total
Lease liabilities	\$ 36,905	\$ 89,932	\$ 126,837	\$ 42,061	\$ 94,164	\$ 136,225
Acquisition consideration related liabilities	10,151	10,432	20,583	16,577	7,808	24,385
Refund liability	7,146	-	7,146	6,441	-	6,441
Settlement liabilities and other	16,433	5,454	21,887	41,349	5,268	46,617
	<u>\$ 70,635</u>	<u>\$ 105,818</u>	<u>\$ 176,453</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	587	(8,323)	(7,736)
Adjustments to redemption amount	(587)	(52,468)	(53,055)
Redemption of redeemable noncontrolling interest	-	(5,109)	(5,109)
As at September 30, 2021	<u>\$ 11,500</u>	<u>\$ 57,900</u>	<u>\$ 69,400</u>

	Vert Mirabel	BioSteel	Total
As at March 31, 2020	\$ 20,250	\$ 49,500	\$ 69,750
Net loss attributable to redeemable 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>

17. 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, 2021 (six months ended September 30, 2020 - none).

(ii) Other issuances of common shares

During the six months ended September 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)
Other issuances	120,361	2,578	(405)
Total	<u>10,009,162</u>	<u>\$ 288,493</u>	<u>\$ (26,097)</u>

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>

(iii) Warrants

	Number of whole warrants	Average exercise price	Warrant value
Balance outstanding at March 31, 2021 ¹	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 September 30, 2021 ¹	<u>128,193,047</u>	<u>\$ 58.04</u>	<u>\$ 2,581,788</u>

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

¹ This balance excludes the Tranche C Warrants (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 39,338,306 at September 30, 2021. As of September 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 (the "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 and six months ended September 30, 2021, 61,103 common shares were issued under the Purchase Plan.

The following is a summary of the changes in the Options outstanding during the six months ended September 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	(332,105)	14.41
Options forfeited	(1,319,826)	43.41
Balance outstanding at September 30, 2021	<u>16,752,624</u>	<u>\$ 36.46</u>

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

Range of Exercise Prices	Options Outstanding		Options Exercisable	
	Outstanding at September 30, 2021	Weighted Average Remaining Contractual Life (years)	Exercisable at September 30, 2021	Weighted Average Remaining Contractual Life (years)
\$0.06 - \$24.62	2,157,527	2.83	1,406,399	2.29
\$24.63 - \$33.53	4,433,885	3.82	2,239,821	3.15
\$33.54 - \$36.80	3,314,178	3.10	2,140,934	3.10
\$36.81 - \$42.84	2,936,240	3.41	2,371,585	2.97
\$42.85 - \$171.54	3,910,794	3.39	3,017,255	3.33
	<u>16,752,624</u>	<u>3.38</u>	<u>11,175,994</u>	<u>3.04</u>

At September 30, 2021, the weighted average exercise price of Options outstanding and Options exercisable was \$36.46 and \$38.07, respectively (March 31, 2021 – \$36.79 and \$36.97, respectively).

The Company recorded \$10,298 and \$18,342, respectively, in share-based compensation expense related to Options and Purchase Plan shares issued to employees and contractors for the three and six months ended September 30, 2021 (three and six months ended September 30, 2020 – \$15,525 and \$37,853, respectively). The share-based compensation expense for the six months ended September 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 six months ended September 30, 2020 – 2,060,068).

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

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

	September 30, 2021	September 30, 2020
Risk-free interest rate	-	0.36%
Expected life of options (years)	-	3 - 6
Expected volatility	-	76%
Expected forfeiture rate	-	17%
Expected dividend yield	-	nil
Black-Scholes value of each option	-	\$12.85

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, 2021, 332,105 Options were exercised ranging in price from \$0.06 to \$36.34 for gross proceeds of \$4,886 (for 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 three and six months ended September 30, 2021, the Company recorded \$3,690 and \$5,985, respectively, in share-based compensation expense related to RSUs and PSUs (for the three and six months ended September 30, 2020 – \$2,343 and \$6,185, respectively). The following is a summary of the changes in the Company's RSUs and PSUs during the six months ended September 30, 2021:

	Number of RSUs and PSUs
Balance outstanding at March 31, 2021	753,310
RSUs and PSUs granted	536,314
RSUs and PSUs released	(162,525)
RSUs and PSUs cancelled and forfeited	(44,856)
Balance outstanding at September 30, 2021	<u>1,082,243</u>

During the three and six months ended September 30, 2021, the Company recorded \$1,706 and \$3,405, respectively, in share-based compensation expense related to acquisition milestones (for the three and six months ended September 30, 2020 – \$2,908 and \$9,114, respectively).

During the three and six months ended September 30, 2021, 59,258 and 9,948,059, common shares, respectively, were released on completion of acquisition milestones (during the three and six months ended September 30, 2020 – 397,164 and 1,149,086, respectively). At September 30, 2021, there were up to 656,709 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, 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 September 30, 2021, BioSteel had 1,537,800 (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 \$259 and \$524 of share-based compensation expense related to the BioSteel options during the three and six months ended September 30, 2021, respectively, with a corresponding increase in noncontrolling interest (three and six months ended September 30, 2020 – \$418 and \$662, respectively).

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

For the three and six months ended September 30, 2020, the Company recorded \$790 and \$2,091, respectively, 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)	(3,288)	10,080	6,792
As at September 30, 2021	<u>\$ (31,534)</u>	<u>\$ 4,086</u>	<u>\$ (27,448)</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	(65,123)	(52,470)	(117,593)
As at September 30, 2020	<u>\$ 61,600</u>	<u>\$ 41,706</u>	<u>\$ 103,306</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)	587	(8,323)	-	(7,736)
Net (income) loss attributable to redeemable noncontrolling interest	(587)	8,323	-	7,736
Share-based compensation	-	524	-	524
As at September 30, 2021	<u>\$ -</u>	<u>\$ 2,182</u>	<u>\$ 3,051</u>	<u>\$ 5,233</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	(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>

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)	
September 30, 2021				
Assets:				
Short-term investments	\$ 1,150,325	\$ -	\$ -	\$ 1,150,325
Restricted short-term investments	12,219	-	-	12,219
Other financial assets	329	-	501,855	502,184
Liabilities:				
Convertible senior notes	-	583,848	-	583,848
Liability arising from Acreage Arrangement	-	-	162,000	162,000
Warrant derivative liability	-	-	104,773	104,773
March 31, 2021				
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:

Financial asset / financial liability	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Acreage financial instrument	Probability weighted expected return model	Probability of each scenario	Change in probability of occurrence in each scenario will result in a change in fair value
		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	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
TerrAscend warrants - 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 six months ended September 30, 2021 and September 30, 2020, there were no transfers of amounts between levels.

22. REVENUE

Revenue is disaggregated as follows:

	Three months ended		Six months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Canadian recreational cannabis net revenue				
Business-to-business ¹	\$ 41,927	\$ 42,223	\$ 84,620	\$ 77,157
Business-to-consumer	16,652	18,709	33,996	28,039
	58,579	60,932	118,616	105,196
Canadian medical cannabis net revenue ²	13,093	13,888	26,585	27,798
	71,672	74,820	145,201	132,994
International and other revenue				
C ³	11,887	13,556	23,330	28,925
Other	11,766	5,918	19,733	11,657
	23,653	19,474	43,063	40,582
Global cannabis net revenue	95,325	94,294	188,264	173,576
Other consumer products				
Storz & Bickel	14,511	21,836	38,581	38,956
This Works	9,027	7,833	15,578	13,882
BioSteel	7,512	5,122	14,173	7,570
Other	4,999	6,181	10,987	11,698
Other consumer products revenue	36,049	40,972	79,319	72,106
Net revenue	\$ 131,374	\$ 135,266	\$ 267,583	\$ 245,682

¹Canadian recreational business-to-business net revenue during the three and six months ended September 30, 2021 reflects excise taxes of \$12,913 and \$30,747, respectively (three and six months ended September 30, 2020 – \$14,200 and \$21,446, respectively).

²Canadian medical cannabis net revenue for the three and six months ended September 30, 2021 reflects excise taxes of \$1,361 and \$2,741, respectively (three and six months ended September 30, 2020 – \$1,362 and \$2,788, respectively).

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 \$nil and \$3,000 for the three and six months ended September 30, 2021, respectively (three and six months ended September 30, 2020 – \$3,750 and \$7,150, respectively). As of September 30, 2021, the liability for estimated returns and price adjustments was \$7,146 (March 31, 2021 – \$6,441).

23. OTHER INCOME (EXPENSE), NET

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

	Three months ended		Six months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Fair value changes on other financial assets	\$ (279,432)	\$ 82,053	\$ (195,280)	\$ 103,860
Fair value changes on liability arising from Acreage Arrangement	288,000	88,151	438,000	53,151
Fair value changes on convertible senior notes	30,024	(11,946)	80,736	(32,280)
Fair value change on warrant derivative liability	194,545	65,174	510,802	100,543
Fair value changes on acquisition related contingent consideration	31	2,886	(168)	42,869
Interest income	2,755	2,775	5,402	11,768
Interest expense	(26,646)	(1,523)	(51,210)	(2,678)
Foreign currency gain (loss)	882	(5,041)	1,912	(11,000)
Gain/(loss) on disposal of consolidated entity	686	-	(1,653)	-
Other income (expense), net	(15,024)	(1,273)	(12,054)	3,228
	\$ 195,821	\$ 221,256	\$ 776,487	\$ 269,461

24. 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, 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		Six months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Basic (loss) earnings per share computation				
Net (loss) income attributable to common shareholders of Canopy Growth	\$ (11,058)	\$ (32,061)	\$ 381,360	\$ (140,562)
Weighted average number of common shares outstanding	393,274,758	371,520,534	388,696,975	367,663,135
Basic (loss) earnings per share	<u>\$ (0.03)</u>	<u>\$ (0.09)</u>	<u>\$ 0.98</u>	<u>\$ (0.38)</u>
Diluted (loss) earnings per share computation				
Net (loss) income used in the computation of basic (loss) earnings per share	\$ (11,058)	\$ (32,061)	\$ 381,360	\$ (140,562)
Numerator adjustments for diluted (loss) earnings per share:				
Adjustment to net loss attributable to noncontrolling interests and redeemable noncontrolling interest	-	-	(8,323)	-
Removal of fair value changes on convertible senior notes	-	-	(80,736)	-
Adjustment to interest expense on Supreme convertible debentures	-	-	667	-
Net (loss) income used in the computation of diluted (loss) earnings per share	\$ (11,058)	\$ (32,061)	\$ 292,968	\$ (140,562)
Weighted average number of common shares outstanding used in the computation of basic (loss) earnings per share	393,274,758	371,520,534	388,696,975	367,663,135
Denominator adjustments for diluted (loss) earnings per share:				
Dilutive impact of assumed exercise or conversion of:				
Convertible senior notes	-	-	12,454,620	-
Redeemable noncontrolling interest	-	-	3,501,512	-
Stock options	-	-	923,961	-
Other securities	-	-	3,581,847	-
Weighted average number of common shares for computation of diluted (loss) earnings per share	393,274,758	371,520,534	409,158,915	367,663,135
Diluted (loss) earnings per share¹	<u>\$ (0.03)</u>	<u>\$ (0.09)</u>	<u>\$ 0.72</u>	<u>\$ (0.38)</u>

¹ 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 six months ended September 30, 2021:

	Ace Valley (i)	Supreme Cannabis (ii)	Total
Cash and cash equivalents	\$ 1,544	\$ 41,306	\$ 42,850
Inventory	878	33,426	34,304
Other current assets	2,249	15,145	17,394
Property, plant and equipment	105	180,363	180,468
Intangible assets			
Brands	14,000	20,900	34,900
Distribution channel	-	3,000	3,000
Operating licenses	-	10,500	10,500
Goodwill	39,152	80,699	119,851
Accounts payable and other accrued expenses and liabilities	(1,724)	(13,258)	(14,982)
Debt and other liabilities	-	(88,148)	(88,148)
Deferred income tax liabilities	(1,899)	(4,265)	(6,164)
Net assets acquired	\$ 54,305	\$ 279,668	\$ 333,973
Consideration paid in cash	\$ 51,836	\$ 84	\$ 51,920
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
Total consideration	\$ 54,305	\$ 279,668	\$ 333,973
Consideration paid in cash	\$ 51,836	\$ 84	\$ 51,920
Less: Cash and cash equivalents acquired	(1,544)	(41,306)	(42,850)
Net cash outflow (inflow)	\$ 50,292	\$ (41,222)	\$ 9,070

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 \$51,836. 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 \$27,045 which were convertible into 94,895,649 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 \$36,593, of which \$4,937 was allocated to the conversion feature and \$31,656 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 September 30, 2021, the right and the obligation (the "Acreage financial instrument") to acquire the Fixed Shares represents a financial liability of \$162,000 (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 \$288,000 and \$438,000 were recognized in other income (expense), net in the three and six months ended September 30, 2021, respectively (three and six months ended September 30, 2020 – \$88,151 and \$53,151, respectively) (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 September 30, 2021, the estimated fair value of the Debenture issued to an affiliate of the Company by Acreage Hempco was \$26,565 (March 31, 2021 – \$27,448), measured using a discounted cash flow model (see Note 23). Refer to Note 9 for details on fair value changes, foreign currency translation adjustment, and interest received during the six months ended September 30, 2021. 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, 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 September 30, 2021, the fair value of the warrant derivative liability was \$104,773 (March 31, 2021 – \$615,575), and fair value changes of \$194,545 and \$510,802 have been recognized in other income (expense), net in the three and six months ended September 30, 2021, respectively (three and six months ended September 30, 2020 – gain of \$65,174 and \$100,543, respectively) (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 September 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		Six months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Segmented net revenue				
Global cannabis	\$ 95,325	\$ 94,294	\$ 188,264	\$ 173,576
Other consumer products	36,049	40,972	79,319	72,106
	<u>\$ 131,374</u>	<u>\$ 135,266</u>	<u>\$ 267,583</u>	<u>\$ 245,682</u>
Segmented gross margin:				
Global cannabis	\$ (82,592)	\$ 12,062	\$ (69,223)	\$ 5,204
Other consumer products	11,452	14,018	25,321	27,371
	(71,140)	26,080	(43,902)	32,575
Selling, general and administrative expenses	125,756	147,253	238,330	282,645
Share-based compensation	15,953	21,984	29,079	52,669
Expected credit losses on financial assets and relates charges	-	94,745	-	94,745
Asset impairment and restructuring costs	2,510	46,363	91,759	59,157
Operating loss	(215,359)	(284,265)	(403,070)	(456,641)
Loss from equity method investments	-	(32,991)	(100)	(40,180)
Other income (expense), net	195,821	221,256	776,487	269,461
Net income (loss) before incomes taxes	<u>\$ (19,538)</u>	<u>\$ (96,000)</u>	<u>\$ 373,317</u>	<u>\$ (227,360)</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		Six months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Canada	\$ 80,184	\$ 86,307	\$ 162,796	\$ 152,024
Germany	22,370	28,390	48,476	56,387
United States	18,225	12,299	38,092	22,744
Other	10,595	8,270	18,219	14,527
	<u>\$ 131,374</u>	<u>\$ 135,266</u>	<u>\$ 267,583</u>	<u>\$ 245,682</u>

Disaggregation of property, plant and equipment by geographic area:

	September 30, 2021	March 31, 2021
Canada	\$ 910,258	\$ 847,678
United States	142,657	143,747
Other	70,408	83,112
	<u>\$ 1,123,323</u>	<u>\$ 1,074,537</u>

For the three months ended September 30, 2021, no customer represented more than 10% of the Company's net revenue (three months ended September 30, 2020 – none).

For the six months ended September 30, 2021, one customer represented more than 10% of the Company's net revenue (six months ended September 30, 2020 – none).

29. SUBSEQUENT EVENTS

Plan to Acquire Wana

On October 14, 2021, the Company and Mountain High Products, LLC, Wana Wellness, LLC and The Cima Group, LLC (collectively, "Wana" and each, a "Wana Entity") announced that they have entered into definitive agreements (the "Wana Agreements") providing the Company with the right, upon the occurrence or waiver (at the discretion of the Company) of the

Triggering Event, to acquire 100% of the outstanding membership interests of Wana. Wana manufactures and sells gummies in the U.S. state of Colorado and licenses its intellectual property to partners, who manufacture, distribute, and sell Wana-branded gummies across the United States, including in California, Arizona, Illinois, Michigan and Florida. This gives Wana a total footprint of 12 U.S. states currently, and across Canada.

The Wana Agreements are structured as three separate option agreements whereby the Company has a call option to acquire 100% of the membership interests in each Wana Entity. As consideration for entering into the Wana Agreements, the Company made an upfront cash payment (the “Upfront Payment”) in the aggregate amount of US\$297,500. Upon exercise of the right to acquire each Wana Entity, the Company will make a payment equal to 15% of the fair market value of such Wana Entity at the time the option is exercised (the “Call Option Payments”). As additional consideration for the right to acquire each Wana Entity, the Company may make additional deferred payments (the “Deferred Payments”) in respect of each Wana Entity as of the 2.5 and 5-year anniversary of the Upfront Payment, less certain deductions. At the Company’s option, the Call Option Payments and the Deferred Payments may be satisfied in cash, common shares or a combination thereof at the Company’s sole discretion.

Until such time as the Company exercises its right to acquire each Wana Entity, the Company will have no economic or voting interest in Wana, the Company will not control Wana, and the Company and Wana will continue to operate independently.

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

Introduction

This Management’s Discussion and Analysis (“MD&A”) should be read together with other information, including our unaudited condensed interim consolidated financial statements and the related notes to those statements included in Part I, Item 1 of this Quarterly Report (the “Interim Financial Statements”), our consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended March 31, 2021 (the “Annual Report”) and Part I, Item 1A, Risk Factors, of the Annual Report. This MD&A provides additional information on our business, recent developments, financial condition, cash flows and results of operations, and is organized as follows:

- *Part 1 - Business Overview.* This section provides a general description of our business, which we believe is important in understanding the results of our operations, financial condition, and potential future trends.
- *Part 2 - Results of Operations.* This section provides an analysis of our results of operations for the second quarter of fiscal 2022 in comparison to the second quarter of fiscal 2021, and for the six months ended September 30, 2021 in comparison to the six months ended September 30, 2020.
- *Part 3 - Financial Liquidity and Capital Resources.* This section provides an analysis of our cash flows and outstanding debt and commitments. Included in this analysis is a discussion of the amount of financial capacity available to fund our ongoing operations and future commitments.

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

Special Note Regarding Forward-Looking Statements

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

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

- the uncertainties associated with the COVID-19 pandemic, including our ability, and the ability of our suppliers and distributors, to effectively manage the restrictions, limitations and health issues presented by the COVID-19 pandemic, the ability to continue our production, distribution and sale of our products and the demand for and use of our products by consumers, disruptions to the global and local economies due to related stay-at-home orders, quarantine policies and restrictions on travel, trade and business operations and a reduction in discretionary consumer spending;
- laws and regulations and any amendments thereto applicable to our business and the impact thereof, including uncertainty regarding the application of U.S. state and federal law to U.S. hemp (including CBD) products and the scope of any regulations by the U.S. Food and Drug Administration (the “FDA”), the U.S. Drug Enforcement Administration (the “DEA”), the U.S. Federal Trade Commission (the “FTC”), the U.S. Patent and Trademark Office (the “USPTO”), the U.S. Department of Agriculture (the “USDA”) and any state equivalent regulatory agencies over U.S. hemp (including CBD) products;
- expectations regarding the laws and regulations and any amendments thereto relating to the U.S. hemp industry in the U.S., including the promulgation of regulations for the U.S. hemp industry by the USDA and relevant state regulatory authorities;
- expectations regarding the potential success of, and the costs and benefits associated with, our acquisitions, joint ventures, strategic alliances, equity investments and dispositions;
- the Acreage Amended Arrangement (as defined below), including the occurrence or waiver (at our discretion) of the Triggering Event (as defined below) and the satisfaction or waiver of the conditions to closing the acquisition of Acreage (as defined below);

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

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

The forward-looking statements contained herein are based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including: (i) management's perceptions of historical trends, current conditions and expected future developments; (ii) our ability to generate cash flow from operations; (iii) general economic, financial market, regulatory and political conditions in which we operate; (iv) the production and manufacturing capabilities and output from our facilities and our joint ventures, strategic alliances and equity investments; (v) consumer interest in our products; (vi) competition; (vii) anticipated and unanticipated costs; (viii) government regulation of our activities and products including but not limited to the areas of taxation and environmental protection; (ix) the timely receipt of any required regulatory authorizations, approvals, consents, permits and/or licenses; (x) our ability to obtain qualified staff, equipment and services in a timely and cost-efficient manner; (xi) our ability to conduct operations in a safe, efficient and effective manner; (xii) our ability to realize anticipated benefits, synergies or generate revenue, profits or value from our recent acquisitions into our existing operations; (xiii) our ability to continue to operate in light of the COVID-19 pandemic and the impact of the pandemic on demand for, and sales of, our products and our distribution channels; and (xiv) other considerations that management believes to be appropriate in the circumstances. While our management considers these assumptions to be reasonable based on information currently available to management, there is no assurance that such expectations will prove to be correct.

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

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

agencies and made by our directors, officers, other employees and other persons authorized to speak on our behalf are expressly qualified in their entirety by these cautionary statements.

Part 1 - Business Overview

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

On October 17, 2018, the *Cannabis Act* came into effect in Canada, regulating both the medical and recreational cannabis markets in Canada and providing provincial, territorial and municipal governments the authority to prescribe regulations regarding the distribution and sale of recreational cannabis. On October 17, 2019, the second phase of recreational cannabis products was legalized pursuant to certain amendments to the regulations under the *Cannabis Act*. We currently offer product varieties in dried flower, oil, softgels, vape pen power sources, pod-based vape devices, vape cartridges, cannabis-infused beverages and cannabis-infused edibles, with product availability varying based on provincial and territorial regulations. Our recreational cannabis products are predominantly sold to provincial and territorial agencies under a “business-to-business” wholesale model, with those provincial and territorial agencies then being responsible for the distribution of our products to brick-and-mortar stores and for online retail sales. We also operate a network of Tweed and Tokyo Smoke retail stores across Canada, where permissible, to promote brand awareness and drive consumer demand under a “business-to-consumer” model. In the first quarter of fiscal 2022, we completed the acquisitions of (i) Supreme Cannabis Company, Inc. (“Supreme Cannabis”), a producer of recreational, wholesale and medical cannabis products with a diversified portfolio of distinct cannabis products and brands, and (ii) AV Cannabis Inc. (“Ace Valley”), an Ontario-based cannabis brand focused on premium, ready-to-enjoy products including vapes, pre-roll joints and gummies.

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

Subsequent to the passage, in December 2018, of the U.S. Agricultural Improvement Act of 2018, we began building our hemp supply chain in the United States through our investment in processing, extraction and finished goods manufacturing facilities. In September 2020, our Martha Stewart CBD line of premium quality, hemp-derived wellness gummies, oils and softgels was launched in the United States. In the fourth quarter of fiscal 2021, we expanded our product offering to include CBD products for pets under the Martha Stewart CBD for Pet line and SurityPro, and a line of premium, ready-to-drink CBD-infused sparkling waters under the Quatreau brand. In the second quarter of fiscal 2022, we introduced whisl, a CBD vape that was made available to customers in the United States on ShopCanopy.com in mid-September 2021, and through an exclusive nationwide retail partnership in the United States with Circle K beginning on October 1, 2021.

In June 2019, we implemented a plan of arrangement pursuant to an arrangement agreement (the “Acreage Arrangement Agreement”) with Acreage Holdings, Inc. (“Acreage”), a U.S. multi-state cannabis operator. In September 2020, we entered into a second amendment to the Acreage Arrangement Agreement (the “Acreage Amending Agreement”) and implemented an amended and restated plan of arrangement (the “Acreage Amended Arrangement”). Pursuant to the Acreage Amended Arrangement, following the occurrence or waiver (at our discretion) of changes in U.S. federal law to permit the general cultivation, distribution, and possession of marijuana or to remove the regulation of such activities from the federal laws of the United States (the “Triggering Event”) and subject to the satisfaction or waiver of the conditions set out in the Acreage Arrangement Agreement (as modified by the Acreage Amending Agreement), we (i) agreed to acquire approximately 70% of the issued and outstanding shares of Acreage, and (ii) obtained the right to acquire the other approximately 30% of the issued and outstanding shares of Acreage. The acquisition of Acreage, if completed, will provide a pathway into cannabis markets in the United States; however, we and Acreage will continue to operate as independent companies until the acquisition of Acreage is completed.

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

Our products contain THC, CBD, or a combination of these two cannabinoids which are found in the cannabis sativa plant species. THC is the primary psychoactive or intoxicating cannabinoid found in cannabis. We also refer throughout this MD&A to

“hemp”, which is a term used to classify varieties of the cannabis sativa plant that contain CBD and 0.3% or less THC content (by dry weight). Conversely, references to the term “marijuana” refers to varieties of the cannabis sativa plant with more than 0.3% THC content and moderate levels of CBD.

Our licensed operational capacity in Canada includes indoor and greenhouse cultivation space; post-harvest processing and cannabinoid extraction capability; advanced manufacturing capability for vape products, softgel encapsulation and pre-rolled joints; a beverage production facility; and confectionary manufacturing. These capabilities allow us to supply the recreational and medical markets with a complimentary balance of flower products and extracted cannabinoid input for our oil, CBD, ingestible cannabis, cannabis extracts and cannabis topical products. Additionally, we have built a hemp supply chain in the United States.

We operate in two reportable segments:

- Global cannabis, which 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; and
- Other consumer products, which is comprised of the production, distribution and sale of consumer products by Storz & Bickel, This Works, and BioSteel, and other revenue sources.

Update on the COVID-19 Pandemic

Management has continued to closely monitor the impact of the COVID-19 global pandemic, with a focus on the health and safety of our employees, business continuity and supporting its communities. We established a COVID-19 Management Committee shortly after the declaration of COVID-19 as a global pandemic and implemented various measures to reduce the spread of the virus. We have continued to operate under preventative measures and have experienced minimal disruption to our production and supply chain. As of the date of this Quarterly Report, all 34 of our corporate-owned retail stores are open and offering click-and-collect and/or in-store shopping. Our Canadian medical business, which operates as an e-commerce channel, has continued largely unchanged. Our international medical business operates primarily as a pharmacy model, with pharmacies being deemed essential businesses in Germany and other European countries in which we conduct business. In addition, since our non-production workforce continues to effectively work remotely using various technology tools, we are able to maintain our full operations and internal controls over financial reporting and disclosures.

The COVID-19 pandemic, including government measures to limit the spread of COVID-19, did not have a material adverse impact on our results of operations in the second quarter of fiscal 2022. However, given the uncertainties associated with the COVID-19 pandemic, including those related to the distribution and acceptance of the vaccines and their effectiveness with respect to new variants of the virus, the use of our products by consumers, disruptions to the global and local economies due to related stay-at-home orders, quarantine policies and restrictions on travel, trade and business operations and a reduction in discretionary consumer spending we are unable to estimate the future impact of the COVID-19 pandemic on our business, financial condition, results of operations, and/or cash flows. Recently in the United States, there have been a number of supply chain challenges, such as container ships facing delays due to congestion in ports, impacting many industries, including the industries in which we operate. Although we have not yet seen a significant impact, we continue to monitor our supply chain closely. The uncertain nature of the impacts of the COVID-19 pandemic may affect our results of operations into the third quarter of fiscal 2022.

We believe we have sufficient liquidity available from cash and cash equivalents and short-term investments on hand of \$807.6 million and \$1.2 billion, respectively, at September 30, 2021, and from available capacity under our revolving debt facility to enable us to meet our working capital and other operating requirements, fund growth initiatives and capital expenditures, settle our liabilities, and repay scheduled principal and interest payments on debt for at least the next twelve months. Refer to “Part 3 – Financial Liquidity and Capital Resources” for further information.

Recent Developments

Plan to Acquire Wana

On October 14, 2021, we and Mountain High Products, LLC, Wana Wellness, LLC and The Cima Group, LLC (collectively, “Wana” and each, a “Wana Entity”) announced that we have entered into definitive agreements (the “Wana Agreements”) providing us with the right, upon the occurrence or waiver (at our discretion) of the Triggering Event, to acquire 100% of the outstanding membership interests of Wana. Wana manufactures and sells gummies in the U.S. state of Colorado and licenses its intellectual property to partners, who manufacture, distribute, and sell Wana-branded gummies across the United States, including in California, Arizona, Illinois, Michigan and Florida. This gives Wana a total footprint of 12 U.S. states currently, and across Canada. Wana expects to have license agreements in place in more than 20 U.S. states, including in future adult-use markets in New York and New Jersey, prior to the end of calendar 2022.

The Wana Agreements are structured as three separate option agreements whereby we have a call option to acquire 100% of the membership interests in each Wana Entity. As consideration for entering into the Wana Agreements, we made an upfront cash payment (the “Upfront Payment”) in the aggregate of US\$297.5 million. Upon exercise of the right to acquire each Wana Entity, we will make a payment equal to 15% of the fair market value of such Wana Entity at the time the option is exercised (the “Call Option Payments”). As additional consideration for the right to acquire each Wana Entity, we may make additional deferred payments (the “Deferred Payments”) in respect of each Wana Entity as of the 2.5 and 5-year anniversary of the Upfront Payment, less certain deductions. At our option, the Call Option Payments and the Deferred Payments may be satisfied in cash, common shares or a combination thereof at our sole discretion.

Until such time as we exercise our right to acquire each Wana Entity, we will have no economic or voting interest in Wana, we will not control Wana, and we and Wana will continue to operate independently.

Part 2 - Results of Operations

Discussion of Second Quarter of Fiscal 2022 Results of Operations

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Three months ended September 30,			
	2021	2020	\$ Change	% Change
Selected consolidated financial information:				
Net revenue	\$ 131,374	\$ 135,266	\$ (3,892)	(3%)
Gross margin percentage	(54%)	19%	-	(7,300) bps
Net loss	\$ (16,331)	\$ (96,552)	\$ 80,221	83%
Net loss attributable to Canopy Growth Corporation	\$ (11,058)	\$ (32,061)	\$ 21,003	66%
Basic and diluted loss per share ¹	\$ (0.03)	\$ (0.09)	\$ 0.06	67%

¹For the three months ended September 30, 2021, the weighted average number of outstanding common shares, basic and diluted, totaled 393,274,758. For the three months ended September 30, 2020, the weighted average number of outstanding common shares, basic and diluted, totaled 371,520,534.

Revenue

We report net revenue in two segments: (i) global cannabis; and (ii) other consumer products. The following tables present segmented net revenue, by channel and by form, for the three months ended September 30, 2021 and 2020:

(in thousands of Canadian dollars)	Three months ended September 30,			
	2021	2020	\$ Change	% Change
Revenue by Channel				
Canadian recreational cannabis net revenue				
Business-to-business ¹	\$ 41,927	\$ 42,223	\$ (296)	(1%)
Business-to-consumer	16,652	18,709	(2,057)	(11%)
	58,579	60,932	(2,353)	(4%)
Canadian medical cannabis net revenue ²	13,093	13,888	(795)	(6%)
	71,672	74,820	(3,148)	(4%)
International and other revenue				
C ³	11,887	13,556	(1,669)	(12%)
Other	11,766	5,918	5,848	99%
	23,653	19,474	4,179	21%
Global cannabis net revenue	95,325	94,294	1,031	1%
Other consumer products				
Storz & Bickel	14,511	21,836	(7,325)	(34%)
This Works	9,027	7,833	1,194	15%
BioSteel	7,512	5,122	2,390	47%
Other	4,999	6,181	(1,182)	(19%)
Other consumer products revenue	36,049	40,972	(4,923)	(12%)
Net revenue	\$ 131,374	\$ 135,266	\$ (3,892)	(3%)

¹ Reflects excise taxes of \$12,913 and other revenue adjustments, representing our determination of returns and pricing adjustments, of \$nil for the three months ended September 30, 2021 (three months ended September 30, 2020 - excise taxes of \$14,200 and other revenue adjustments of \$3,750).

² Reflects excise taxes of \$1,361 for the three months ended September 30, 2021 (three months ended September 30, 2020 - \$1,362).

Revenue by Form <i>(in thousands of Canadian dollars)</i>	Three months ended September 30,		\$ Change	% Change
	2021	2020		
Canadian recreational cannabis				
Dry bud ¹	\$ 56,845	\$ 63,895	\$ (7,050)	(11%)
Oils and softgels ¹	5,472	7,021	(1,549)	(22%)
Beverages, edibles, topicals and vapes ¹	9,175	7,966	1,209	15%
Other revenue adjustments	-	(3,750)	3,750	100%
Excise taxes	(12,913)	(14,200)	1,287	9%
	58,579	60,932	(2,353)	(4%)
Medical cannabis and other				
Dry bud	9,115	9,836	(721)	(7%)
Oils and softgels	20,797	23,458	(2,661)	(11%)
Beverages, edibles, topicals and vapes	8,195	1,430	6,765	473%
Excise taxes	(1,361)	(1,362)	1	-
	36,746	33,362	3,384	10%
Global cannabis net revenue	95,325	94,294	1,031	1%
Other consumer products				
Storz & Bickel	14,511	21,836	(7,325)	(34%)
This Works	9,027	7,833	1,194	15%
BioSteel	7,512	5,122	2,390	47%
Other	4,999	6,181	(1,182)	(19%)
Other consumer products revenue	36,049	40,972	(4,923)	(12%)
Net revenue	\$ 131,374	\$ 135,266	\$ (3,892)	(3%)

¹ Excludes the impact of other revenue adjustments.

Net revenue was \$131.4 million in the second quarter of fiscal 2022, as compared to \$135.3 million in the second quarter of fiscal 2021. The year-over-year decrease is attributable to:

- A 12% decrease in revenue from our other consumer products segment, as a decline at our Storz & Bickel business was only partially offset by growth in our BioSteel and This Works businesses; and
- Growth of 1% in our global cannabis segment, which was primarily due to growth in our U.S. CBD business, largely offset by declines across our Canadian recreational and medical businesses, and C³.

Global cannabis

Net revenue from our global cannabis segment was \$95.3 million in the second quarter of fiscal 2022, as compared to \$94.3 million in the second quarter of fiscal 2021.

Canadian recreational cannabis net revenue was \$58.6 million in the second quarter of fiscal 2022, as compared to \$60.9 million in the second quarter of fiscal 2021.

- Net revenue from the business-to-business channel was \$41.9 million in the second quarter of fiscal 2022, as compared to \$42.2 million in the second quarter of fiscal 2021. In the second quarter of fiscal 2022, we were impacted primarily by (i) insufficient supply of in-demand dried flower products, driven by shifting consumer preferences for certain single strain and higher-potency dried flower products and smaller format pre-rolls; and (ii) continued price compression, particularly in the value-priced dried flower category of the recreational market. These factors were largely offset by the growth in our business from the acquisitions of Ace Valley and Supreme Cannabis in the first quarter of fiscal 2022 which, together, contributed revenue of \$14.2 million in the second quarter of fiscal 2022.
- Revenue from the business-to-consumer channel was \$16.7 million in the second quarter of fiscal 2022, as compared to \$18.7 million in the second quarter of fiscal 2021. The year-over-year decrease is primarily attributable to the rapid increase in the number of third-party owned retail stores across Canada, resulting in increased competition in the provinces in which we operate corporate-owned stores.

Canadian medical cannabis net revenue was \$13.1 million in the second quarter of fiscal 2022, a year-over-year decrease of \$0.8 million. While the broadening of our brand and medical cannabis product offerings to include pre-rolled joints, vapes, and premium dried flower products has benefited the average size of orders placed through our medical channel, we were impacted in the second

quarter of fiscal 2022 by a year-over-year decrease in the total number of medical orders, which was primarily related to the increasing number of recreational cannabis retail stores across Canada. With the build-out of the retail store network across Canada, customers are now offered greater availability and convenience in shopping for cannabis products.

International and other cannabis revenue was \$23.7 million in the second quarter of fiscal 2022, as compared to \$19.5 million in the second quarter of fiscal 2021.

- C³ contributed revenue of \$11.9 million in the second quarter of fiscal 2022, a year-over-year decrease of \$1.7 million driven primarily by increased competition in the synthetic cannabinoid market in Germany, and the impact of the stronger Canadian dollar relative to the prior year.
- Other cannabis revenue was \$11.8 million in the second quarter of fiscal 2022, a year-over-year increase of \$5.8 million primarily attributable to the growth in our U.S. CBD business, which was driven by the introduction of the Martha Stewart CBD line of products, Quatreau CBD beverages, and whisl CBD vapes over the last twelve months. Partially offsetting this increase was a year-over-year decrease associated with our German medical cannabis business, primarily related to increased competition and the impact of the stronger Canadian dollar relative to the prior year.

Other consumer products

Revenue from our other consumer products segment was \$36.0 million in the second quarter of fiscal 2022, as compared to \$41.0 million in the second quarter of fiscal 2021.

- Revenue from Storz & Bickel was \$14.5 million in the second quarter of fiscal 2022, a year-over-year decrease of \$7.3 million due primarily to (i) shipping restrictions and constraints impacting the delivery of our products; (ii) challenges in obtaining certain parts for our vaporizers due to global supply chain shortages and delays; (iii) the comparable period had benefited from consumers purchasing household items, such as vaporizers, due to closures and restrictions associated with the COVID-19 pandemic; and (iv) the impact of the stronger Canadian dollar relative to the prior year.
- Revenue from This Works was \$9.0 million in the second quarter of fiscal 2022, a year-over-year increase of \$1.2 million driven primarily by (i) the expansion of third-party e-commerce channels over the last year; and (ii) the adverse impact on revenue in the second quarter of fiscal 2021 due to the temporary closure of brick-and-mortar retail stores in the United Kingdom associated with the COVID-19 pandemic.
- Revenue from BioSteel was \$7.5 million in the second quarter of fiscal 2022, a year-over-year increase of \$2.4 million due primarily to (i) the expansion of our United States distribution network beginning in the fourth quarter of fiscal 2021; (ii) new “ready-to-drink” product launches during the last year; and (iii) the adverse impact on revenue in the second quarter of fiscal 2021 related to COVID-19 related restrictions on retailers.

Cost of Goods Sold and Gross Margin

The following table presents cost of goods sold, gross margin and gross margin percentage on a consolidated basis for the three months ended September 30, 2021 and 2020:

<i>(in thousands of Canadian dollars except where indicated)</i>	Three months ended September 30,			
	2021	2020	\$ Change	% Change
Net revenue	\$ 131,374	\$ 135,266	\$ (3,892)	(3%)
Cost of goods sold	\$ 202,514	\$ 109,186	\$ 93,328	85%
Gross margin	(71,140)	26,080	(97,220)	(373%)
Gross margin percentage	(54%)	19%	-	(7,300) bps

Cost of goods sold was \$202.5 million in the second quarter of fiscal 2022, as compared to \$109.2 million in the second quarter of fiscal 2021. Our gross margin was \$(71.1) million in the second quarter of fiscal 2022, or (54%) of net revenue, as compared to a gross margin of \$26.1 million and gross margin percentage of 19% of net revenue in the second quarter of fiscal 2021. The year-over-year decrease in the gross margin percentage was primarily attributable to inventory write-downs recorded in the second quarter of fiscal 2022. These write-downs were primarily related to excess Canadian cannabis inventory, resulting from underperformance relative to forecast as well as declines in expected near-term demand.

Our gross margin in the second quarter of fiscal 2022 was also impacted by the following items:

- A year-over-year decrease in net revenue and continued price compression in our Canadian recreational cannabis channel, as described above in our analysis of revenue for the second quarter of fiscal 2022.

- Higher third-party shipping, distribution and warehousing costs across North America resulting primarily from increased rates, which impacted our Canadian cannabis and U.S. CBD businesses, BioSteel, and Storz & Bickel.
- Charges totaling \$3.1 million related to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022. This compares to charges of \$0.3 million in the second quarter of fiscal 2021, which were associated with fiscal 2020 business combinations.

Our gross margin in the second quarter of fiscal 2022 benefited from payroll subsidies in the amount of \$6.9 million received from the Canadian government, pursuant to a COVID-19 relief program.

We report gross margin and gross margin percentage in two segments: (i) global cannabis; and (ii) other consumer products. The following table presents segmented gross margin and gross margin percentage for the three months ended September 30, 2021 and 2020:

<i>(in thousands of Canadian dollars except where indicated)</i>	Three months ended September 30,		\$ Change	% Change
	2021	2020		
Global cannabis segment				
Cost of goods sold	\$ 177,917	\$ 82,232	\$ 95,685	116%
Gross margin	(82,592)	12,062	(94,654)	785%
Gross margin percentage	(87%)	13%		(10,000) bps
Other consumer products segment				
Cost of goods sold	\$ 24,597	\$ 26,954	\$ (2,357)	(9%)
Gross margin	11,452	14,018	(2,566)	(18%)
Gross margin percentage	32%	34%		(200) bps

Global cannabis

Gross margin for our global cannabis segment was \$(82.6) million in the second quarter of fiscal 2022, or (87%) of net revenue, as compared to \$12.1 million in the second quarter of fiscal 2021, or 13% of net revenue. The year-over-year decrease in the gross margin percentage was primarily due to the inventory write-downs recorded in the second quarter of fiscal 2022 in relation to excess Canadian cannabis inventory, as described above in our analysis of gross margin on a consolidated basis. Additionally, we recorded charges totaling \$3.1 million related to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis. Our gross margin in the second quarter of fiscal 2022 benefited from payroll subsidies in the amount of \$6.9 million received from the Canadian government, pursuant to a COVID-19 relief program.

Other consumer products

Gross margin for our other consumer products segment was \$11.5 million in the second quarter of fiscal 2022, or 32% of net revenue, as compared to \$14.0 million in the second quarter of fiscal 2021, or 34% of net revenue. The year-over-year decrease in the gross margin percentage was primarily attributable to increased third-party shipping, distribution and warehousing costs across North America, which primarily impacted our Storz & Bickel and BioSteel businesses. The gross margin was also impacted by the year-over-year reduction in revenue for our Storz & Bickel business, as discussed above in our analysis of net revenue for the second quarter of fiscal 2022, and the resulting shift in the business mix towards an increased revenue contribution from the lower-margin BioSteel business.

Operating Expenses

The following table presents operating expenses for the three months ended September 30, 2021 and 2020:

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30,		\$ Change	% Change
	2021	2020		
Operating expenses				
General and administrative	\$ 35,545	\$ 69,555	\$ (34,010)	(49%)
Sales and marketing	64,534	43,373	21,161	49%
Research and development	8,764	14,166	(5,402)	(38%)
Acquisition-related costs	2,391	3,472	(1,081)	(31%)
Depreciation and amortization	14,522	16,687	(2,165)	(13%)
Selling, general and administrative expenses	125,756	147,253	(21,497)	(15%)
Share-based compensation	14,247	19,901	(5,654)	(28%)
Share-based compensation related to acquisition milestones	1,706	2,083	(377)	(18%)
Share-based compensation expense	15,953	21,984	(6,031)	(27%)
Expected credit losses on financial assets and related charges	-	94,745	(94,745)	(100%)
Asset impairment and restructuring costs	2,510	46,363	(43,853)	(95%)
Total operating expenses	\$ 144,219	\$ 310,345	\$ (166,126)	(54%)

Selling, general and administrative expenses

Selling, general and administrative expenses were \$125.8 million in the second quarter of fiscal 2022, as compared to \$147.3 million in the second quarter of fiscal 2021.

General and administrative expense was \$35.5 million in the second quarter of fiscal 2022, as compared to \$69.6 million in the second quarter of fiscal 2021. The year-over-year decrease is due primarily to a reduction in costs attributable to the restructuring actions initiated in the fourth quarter of fiscal 2020 and continuing through fiscal 2021, resulting from an organizational and strategic review of our business. As a result of these initiatives, we continued to realize reductions relative to the prior year primarily in relation to (i) compensation and third-party costs for finance, information technology, legal and other administrative functions; and (ii) professional consulting fees associated with the business review described above. Additionally, we received payroll subsidies in the amount of \$10.6 million from the Canadian government in the second quarter of fiscal 2022, pursuant to a COVID-19 relief program. These cost reductions were partially offset by an increase in general and administrative expenses associated with the growth in our business, particularly in relation to our acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

Sales and marketing expense was \$64.5 million in the second quarter of fiscal 2022, as compared to \$43.4 million in the second quarter of fiscal 2021. The year-over-year increase is primarily due to a return to more normal advertising and promotional spending in the second quarter of fiscal 2022, as in the first half of fiscal 2021 we delayed or cancelled various product and brand marketing initiatives across our business due to the measures established to contain the spread of COVID-19. Additionally, we incurred higher sponsorship fees associated with BioSteel's partnership deals, and increased advertising and promotion expenses associated with new product launches, most notably the launch of BioSteel's ready-to-drink beverages across the United States, and the introduction of our whisl, a CBD vape in the United States. We also incurred professional consulting fees associated with our selling, advertising and marketing strategies, and our costs increased as a result of the acquisitions of Supreme Cannabis and Ace Valley in the first quarter of fiscal 2022.

Research and development expense was \$8.8 million in the second quarter of fiscal 2022, as compared to \$14.2 million in the second quarter of fiscal 2021. The year-over-year decrease is primarily attributable to a reduction in costs due to the restructuring actions initiated in the fourth quarter of fiscal 2020 and continuing throughout fiscal 2021. As we rationalized our research and development activities to focus on opportunities outside of pharmaceutical drug development, we realized reductions in compensation costs and concluded or curtailed certain research and development projects for which we had incurred costs in fiscal 2020 and in the second quarter of fiscal 2021. Additionally, we realized a reduction in research and development costs associated with the closure of certain of our sites in Canada in the fourth quarter of fiscal 2021.

Acquisition-related costs were \$2.4 million in the second quarter of fiscal 2022, as compared to \$3.5 million in the second quarter of fiscal 2021. In the second quarter of fiscal 2022, costs were incurred primarily in relation to the plan to acquire Wana, as described in “Recent Developments” above, the completion of the acquisition of Supreme Cannabis, and evaluating other potential acquisition opportunities. Comparatively, in the second quarter of fiscal 2021, costs were primarily incurred in relation to the Acreage Amended Arrangement.

Depreciation and amortization expense was \$14.5 million in the second quarter of fiscal 2022, as compared to \$16.7 million in the second quarter of fiscal 2021. The year-over-year decrease is primarily associated with operational changes announced in December 2020, which resulted in the abandonment or impairment of certain of our Canadian production facilities and intangible assets, and the termination of a licensing agreement with a third party in the fourth quarter of fiscal 2021.

Share-based compensation expense

Share-based compensation expense was \$14.2 million in the second quarter of fiscal 2022, as compared to \$19.9 million in the second quarter of fiscal 2021. The year-over-year decrease is primarily attributable to:

- The completion of vesting, prior to the second quarter of fiscal 2022, of a significant number of stock options that were granted in previous fiscal years;
- The impact of our restructuring actions that commenced in the fourth quarter of fiscal 2020 and continued in fiscal 2021, which resulted in 8.2 million forfeitures in fiscal 2021 and 1.3 million forfeitures and cancellations in the first six months of fiscal 2022; and
- An overall decrease in the number of outstanding stock options resulting from the implementation of a new “Total Rewards Program” for our employees in the first half of fiscal 2020 and associated modification of our share-based compensation program, which reduced the number of stock option awards granted in the first six months of fiscal 2022. On a go-forward basis, we have determined to fix the regular timing of our annual long-term incentive grants to occur in June of each year, beginning in fiscal 2022. Accordingly, there were no stock option grants in the second quarter of fiscal 2022.

Share-based compensation expense related to acquisition milestones was \$1.7 million in the second quarter of fiscal 2022, as compared to \$2.1 million in the second quarter of fiscal 2021. The year-over-year decrease is primarily related to the completion of vesting, in prior quarters, of the share-based compensation associated with the acquisitions of ebbu Inc. (“ebbu”) and Spectrum Cannabis Denmark Aps (“Spectrum Denmark”). Therefore, there was no share-based compensation expense recognized with respect to these acquisitions in the second quarter of fiscal 2022.

Expected credit losses on financial assets and related charges

In the second quarter of fiscal 2021, we recorded expected credit losses on financial assets and related charges in the amount of \$94.7 million, in relation to PharmHouse Inc. (“PharmHouse”), a joint venture formed between RIV Capital Inc. (“RIV Capital”) and its joint venture partner in May 2018. These expected credit losses and related charges were recognized through February 23, 2021, the date on which a plan of arrangement (the “RIV Arrangement”) was completed pursuant to which we surrendered all shares in the capital of RIV Capital held by us, and derecognized RIV Capital’s consolidated assets and liabilities from our consolidated financial statements. These expected credit losses and related charges included:

- \$54.7 million related to expected credit losses associated with financing provided by RIV Capital to PharmHouse, and which we determined may not be recoverable. The amounts included (i) \$40.0 million of secured debt financing advanced pursuant to a shareholder loan; (ii) \$2.1 million advanced under a debtor-in-possession, non-revolving credit facility; (iii) a total of \$3.7 million advanced under secured and unsecured promissory notes; and (iv) associated interest receivable totaling \$8.9 million;
- \$25.0 million related to expected credit losses recognized for RIV Capital’s contingent obligation to perform on the financial guarantee they provided with respect to PharmHouse’s \$90.0 million credit agreement. The expected credit losses reflected the shortfall between the estimated recoverable amount of PharmHouse and RIV Capital’s exposure under their financial guarantee of PharmHouse’s credit agreement;
- \$15.0 million related to certain advances provided by RIV Capital to PharmHouse that were determined to be unrecoverable.

Additionally, we determined that there was an other-than-temporary impairment on our equity investment in PharmHouse, and recognized an impairment charge for the full amount of the investment of \$32.4 million (see “Loss from equity method investments” below).

Asset impairment and restructuring costs

Asset impairment and restructuring costs recorded in operating expenses were \$2.5 million in the second quarter of fiscal 2022, as compared to \$46.4 million in the second quarter of fiscal 2021.

In the second quarter of fiscal 2022, we recorded charges of \$2.5 million primarily related to incremental costs associated with the closure of previously-identified Canadian production facilities in December 2020. Comparatively, in the second quarter of fiscal 2021, we recognized asset impairment and restructuring costs of \$46.4 million in relation to (i) adjustments related to changes in the estimated fair value of certain Canadian production facilities from March 31, 2020; and (ii) charges related to rationalizing certain research and development activities.

Other

The following table presents loss from equity method investments, other income (expense), net, and income tax (expense) recovery for the three months ended September 30, 2021 and 2020:

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30,		\$ Change	% Change
	2021	2020		
Loss from equity method investments	\$ -	\$ (32,991)	\$ 32,991	100%
Other income (expense), net	195,821	221,256	(25,435)	(11%)
Income tax recovery (expense)	3,207	(552)	3,759	681%

Loss from equity method investments

The loss from equity method investments was \$nil in the second quarter of fiscal 2022, as compared to \$33.0 million in the second quarter of fiscal 2021. The year-over-year decrease in the loss is primarily attributable to impairment charges of \$32.4 million recognized in the second quarter of fiscal 2021 relating to our equity investment in PharmHouse, as discussed above under “Expected credit losses on financial assets and related charges”. Additionally, as our remaining investment in Agripharm Corp. (“Agripharm”) was impaired in the first quarter of fiscal 2022, no equity method losses were recognized in the second quarter of fiscal 2022.

Other income (expense), net

Other income (expense), net was an income amount of \$195.8 million in the second quarter of fiscal 2022, as compared to an income amount of \$221.3 million in the second quarter of fiscal 2021. The year-over-year decrease in income of \$25.4 million is primarily attributable to:

- Change of \$361.5 million related to non-cash fair value changes on our other financial assets, from an income amount of \$82.1 million in the second quarter of fiscal 2021 to an expense amount of \$279.4 million in the second quarter of fiscal 2022. The current quarter expense amount is primarily attributable to fair value decreases relating to our investments in the exchangeable shares in the capital of TerrAscend Corp. (“TerrAscend”) (\$166.0 million), and the secured debentures issued by TerrAscend Canada Inc. (“TerrAscend Canada”) and Arise Bioscience and associated warrants issued by TerrAscend (the “TerrAscend Warrants”) (totaling \$109.0 million), driven largely by (i) a decrease of approximately 38% in TerrAscend’s share price in the second quarter of fiscal 2022; and (ii) re-assessments of the probability and timing of changes in federal laws in the United States regarding the permissibility of the cultivation, distribution or possession of marijuana in the second quarter of fiscal 2022. Comparatively, in the second quarter of fiscal 2021 the income amount was primarily attributable to fair value increases relating to our investments in the TerrAscend exchangeable shares (\$61.0 million), and the TerrAscend Canada secured debentures and TerrAscend Warrants (totaling \$55.9 million), driven largely by an increase of approximately 101% in TerrAscend’s share price from July 1, 2020 to September 30, 2020.
- Increase in interest expense of \$25.1 million, from \$1.5 million in the second quarter of fiscal 2021 to \$26.6 million in the second quarter of fiscal 2022. The year-over-year increase is primarily attributable to the US\$750 million debt financing that occurred in the fourth quarter of fiscal 2021.
- Increase in non-cash income of \$199.8 million related to the non-cash fair value changes on the liability arising from the Acreage Arrangement, from \$88.2 million in the second quarter of fiscal 2021 to \$288.0 million in the second quarter of fiscal 2022. On a quarterly basis, we determine the fair value of the liability arising from the Acreage Arrangement using a probability-weighted expected return model, incorporating several potential scenarios and outcomes associated with the Acreage Amended Arrangement. The income amount recognized in the first quarter of fiscal 2022, associated with a decrease in the liability arising from the Acreage Arrangement, is primarily attributable to a decrease of approximately 41% in our share price from July 1, 2021 to September 30, 2021, relative to a decrease of approximately 9% in Acreage’s share price during that same period. As a result, the model at September 30, 2021 reflects a lower estimated value of the Canopy Growth shares expected to be issued at the exchange ratio of 0.3048 upon a Triggering Event, relative to the estimated value of the Acreage shares expected to be acquired at that time (changes in our share price have a more significant impact on the model relative to changes in Acreage’s share price); this resulted in a reduction of the liability amount. Comparatively, the income amount recognized in the second quarter of fiscal 2021 was primarily attributable to the implementation of the Acreage Amended Arrangement in September 2020 which resulted in (i) an incremental payment to Acreage shareholders of US\$37.5 million (\$49.8 million); (ii) the loan advance of US\$50.0 million (\$67.0 million) to Universal Hemp, LLC, a wholly-owned subsidiary

of Acreage (“Acreage Hempco”) pursuant to the debenture; and (iii) the removal of the uncertainties related to the approval and implementation of the terms of the Acreage Amended Arrangement that existed at June 30, 2020 and had impacted our model and resulted in a higher liability amount at that time.

- Increase in non-cash income of \$129.4 million related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI (as defined in Note 27 of the Interim Financial Statements). The decrease of \$194.5 million in the fair value of the warrant derivative liability (resulting in non-cash income) in the second quarter of fiscal 2022 is primarily attributable to a decrease of approximately 41% in our share price from July 1, 2021 to September 30, 2021, further impacted by a shorter expected time to maturity of the warrants. Comparatively, the decrease of \$65.2 million in the fair value of the warrant derivative liability in the second quarter of fiscal 2021 was primarily attributable to a decline of approximately 15% in our share price from July 1, 2020 to September 30, 2020 and changes during the quarter in certain other assumptions used to value the liability, including the risk-free rate.
- Change of \$42.0 million related to the non-cash fair value changes on the Notes, from an expense amount of \$11.9 million in the second quarter of fiscal 2021 to an income amount of \$30.0 million in the second quarter of fiscal 2022. The year-over-year change is primarily due to the decrease of approximately 41% in our share price in the second quarter of fiscal 2022, as compared to a decline of approximately 15% in our share price in the second quarter of fiscal 2021, along with year-over-year changes in credit spreads.

Income tax recovery (expense)

Income tax recovery in the second quarter of fiscal 2022 was \$3.2 million, compared to income tax expense of \$0.6 million in the second quarter of fiscal 2021. In the second quarter of fiscal 2022, income tax recovery consisted of a deferred income tax recovery of \$1.4 million (compared to a recovery of \$1.1 million in the second quarter of fiscal 2021) and current income tax recovery of \$1.8 million (compared to an expense of \$1.6 million in the second quarter of fiscal 2021).

The increase of \$0.3 million in the deferred income tax recovery is primarily a result of recording a reduction in deferred tax liabilities that arose in connection with the required revaluation of the accounting carrying value, but not the tax basis, of property, plant and equipment, intangible assets, and other financial assets. In connection with certain deferred tax assets, mainly in respect to losses for tax purposes, where the accounting criteria for recognition of an asset has yet to be satisfied and it is not probable that they will be used, the deferred tax asset has not been recognized.

The change of \$3.4 million from current income tax expense to recovery arose primarily in connection with legal entities that generated income for tax purposes that could not be reduced by the group’s tax attributes, net of prior years’ return to provision tax recovery.

Net Loss

The net loss in the second quarter of fiscal 2022 was \$16.3 million, as compared to a net loss of \$96.6 million in the second quarter of fiscal 2021. The year-over-year decrease in the net loss is primarily attributable to the year-over-year decreases in (i) expected credit losses on financial assets and related charges; (ii) asset impairment and restructuring costs; and (iii) the loss from equity method investments. These changes, contributing to a decrease in the net loss, were partially offset by the year-over-year decrease in our gross margin. These variances are described above.

Adjusted EBITDA (Non-GAAP Measure)

Our “Adjusted EBITDA” is a non-GAAP measure used by management that is not defined by U.S. GAAP and may not be comparable to similar measures presented by other companies. Management calculates Adjusted EBITDA as the reported net income (loss), adjusted to exclude income tax recovery (expense); other income (expense), net; loss on equity method investments; share-based compensation expense; depreciation and amortization expense; asset impairments and restructuring costs; restructuring costs recorded in cost of goods sold; and charges related to the flow-through of inventory step-up on business combinations, and further adjusted to remove acquisition-related costs. Asset impairments related to periodic changes to our supply chain processes are not excluded from Adjusted EBITDA given their occurrence through the normal course of core operational activities. Accordingly, management believes that Adjusted EBITDA provides meaningful and useful financial information as this measure demonstrates the operating performance of businesses.

The following table presents Adjusted EBITDA for the three months ended September 30, 2021 and 2020:

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30,		\$ Change	% Change
	2021	2020		
Net loss	\$ (16,331)	\$ (96,552)	\$ 80,221	83%
Income tax (recovery) expense	(3,207)	552	(3,759)	(681%)
Other (income) expense, net	(195,821)	(221,256)	25,435	11%
Loss on equity method investments	-	32,991	(32,991)	(100%)
Share-based compensation ¹	15,953	21,984	(6,031)	(27%)
Acquisition-related costs	2,391	3,472	(1,081)	(31%)
Depreciation and amortization ¹	28,780	31,758	(2,978)	(9%)
Asset impairment and restructuring costs	2,510	46,363	(43,853)	(95%)
Expected credit losses on financial assets and related charges	-	94,745	(94,745)	(100%)
Charges related to the flow-through of inventory step-up on business combinations	3,123	281	2,842	1011%
Adjusted EBITDA	<u>\$ (162,602)</u>	<u>\$ (85,662)</u>	<u>\$ (76,940)</u>	<u>(90%)</u>

¹ From Statements of Cash Flows.

The Adjusted EBITDA loss in the second quarter of fiscal 2022 was \$162.6 million, as compared to an Adjusted EBITDA loss of \$85.7 million in the second quarter of fiscal 2021. The year-over-year increase in the Adjusted EBITDA loss is primarily attributable to the year-over-year decrease in our gross margin, partially offset by the reduction in our total selling, general and administrative expense. These variances are described above.

Discussion of Results of Operations for the Six Months Ended September 30, 2021

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Six months ended September 30,			
	2021	2020	\$ Change	% Change
Selected consolidated financial information:				
Net revenue	\$ 267,583	\$ 245,682	\$ 21,901	9%
Gross margin percentage	(16%)	13%	-	(2,900) bps
Net income (loss)	\$ 373,624	\$ (224,874)	\$ 598,498	266%
Net income (loss) attributable to Canopy Growth Corporation	\$ 381,360	\$ (140,562)	\$ 521,922	371%
Basic earnings (loss) per share ¹	\$ 0.98	\$ (0.38)	\$ 1.36	358%
Diluted earnings (loss) per share ¹	\$ 0.72	\$ (0.38)	\$ 1.10	289%

¹For the six months ended September 30, 2021, the weighted average number of outstanding common shares, basic and diluted, totaled 388,696,975 and 409,158,915, respectively. For the six months ended September 30, 2020, the weighted average number of outstanding common shares, basic and diluted, totaled 367,663,135.

Revenue

We report net revenue in two segments: (i) global cannabis; and (ii) other consumer products. The following tables present segmented net revenue, by channel and by form, for the six months ended September 30, 2021 and 2020:

(in thousands of Canadian dollars)	Six months ended September 30,			
	2021	2020	\$ Change	% Change
Revenue by Channel				
Canadian recreational cannabis net revenue				
Business-to-business ¹	\$ 84,620	\$ 77,157	\$ 7,463	10%
Business-to-consumer	33,996	28,039	5,957	21%
	118,616	105,196	13,420	13%
Canadian medical cannabis net revenue ²	26,585	27,798	(1,213)	(4%)
	145,201	132,994	12,207	9%
International and other revenue				
C ³	23,330	28,925	(5,595)	(19%)
Other	19,733	11,657	8,076	69%
	43,063	40,582	2,481	6%
Global cannabis net revenue	188,264	173,576	14,688	8%
Other consumer products				
Storz & Bickel	38,581	38,956	(375)	(1%)
This Works	15,578	13,882	1,696	12%
BioSteel	14,173	7,570	6,603	87%
Other	10,987	11,698	(711)	(6%)
Other consumer products revenue	79,319	72,106	7,213	10%
Net revenue	\$ 267,583	\$ 245,682	\$ 21,901	9%

¹ Reflects excise taxes of \$30,747 and other revenue adjustments, representing our determination of returns and pricing adjustments, of \$3,000 for the six months ended September 30, 2021 (six months ended September 30, 2020 - excise taxes of \$21,446 and other revenue adjustments of \$7,150).

² Reflects excise taxes of \$2,741 for the six months ended September 30, 2021 (six months ended September 30, 2020 - \$2,788).

Revenue by Form

(in thousands of Canadian dollars)

	Six months ended September 30,		\$ Change	% Change
	2021	2020		
Canadian recreational cannabis				
Dry bud ¹	\$ 122,815	\$ 104,024	\$ 18,791	18%
Oils and softgels ¹	11,213	14,742	(3,529)	(24%)
Beverages, edibles, topicals and vapes ¹	18,335	15,026	3,309	22%
Other revenue adjustments	(3,000)	(7,150)	4,150	58%
Excise taxes	(30,747)	(21,446)	(9,301)	(43%)
	118,616	105,196	13,420	13%
Medical cannabis and other				
Dry bud	18,726	20,668	(1,942)	(9%)
Oils and softgels	41,313	48,673	(7,360)	(15%)
Beverages, edibles, topicals and vapes	12,350	1,827	10,523	576%
Excise taxes	(2,741)	(2,788)	47	2%
	69,648	68,380	1,268	2%
Global cannabis net revenue	188,264	173,576	14,688	8%
Other consumer products				
Storz & Bickel	38,581	38,956	(375)	(1%)
This Works	15,578	13,882	1,696	12%
BioSteel	14,173	7,570	6,603	87%
Other	10,987	11,698	(711)	(6%)
Other consumer products revenue	79,319	72,106	7,213	10%
Net revenue	\$ 267,583	\$ 245,682	\$ 21,901	9%

¹ Excludes the impact of other revenue adjustments.

Net revenue was \$267.6 million in the six months ended September 30, 2021, as compared to \$245.7 million in the six months ended September 30, 2020. The year-over-year increase is attributable to:

- Growth in our other consumer products segment, which was primarily due to the growth in our BioSteel and This Works businesses; and
- Growth in our global cannabis segment, which was primarily due to the performance of our Canadian recreational business-to-business and business-to-consumer channels and our U.S. CBD business.

Global cannabis

Net revenue from our global cannabis segment was \$188.3 million in the six months ended September 30, 2021, as compared to \$173.6 million in the six months ended September 30, 2020.

Canadian recreational cannabis net revenue was \$118.6 million in the six months ended September 30, 2021, as compared to \$105.2 million in the six months ended September 30, 2020.

- Net revenue from the business-to-business channel was \$84.6 million in the six months ended September 30, 2021, as compared to \$77.2 million in the six months ended September 30, 2020. The year-over-year increase is primarily attributable to (i) the overall increase in demand resulting from the opening of 1,226 new retail stores across Canada since September 30, 2020, of which 643 opened in the six months ended September 30, 2021; and (ii) the growth in our business from the acquisitions of Ace Valley on April 1, 2021, and Supreme Cannabis on June 22, 2021. Together, these acquisitions contributed revenue of \$19.1 million in the six months ended September 30, 2021. Partially offsetting these factors were the impacts, in the six months ended September 30, 2021 of (i) an insufficient supply of in-demand dried flower products, as described above in our analysis of revenue for the second quarter of fiscal 2022; (ii) an unfavorable product mix, due primarily to an increase in the volume of value-priced dried flower product sold compared to the prior year; (iii) continued price compression resulting from increased competition in the value-priced dried flower category of the recreational market.
- Revenue from the business-to-consumer channel was \$34.0 million in the six months ended September 30, 2021, as compared to \$28.0 million in the six months ended September 30, 2020. The year-over-year increase is primarily attributable to (i) the build-out of our retail store platform across Canada to 34 corporate-owned Tweed and Tokyo Smoke retail stores, an increase from 32 stores at September 30, 2020; and (ii) in the six months ended September 30, 2020, revenue from our business-to-consumer channel was impacted by the temporary closures of our retail stores and other operating restrictions implemented in

response to the COVID-19 pandemic; upon their re-opening, beginning in mid-April 2020, our retail stores largely operated with reduced hours and under a “click-and-collect” model with curbside pickup or delivery. These factors were partially offset by the rapid build-out of third-party owned retail stores across Canada, resulting in increased competition in the provinces in which we operate corporate-owned stores.

Canadian medical cannabis net revenue was \$26.6 million in the six months ended September 30, 2021, a decrease of 4% as compared to the six months ended September 30, 2020 due primarily to a year-over-year decrease in the total number of medical orders associated with the increase in the number of recreational cannabis retail stores across Canada, partially offset by an increase in the average order size.

International and other cannabis revenue was \$43.1 million in the six months ended September 30, 2021, as compared to \$40.6 million in the six months ended September 30, 2020.

- C³ contributed revenue of \$23.3 million in the six months ended September 30, 2021, a year-over-year decrease of \$5.6 million driven primarily by (i) a limitation on sales activities associated with COVID-19 restrictions, particularly in the first quarter of fiscal 2022; (ii) increased competition in the synthetic cannabinoid market in Germany; and (iii) the impact of the stronger Canadian dollar relative to the prior year.
- Other cannabis revenue was \$19.7 million in the six months ended September 30, 2021, a year-over-year increase of \$8.1 million primarily attributable to the growth in our U.S. CBD business, which was driven by the introduction of the Martha Stewart CBD line of products, Quatreau CBD beverages, and whisl CBD vapes over the last twelve months. Partially offsetting this was a year-over-year decrease associated with our German medical cannabis business, primarily related to (i) increased competition; (ii) the stockpiling of cannabis products by German pharmacies in the six months ended September 30, 2020 in response to COVID-19 related restrictions on trade and business operations; and (iii) the impact of the stronger Canadian dollar relative to the prior year.

Other consumer products

Revenue from our other consumer products segment was \$79.3 million in the six months ended September 30, 2021, as compared to \$72.1 million in the six months ended September 30, 2020.

- Revenue from Storz & Bickel was \$38.6 million in the six months ended September 30, 2021, a slight decrease of 1% as compared to the six months ended September 30, 2020.
- Revenue from This Works was \$15.6 million in the six months ended September 30, 2021, a year-over-year increase of \$1.7 million driven primarily by (i) the expansion of third-party e-commerce channels over the last year; and (ii) the adverse impact on revenue in six months ended September 30, 2020 resulting from the temporary closure of brick-and-mortar retail stores in the United Kingdom associated with the COVID-19 pandemic.
- Revenue from BioSteel was \$14.2 million, a year-over-year increase of \$6.6 million due primarily to (i) the expansion of our United States distribution network beginning in the fourth quarter of fiscal 2021; (ii) new “ready-to-drink” product launches during the last year; and (iii) the adverse impact on revenue in the six months ended September 30, 2020 related to COVID-19 related restrictions on retailers.

Cost of Goods Sold and Gross Margin

The following table presents cost of goods sold, gross margin and gross margin percentage on a consolidated basis for the six months ended September 30, 2021 and 2020:

<i>(in thousands of Canadian dollars except where indicated)</i>	Six months ended September 30,		\$ Change	% Change
	2021	2020		
Net revenue	\$ 267,583	\$ 245,682	\$ 21,901	9%
Cost of goods sold	\$ 311,485	\$ 213,107	\$ 98,378	46%
Gross margin	(43,902)	32,575	(76,477)	(235%)
Gross margin percentage	(16%)	13%	-	(2,900) bps

Cost of goods sold was \$311.5 million in the six months ended September 30, 2021, as compared to \$213.1 million in the six months ended September 30, 2020. Our gross margin was \$(43.9) million in the six months ended September 30, 2021, or (16%) of net revenue, as compared to a gross margin of \$32.6 million and gross margin percentage of 13% of net revenue in the six months ended September 30, 2020. The year-over-year decrease in the gross margin percentage was primarily attributable to the inventory write-downs recorded in the second quarter of fiscal 2022 in relation to excess Canadian cannabis inventory, as described above in our

analysis of “Cost of Goods Sold and Gross Margin” within our discussion of our results of operations for the second quarter of fiscal 2022.

Our gross margin in the six months ended September 30, 2021 was also impacted by the following items:

- Higher third-party shipping, distribution and warehousing costs across North America resulting primarily from increased rates, which impacted our Canadian cannabis and U.S. CBD businesses, BioSteel, and Storz & Bickel.
- Charges totaling \$4.5 million related to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022. This compares to charges of \$1.5 million in the six months ended September 30, 2020, which were associated with fiscal 2020 business combinations.

Our gross margin in the six months ended September 30, 2021 benefited from payroll subsidies in the amount of \$14.2 million received from the Canadian government, pursuant to a COVID-19 relief program.

We report gross margin and gross margin percentage in two segments: (i) global cannabis; and (ii) other consumer products. The following table presents segmented gross margin and gross margin percentage for the six months ended September 30, 2021 and 2020:

<i>(in thousands of Canadian dollars except where indicated)</i>	Six months ended September 30,		\$ Change	% Change
	2021	2020		
Global cannabis segment				
Cost of goods sold	\$ 257,487	\$ 168,372	\$ 89,115	53%
Gross margin	<u>(69,223)</u>	<u>5,204</u>	<u>(74,427)</u>	<u>(1430%)</u>
Gross margin percentage	<u>(37%)</u>	<u>3%</u>		<u>(4,000) bps</u>
Other consumer products segment				
Cost of goods sold	\$ 53,998	\$ 44,735	\$ 9,263	21%
Gross margin	<u>25,321</u>	<u>27,371</u>	<u>(2,050)</u>	<u>(7%)</u>
Gross margin percentage	<u>32%</u>	<u>38%</u>		<u>(600) bps</u>

Global cannabis

Gross margin for our global cannabis segment was \$(69.2) million in the six months ended September 30, 2021, or (37%) of net revenue, as compared to \$5.2 million in the six months ended September 30, 2020, or 3% of net revenue. The year-over-year decrease in the gross margin percentage was primarily attributable to the inventory write-downs recorded in the second quarter of fiscal 2022 in relation to excess Canadian cannabis inventory, as described above in our analysis of “Cost of Goods Sold and Gross Margin” within our discussion of our results of operations for the second quarter of fiscal 2022. Additionally, we recorded charges totaling \$4.5 million in the six months ended September 30, 2021 related to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis. Our gross margin in the six months ended September 30, 2021 benefited from payroll subsidies in the amount of \$14.2 million received from the Canadian government pursuant to a COVID-19 relief program.

Other consumer products

Gross margin for our other consumer products segment was \$25.3 million in the six months ended September 30, 2021, or 32% of net revenue, as compared to \$27.4 million in the six months ended September 30, 2020, or 38% of net revenue. The year-over-year decrease in the gross margin percentage was primarily attributable to increased third-party shipping, distribution and warehousing costs across North America, which primarily impacted Storz & Bickel and BioSteel. The effect of this was compounded by a shift in the business mix towards an increased revenue contribution from the lower-margin BioSteel business.

Operating Expenses

The following table presents operating expenses for the six months ended September 30, 2021 and 2020:

<i>(in thousands of Canadian dollars)</i>	Six months ended September 30,		\$ Change	% Change
	2021	2020		
Operating expenses				
General and administrative	\$ 69,222	\$ 134,382	\$ (65,160)	(48%)
Sales and marketing	115,066	81,142	33,924	42%
Research and development	17,106	27,825	(10,719)	(39%)
Acquisition-related costs	8,171	4,866	3,305	68%
Depreciation and amortization	28,765	34,430	(5,665)	(16%)
Selling, general and administrative expenses	238,330	282,645	(44,315)	(16%)
Share-based compensation	25,674	48,460	(22,786)	(47%)
Share-based compensation related to acquisition milestones	3,405	4,209	(804)	(19%)
Share-based compensation expense	29,079	52,669	(23,590)	(45%)
Expected credit losses on financial assets and related charges	-	94,745	(94,745)	(100%)
Asset impairment and restructuring costs	91,759	59,157	32,602	55%
Total operating expenses	\$ 359,168	\$ 489,216	\$ (130,048)	(27%)

Selling, general and administrative expenses

Selling, general and administrative expenses were \$238.3 million in the six months ended September 30, 2021, as compared to \$282.6 million in the six months ended September 30, 2020.

General and administrative expense was \$69.2 million in the six months ended September 30, 2021, as compared to \$134.4 million in the six months ended September 30, 2020. The year-over-year decrease is due primarily to a reduction in costs attributable to the restructuring actions initiated in the fourth quarter of fiscal 2020 and continuing through fiscal 2021, resulting from an organizational and strategic review of our business. As a result of these restructuring actions, we continued to realize reductions relative to the prior year primarily related to (i) compensation and third-party costs for finance, information technology, legal and other administrative functions; and (ii) professional consulting fees associated with the business review described above. Additionally, we received payroll subsidies in the amount of \$23.3 million from the Canadian government in the six months ended September 30, 2021, pursuant to a COVID-19 relief program. These cost reductions were partially offset by an increase in general and administrative expenses associated with the growth in our business, particularly in relation to our acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

Sales and marketing expense was \$115.1 million in the six months ended September 30, 2021, as compared to \$81.1 million in the six months ended September 30, 2020. The year-over-year increase is primarily due to a return to more normal advertising and promotional spending in the six months ended September 30, 2021. In the first half of fiscal 2021, we delayed or cancelled various product and brand marketing initiatives across our business due to the measures established to contain the spread of COVID-19. Additionally, relative to the six months ended September 30, 2021, we incurred (i) higher sponsorship fees associated with BioSteel's partnership deals; (ii) increased advertising and promotion expenses associated with new product launches for BioSteel and our U.S. CBD business; (iii) professional consulting fees associated with our selling, advertising and marketing strategies; and (iv) increased sales and marketing costs associated with our acquisition of Supreme Cannabis and Ace Valley in the first quarter of fiscal 2022.

Research and development expense was \$17.1 million in the six months ended September 30, 2021, as compared to \$27.8 million in the six months ended September 30, 2020. The year-over-year decrease is primarily attributable to a reduction in costs due to the restructuring actions initiated in the fourth quarter of fiscal 2020 and continuing throughout fiscal 2021. We realized reductions in compensation costs and concluded or curtailed certain research and development projects as we rationalized our initiatives to focus on opportunities outside of pharmaceutical drug development. Further, projects planned for fiscal 2022 have been slow to launch, and we realized a reduction in research and development costs associated with the closure of certain of our sites in Canada in the fourth quarter of fiscal 2021.

Acquisition-related costs were \$8.2 million in the six months ended September 30, 2021, as compared to \$4.9 million in the six months ended September 30, 2020. In the six months ended September 30, 2021, costs were incurred in relation to the acquisitions of Supreme Cannabis and Ace Valley, the plan to acquire Wana, as described in “Recent Developments” above, and evaluating other potential acquisition opportunities. Comparatively, in the six months ended September 30, 2020, costs were primarily incurred in relation to entering into, and implementing, the Acreage Amended Arrangement.

Depreciation and amortization expense was \$28.8 million in the six months ended September 30, 2021, as compared to \$34.4 million in the six months ended September 30, 2020. The year-over-year decrease is primarily associated with operational changes announced in December 2020, which resulted in the abandonment or impairment of certain of our Canadian production facilities and intangible assets, and the termination of a licensing agreement with a third party in the fourth quarter of fiscal 2021.

Share-based compensation expense

Share-based compensation expense was \$25.7 million in the six months ended September 30, 2021, as compared to \$48.5 million in the six months ended September 30, 2020. The year-over-year decrease is primarily attributable to:

- The completion of vesting, prior to the six months ended September 30, 2021, of a significant number of stock options that were granted in previous fiscal years;
- The impact of our restructuring actions that commenced in the fourth quarter of fiscal 2020 and continued in fiscal 2021, which resulted in 8.2 million forfeitures in fiscal 2021 and 1.3 million forfeitures in the six months ended September 30, 2021; and
- An overall decrease in the number of outstanding stock options resulting from the implementation of a new “Total Rewards Program” for our employees in the first half of fiscal 2020 and associated modification of our share-based compensation program, which reduced the number of stock option awards granted in the first six months of fiscal 2022. On a go-forward basis, we have determined to fix the regular timing of our annual long-term incentive grants to occur in June of each year, beginning in fiscal 2022.

Share-based compensation expense related to acquisition milestones was \$3.4 million in the six months ended September 30, 2021, as compared to \$4.2 million in the six months ended September 30, 2020. The year-over-year decrease is primarily related to the completion of vesting, in prior quarters, of the share-based compensation associated with the acquisitions of ebbu and Spectrum Denmark. Therefore, there was no share-based compensation expense recognized with respect to these acquisitions in the six months ended September 30, 2021.

Expected credit losses on financial assets and related charges

In the six months ended September 30, 2021, we recorded expected credit losses on financial assets and related charges in the amount of \$94.7 million, as described above in “Expected credit losses on financial assets and related charges”, within our discussion of our results of operations for the second quarter of fiscal 2022.

Asset impairment and restructuring costs

Asset impairment and restructuring costs recorded in operating expenses were \$91.8 million in the six months ended September 30, 2021, as compared to \$59.2 million in the six months ended September 30, 2020.

In the six months ended September 30, 2021, we recorded charges related to operational changes resulting from the continuing strategic review of our business as a result of recent acquisition activities, which will result in the closure of our Niagara-on-the-Lake, Ontario and Langley, British Columbia facilities. Additionally, we recognized incremental costs associated with the closure of previously-identified Canadian production facilities in December 2020. Charges totaling \$91.8 million were recognized in the six months ended September 30, 2021, primarily representing the difference between the net book value of the associated long-lived assets and their estimated fair value.

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

Other

The following table presents loss from equity method investments, other income (expense), net, and income tax (expense) recovery for the six months ended September 30, 2021 and 2020:

<i>(in thousands of Canadian dollars)</i>	Six months ended September 30,		\$ Change	% Change
	2021	2020		
Loss from equity method investments	\$ (100)	\$ (40,180)	\$ 40,080	100%
Other income (expense), net	776,487	269,461	507,026	188%
Income tax recovery	307	2,486	(2,179)	(88%)

Loss from equity method investments

The loss from equity method investments was \$0.1 million in the six months ended September 30, 2021, as compared to \$40.2 million in the six months ended September 30, 2020. The year-over-year decrease in the loss is primarily attributable to impairment charges of \$32.4 million recognized in the second quarter of fiscal 2021 relating to our equity investment in PharmHouse, as described above in “Expected credit losses on financial assets and related charges”, within our discussion of our results of operations for the second quarter of fiscal 2022. Additionally, in the six months ended September 30, 2020, we recognized losses associated with our equity investments in both PharmHouse and Agripharm; as these investments were impaired in fiscal 2021, we recognized only a nominal impairment of our remaining investment in Agripharm in the six months ended September 30, 2021.

Other income (expense), net

Other income (expense), net was an income amount of \$776.5 million in the six months ended September 30, 2021, as compared to an income amount of \$269.5 million in the six months ended September 30, 2020. The year-over-year increase in income of \$507.0 million is primarily attributable to:

- Increase in non-cash income of \$410.3 million related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI. The decrease of \$510.8 million in the fair value of the warrant derivative liability (resulting in non-cash income) in the six months ended September 30, 2021 is primarily attributable to a decrease of approximately 57% in our share price from April 1, 2021 to September 30, 2021, further impacted by a shorter expected time to maturity of the warrants. Comparatively, the decrease of \$100.5 million in the fair value of the warrant derivative liability in the six months ended September 30, 2020 was primarily attributable to changes during the period in certain of the assumptions used to value the liability, most notably the decrease in the risk-free interest rate and a slight decrease in the price of our common shares, and the shorter time to maturity of the warrants.
- Increase in non-cash income of \$384.8 million related to the non-cash fair value changes on the liability arising from the Acreage Arrangement, from \$53.2 million in the six months ended September 30, 2020 to \$438.0 million in the six months ended September 30, 2021. The income amount recognized in the six months ended September 30, 2021, associated with a decrease in the liability arising from the Acreage Arrangement, is primarily attributable to a decrease of approximately 57% in our share price from April 1, 2021 to September 30, 2021, relative to a decrease of approximately 32% in Acreage’s share price during that same period. As a result, the model at September 30, 2021 reflects a lower estimated value of the Canopy Growth shares expected to be issued upon a Triggering Event, relative to the estimated value of the Acreage shares expected to be acquired at that time; this resulted in a reduction of the liability amount. Comparatively, the income amount recognized in the six months ended September 30, 2020 was primarily attributable to the implementation of the Acreage Amended Arrangement in September 2020, as described above in “Other income (expense), net” within our discussion of our results of operations for the second quarter of fiscal 2022. Specifically, the Acreage Amended Arrangement included a reset of the exchange ratio and resulted in other changes to potential scenarios and outcomes associated with our arrangement with Acreage that had been considered in prior valuation models, and had resulted in higher liability balances at those times.
- Change of \$113.0 million related to the non-cash fair value changes on the Notes, from an expense amount of \$32.3 million in the six months ended September 30, 2020 to an income amount of \$80.7 million in the six months ended September 30, 2021. The year-over-year change is primarily due to the decline in our share price in the six months ended September 30, 2021 (57%) relative to the decline in the six months ended September 30, 2020 (1%), and year-over-year changes in credit spreads.
- Change of \$299.1 million related to non-cash fair value changes on our other financial assets, from an income amount of \$103.9 million in the six months ended September 30, 2020 to an expense amount of \$195.3 million in the six months ended September 30, 2021. The current quarter expense amount is primarily attributable to fair value decreases relating to our investments in the exchangeable shares in the capital of TerrAscend (\$113.0 million), and the secured debentures issued by TerrAscend Canada and Arise Bioscience and the TerrAscend Warrants (totaling \$76.3 million), driven largely by (i) a decrease of approximately 31% in TerrAscend’s share price in the six months ended September 30, 2021; and (ii) re-assessments of the probability and timing of changes in federal laws in the United States regarding the permissibility of the

cultivation, distribution or possession of marijuana in the second quarter of fiscal 2022. Comparatively, in the six months ended September 30, 2020 the income amount was primarily attributable to fair value increases relating to our investments in the TerrAscend exchangeable shares (\$67.0 million), and the TerrAscend Canada secured debentures and TerrAscend Warrants (totaling \$77.2 million), driven largely by an increase of approximately 136% in TerrAscend's share price from April 1, 2020 to September 30, 2020.

- Increase in interest expense of \$48.5 million, from \$2.7 million in the six months ended September 30, 2020 to \$51.2 million in the six months ended September 30, 2021. The year-over-year increase is primarily attributable to the US\$750M debt financing that occurred in the fourth quarter of fiscal 2021.
- Decrease of \$43.0 million in non-cash income related to fair value changes on acquisition related contingent consideration. In the six months ended September 30, 2020, we recognized income attributable to changes in our assessment of the probability and timing of ebbu achieving certain scientific milestones associated with its acquisition in fiscal 2019. The acquisition related contingent consideration associated with ebbu was settled by the end of fiscal 2021.
- Decrease in interest income of \$6.4 million, from \$11.8 million in the six months ended September 30, 2020 to \$5.4 million in the six months ended September 30, 2021. The year-over-year decrease is primarily attributable to the decrease in interest rates and the divestiture of our interest in RIV Capital in the fourth quarter of fiscal 2021.

Income tax recovery

Income tax recovery in the six months ended September 30, 2021 was \$0.3 million, compared to an income tax recovery of \$2.5 million in the six months ended September 30, 2020. In the six months ended September 30, 2021, the income tax recovery consisted of a deferred income tax recovery of \$2.0 million (compared to a recovery of \$3.2 million in the six months ended September 30, 2021) and current income tax expense of \$1.7 million (compared to an expense of \$0.7 million in the six months ended September 30, 2021).

The decrease of \$1.2 million in the deferred income tax recovery is primarily a result of current year changes being less than prior year in respect of deferred tax liabilities that arose in connection with the required revaluation of the accounting carrying value, but not the tax basis, of property, plant and equipment, intangible assets, and other financial assets. In connection with certain deferred tax assets, mainly in respect to losses for tax purposes, where the accounting criteria for recognition of an asset has yet to be satisfied and it is not probable that they will be used, the deferred tax asset has not been recognized.

The increase of \$1.0 million in the current income tax expense arose primarily in connection with legal entities that generated income for tax purposes that could not be reduced by the group's tax attributes.

Net Income (Loss)

Net income in the six months ended September 30, 2021 was \$373.6 million, as compared to a net loss of \$224.9 million in the six months ended September 30, 2020. The year-over-year change from a net loss to net income is primarily attributable to the year-over-year increase in other income (expense), net, and the year-over-year decreases in operating expense and the loss from equity method investments. These changes were partially offset by the year-over-year decrease in our gross margin. These variances are described above.

Adjusted EBITDA (Non-GAAP Measure)

The following table presents Adjusted EBITDA for the six months ended September 30, 2021 and 2020:

<i>(in thousands of Canadian dollars)</i>	Six months ended September 30,		\$ Change	% Change
	2021	2020		
Net income (loss)	\$ 373,624	\$ (224,874)	\$ 598,498	266%
Income tax recovery	(307)	(2,486)	2,179	88%
Other (income) expense, net	(776,487)	(269,461)	(507,026)	(188%)
Loss on equity method investments	100	40,180	(40,080)	(100%)
Share-based compensation ¹	29,079	52,669	(23,590)	(45%)
Acquisition-related costs	8,171	4,866	3,305	68%
Depreciation and amortization ¹	53,912	65,805	(11,893)	(18%)
Asset impairment and restructuring costs	81,128	59,157	21,971	37%
Expected credit losses on financial assets and related charges	-	94,745	(94,745)	(100%)
Charges related to the flow-through of inventory step-up on business combinations	4,537	1,494	3,043	204%
Adjusted EBITDA	<u>\$ (226,243)</u>	<u>\$ (177,905)</u>	<u>\$ (48,338)</u>	<u>(27%)</u>

¹ From Statements of Cash Flows.

The Adjusted EBITDA loss in the six months ended September 30, 2021 was \$226.2 million, as compared to the Adjusted EBITDA loss of \$177.9 million in the six months ended September 30, 2020. The year-over-year increase in the Adjusted EBITDA loss is primarily attributable to the year-over-year decrease in our gross margin, partially offset by the reduction in our total selling, general and administrative expense. These variances are described above.

Part 3 – Financial Liquidity and Capital Resources

We manage liquidity risk by reviewing, on an ongoing basis, our sources of liquidity and capital requirements. As of September 30, 2021, we had cash and cash equivalents of \$807.6 million and short-term investments of \$1.2 billion, which are predominantly invested in liquid securities issued by the United States and Canadian governments. Additionally, we have capacity of \$40.0 million under our revolving debt facility with Farm Credit Canada (“FCC”), as well as up to an additional US\$500.0 million available under the Credit Facility (as defined below). In evaluating our capital requirements, including the impact, if any, on our business from the COVID-19 pandemic, and our ability to fund the execution of our strategy, we believe we have adequate available liquidity to enable us to meet our working capital and other operating requirements, fund growth initiatives and capital expenditures, settle our liabilities, and repay scheduled principal and interest payments on debt for at least the next twelve months.

Our objective is to generate sufficient cash to fund our operating requirements and expansion plans. While we have incurred net losses on a U.S. GAAP basis and Adjusted EBITDA losses to date, and our cash and cash equivalents have decreased \$347.0 million from March 31, 2021 (and, together with short-term investments, decreased \$341.3 million from March 31, 2021), as discussed in the “Cash Flows” section below, management anticipates the success and eventual profitability of the business. We have also ensured that we have access to public capital markets through our U.S. and Canadian public stock exchange listings, and in March 2021, we entered into a credit agreement (the “Credit Agreement”) with the lenders and Wilmington Trust, National Association, as administrative agent and collateral agent for the lenders. The Credit Agreement provides for a credit facility (the “Credit Facility”) in the initial aggregate principal amount of US\$750.0 million. We continue to review and pursue selected external financing sources to ensure adequate financial resources. These potential sources include, but are not limited to (i) obtaining financing from traditional or non-traditional investment capital organizations; (ii) obtaining funding from the sale of our common shares or other equity or debt instruments; and (iii) obtaining debt financing with lending terms that more closely match our business model and capital needs.

There can be no assurance that we will gain adequate market acceptance for our products or be able to generate sufficient positive cash flow to achieve our business plans. In the six months ended September 30, 2021, our purchases of and deposits on property, plant and equipment totaled \$35.7 million, which were funded out of available cash, cash equivalents and short-term investments. We expect to continue funding these purchases with our available cash, cash equivalents and short-term investments. Therefore, we are subject to risks including, but not limited to, our inability to raise additional funds through debt and/or equity financing to support our continued development, including capital expenditure requirements, operating requirements and to meet our liabilities and commitments as they come due.

Cash Flows

<i>(in thousands of Canadian dollars)</i>	Six months ended September 30,	
	2021	2020
Net cash (used in) provided by:		
Operating activities	\$ (251,745)	\$ (280,295)
Investing activities	(46,297)	(568,130)
Financing activities	(46,681)	250,805
Effect of exchange rate changes on cash and cash equivalents	(2,309)	(32,269)
Net decrease in cash and cash equivalents	(347,032)	(629,889)
Cash and cash equivalents, beginning of period	1,154,653	1,303,176
Cash and cash equivalents, end of period	<u>\$ 807,621</u>	<u>\$ 673,287</u>

Operating activities

Cash used in operating activities totaled \$251.7 million in the six months ended September 30, 2021, as compared to cash used of \$280.3 million in the six months ended September 30, 2020. The decrease in the cash used in operating activities is primarily due to the year-over-year reduction in our working capital spending, particularly related to inventory, and a decrease in our total selling, general and administrative expense. These factors were partially offset by the year-over-year decrease in our gross margin. These variances are described above.

Investing activities

The cash used in investing activities totaled \$46.3 million in the six months ended September 30, 2021, as compared to cash used of \$568.1 million in the six months ended September 30, 2020. In the six months ended September 30, 2021, purchases of property, plant and equipment were \$35.7 million, primarily related to our production infrastructure in the United States and an expansion of our Storz & Bickel facilities. Comparatively, in the six months ended September 30, 2020, we invested \$90.2 million in our production infrastructure in Canada and the United States and an expansion of our Storz & Bickel facilities. The year-over-year decrease in our purchases of property, plant and equipment reflects the substantial completion of our infrastructure build-out.

In the six months ended September 30, 2021, we completed the acquisitions of Ace Valley and Supreme Cannabis, with the net cash outflow totaling \$9.1 million. In the six months ended September 30, 2020, we did not complete any acquisitions. We did not complete any strategic investments in other financial assets in the six months ended September 30, 2021, while in the six months ended September 30, 2020, we completed strategic investments totaling \$124.4 million, including the payment of \$49.8 million to Acreage shareholders upon implementation of the Acreage Amended Arrangement, and the loan advance of \$67.0 million to Acreage Hempco.

Additional cash inflows during the six months ended September 30, 2021 related to proceeds of \$10.3 million from the sale of certain wholly-owned subsidiaries. Additional cash inflows during the six months ended September 30, 2020 related to proceeds of \$18.3 million from the sale of a portfolio of patents in Germany.

Net purchases of short-term investments in the six months ended September 30, 2021 were minimal, in the amount of \$0.7 million, as compared to net purchases of short-term investments of \$367.8 million in the six months ended September 30, 2020. The year-over-year change reflects our investment of the proceeds from CBI exercising their warrants during the six months ended September 30, 2020 (see below) in relatively safe, liquid investments.

Finally, in the six months ended September 30, 2021, other investing activities resulted in a cash outflow of \$10.9 million, primarily related to the payment of acquisition-related liabilities. In the six months ended September 30, 2021, other investing activities resulted in a cash inflow of \$3.5 million, primarily related to a recovery of amounts related to construction financing partially offset by payments of acquisition-related liabilities.

Financing activities

The cash used in financing activities totaled \$46.7 million in the six months ended September 30, 2021, as compared to cash provided of \$250.8 million in the six months ended September 30, 2020. In the six months ended September 30, 2021, we made repayments of long-term debt in the amount of \$50.0 million, primarily related to the term loan assumed upon the completion of the

acquisition of Supreme Cannabis on June 22, 2021. Comparatively, in the six months ended September 30, 2020, we received proceeds of \$245.0 million in relation to CBI exercising 18.9 million warrants to purchase our common shares.

Free Cash Flow (Non-GAAP Measure)

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

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Net cash used in operating activities	\$ (85,965)	\$ (161,749)	\$ (251,745)	\$ (280,295)
Purchases of and deposits on property, plant and equipment	(15,379)	(28,648)	(35,658)	(90,195)
Free cash flow ¹	<u>\$ (101,344)</u>	<u>\$ (190,397)</u>	<u>\$ (287,403)</u>	<u>\$ (370,490)</u>

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

Free cash flow in the second quarter of fiscal 2022 was an outflow of \$101.3 million, as compared to an outflow of \$190.4 million in the second quarter of fiscal 2021. Free cash flow in the six months ended September 30, 2021 was an outflow of \$287.4 million, as compared to an outflow of \$370.5 million in the six months ended September 30, 2020. The year-over-year decreases in the outflow reflects the decrease in the cash used for operating activities, as described above, and the lower purchases of property, plant and equipment associated with the substantial completion of our infrastructure build-out, with our ongoing investments primarily being made in the United States and in the expansion of our Storz & Bickel facilities.

Debt

Since our formation, we have financed our cash requirements primarily through the issuance of common shares, including the \$5.1 billion investment by CBI in the third quarter of fiscal 2019, and debt. Total debt outstanding as of September 30, 2021 was \$1.5 billion, as compared to \$1.6 billion as of March 31, 2021. The total principal amount owing, which excludes fair value adjustments related to the Notes, was \$1.5 billion at September 30, 2021, consistent with March 31, 2021.

Credit Facility

The Credit Agreement provides for the Credit Facility in the aggregate principal amount of US\$750.0 million. We also have the ability to obtain up to an additional US\$500.0 million of incremental senior secured debt pursuant to the Credit Agreement. The Credit Facility has no amortization payments, matures on March 18, 2026, has a coupon of LIBOR plus 8.50% and is subject to a LIBOR floor of 1.00%. Our obligations under the Credit Facility are guaranteed by material Canadian and U.S. subsidiaries of Canopy Growth. The Credit Facility is secured by substantially all of the assets, including material real property, of the borrowers and each of the guarantors thereunder. The Credit Agreement contains representations and warranties, and affirmative and negative covenants, including a financial covenant requiring minimum liquidity of US\$200.0 million at the end of each fiscal quarter.

Convertible Notes

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

Convertible Debentures and Accretion Debentures

On October 19, 2018, Supreme Cannabis issued 6.0% senior unsecured convertible debentures (the “Supreme Debentures”) for gross proceeds of \$100.0 million. On September 9, 2020, the Supreme Debentures were amended to effect, among other things: (i) the cancellation of \$63.5 million 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 (the “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 \$36.5 million to a maximum of \$13.5 million, 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 arrangement (the “Supreme Arrangement”) we completed with Supreme Cannabis on June 22, 2021 pursuant to which we acquired 100% of the issued and outstanding common shares of Supreme Cannabis (the “Supreme Shares”), 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 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, we, Supreme Cannabis and Computershare Trust Company of Canada (the “Trustee”) entered into a supplemental indenture whereby we agreed to issue common shares upon conversion of any Supreme Debenture. In addition, we may force conversion of the Supreme Debentures outstanding with 30 days’ notice if the daily volume weighted average trading price of our common shares is greater than \$38.59 for any 10 consecutive trading days. We, Supreme Cannabis and the Trustee entered into a further supplemental indenture whereby we agreed to guarantee the obligations of Supreme Cannabis pursuant to the Supreme Debentures and Accretion Debentures.

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

On August 13, 2019, we entered into a \$40.0 million revolving debt facility with FCC. This facility replaced all previous loans with FCC and is secured by our property on Niagara-on-the-Lake, Ontario. The facility bears interest of 3.45%, or the FCC prime rate plus 1.0%, and matures on September 3, 2024. The outstanding balance at September 30, 2021 is \$nil.

Further information regarding our debt issuances, including the conversion rights of the Notes, is included in Note 14 of the Interim Financial Statements.

Contractual Obligations and Commitments

There have been no material changes to our contractual obligations and commitments from the information provided in the MD&A section in our Annual Report.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Critical Accounting Policies and Estimates

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Foreign currency risk

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

A hypothetical 10% change in the U.S. dollar against the Canadian dollar compared to the exchange rate at September 30, 2021, would affect the carrying value of net assets by approximately \$78.3 million, with a corresponding impact to the foreign currency translation account within accumulated other comprehensive income (loss). A hypothetical 10% change in the euro against the Canadian dollar compared to the exchange rate at September 30, 2021, would affect the carrying value of net assets by approximately \$14.8 million, with a corresponding impact to the foreign currency translation account within accumulated other comprehensive income (loss).

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

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

Interest rate risk

Our cash equivalents and short-term investments are held in both fixed-rate and adjustable-rate securities. Investments in fixed-rate instruments carry a degree of interest rate risk. The fair value of fixed-rate securities may be adversely impacted due to a rise in interest rates. Additionally, a falling-rate environment creates reinvestment risk because as securities mature, the proceeds are reinvested at a lower rate, generating less interest income. As at September 30, 2021, our cash and cash equivalents, and short-term investments consisted of \$1.5 billion, in interest rate sensitive instruments (March 31, 2021 – \$1.9 billion).

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

	Aggregate Notional Value		Fair Value		Decrease in Fair Value - Hypothetical 1% Rate Increase	
	September 30, 2021	March 31, 2021	September 30, 2021	March 31, 2021	September 30, 2021	March 31, 2021
Convertible Notes	\$ 600,000	\$ 600,000	\$ 583,848	\$ 687,414	\$ (9,210)	\$ (8,010)
Fixed interest rate debt	41,190	3,872	N/A	N/A	N/A	N/A
Variable interest rate debt	901,565	891,677	N/A	N/A	N/A	N/A

Equity price risk

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

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

Information regarding the fair value of financial instrument assets and liabilities that are measured at fair value on a recurring basis, and the relationship between the unobservable inputs used in the valuation of these financial assets and their fair value is presented in Note 21 of the Interim Financial Statements.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

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

Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2021, our disclosure controls and procedures (a) are effective to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is timely recorded, processed, summarized and reported and (b) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting.

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

As previously disclosed in the Annual Report, in November 2019, the Corporation and certain of its current and former officers were named as defendants in three purported class action claims filed in the U.S. District Court (the “Court”); two of these complaints have since been dismissed. The plaintiffs allege that the defendants made false and/or misleading statements and/or failed to disclose material adverse facts, regarding Canopy Growth’s receivables, business, operations and prospects relating to, among other things, the demand for its softgel and oil products. In addition, as previously disclosed, in November 2020, the defendants moved to dismiss the plaintiff’s second amended complaint and on May 6, 2021, U.S. District Court Judge McNulty granted the defendant’s motion to dismiss, without prejudice to the plaintiffs filing a third amended complaint with the Court within 30 days. On June 14, 2021, the plaintiffs filed their third amended complaint. Defendants filed their motion to dismiss the third amended complaint on August 16, 2021. The motion will not be fully briefed until at least November 24, 2021.

Item 1A. Risk Factors.

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

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description
3.1	Certificate of Incorporation and Articles of Amendment of Canopy Growth Corporation (incorporated by reference to Exhibit 3.1 to the Company’s Annual Report on Form 10-K for the year ended March 31, 2020, filed with the SEC on June 1, 2020).
3.2*	Bylaws of Canopy Growth Corporation.
10.1*	Canopy Growth Corporation Employee Stock Purchase Plan.
31.1*	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

** This exhibit shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that Section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act or the Exchange Act.

† This document has been identified as a management contract or compensatory plan or arrangement.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CANOPY GROWTH CORPORATION

Date: November 8, 2021

By: _____
/s/ David Klein
David Klein
Chief Executive Officer
(Principal Executive Officer)

Date: November 8, 2021

By: _____
/s/ Michael Lee
Michael Lee
Chief Financial Officer
(Principal Financial Officer)

BY-LAW NO. 1

**A BY-LAW RELATING GENERALLY TO THE CONDUCT
OF THE BUSINESS AND AFFAIRS OF CANOPY GROWTH COPORATION (FORMERLY
LW CAPITAL POOL INC.),
A CANADIAN FEDERAL CORPORATION**

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BY-LAW NO. 1
A BY-LAW RELATING GENERALLY TO THE CONDUCT
OF THE BUSINESS AND AFFAIRS OF CANOPY GROWTH CORPORATION (FORMERLY
LW CAPITAL POOL INC.,)
A CANADIAN FEDERAL CORPORATION

SECTION 1 - INTERPRETATION

1.1 Definitions

In the By-laws of the Corporation, unless the context otherwise requires:

- (1) “**Act**” means the *Canada Business Corporations Act*, R.S.C. 1985, Chapter C-44, c. B.16, or any statute that may be substituted for it, as from time to time amended;
- (2) “**appoint**” includes “elect” and *vice versa*;
- (3) “**Articles**” means the original or restated articles of incorporation, articles of amendment, articles of amalgamation, articles of arrangement, articles of continuance, articles of dissolution, articles of reorganization and articles of revival of the Corporation and includes any amendments thereto;
- (4) “**Board**” means the board of directors of the Corporation, and “**Director**” means a member of the Board;
- (5) “**By-laws**” means these by-laws and all other by-laws of the Corporation from time to time in force and effect;
- (6) “**Cheque**” includes a draft;
- (7) “**Corporation**” means Canopy Growth Corporation;
- (8) “**Defaulting Shareholder**” means a shareholder of the Corporation who defaults in the payment of any Shareholder Debt when the same becomes due and payable;
- (9) “**entity**” means a body corporate, a partnership, a trust, a joint venture or an unincorporated association or organization;
- (10) “**Liened Shares**” means the whole or any part of the shares registered in the name of a Defaulting Shareholder;
- (11) “**meeting of shareholders**” means an annual meeting of shareholders and a special meeting of shareholders;
- (12) “**non-business day**” means Saturday, Sunday and any other day that is a holiday as defined in the Interpretation Act (Canada) as from time to time amended;
- (13) “**recorded address**” means:
 - (a) in the case of a shareholder, such person’s address as recorded in the securities register;
 - (b) in the case of joint shareholders, the address appearing in the securities register in respect of the joint holding or the first address so appearing if there is more than one;

- (c) in the case of an officer, auditor or member of a committee of the Board, such person's latest address as recorded in the records of the Corporation; and
 - (d) in the case of a Director, such person's latest address as recorded in the most recent notice filed under the Act;
- (14) “**resident Canadian**” means an individual who is:
- (a) a Canadian citizen ordinarily resident in Canada;
 - (b) a Canadian citizen not ordinarily resident in Canada who is a member of a prescribed class of persons as defined in the regulations to the Act; or
 - (c) a permanent resident within the meaning of the *Immigration Act* (Canada) and ordinarily resident in Canada, except a permanent resident who has been ordinarily resident in Canada for more than one year after the time at which such person first became eligible to apply for Canadian citizenship;
- (15) “**Shareholder Debt**” means any principal or interest due in respect of any indebtedness owing by the holder of shares of any class or series of the Corporation, including, without limitation, an amount unpaid in respect of a share issued by a body corporate on the date it was continued under this Act;
- (16) “**special meeting of shareholders**” includes a meeting of any class or classes of shareholders and a special meeting of all shareholders entitled to vote at an annual meeting of shareholders; and
- (17) “**Unanimous Shareholder Agreement**” means an otherwise lawful written agreement among all of the shareholders of the Corporation or among all such shareholders and one or more persons who are not shareholders, or a written declaration of the beneficial owner of all of the issued shares of the Corporation, that restricts in whole or in part the powers of the Directors to manage or supervise the management of the business and affairs of the Corporation, as from time to time amended.

1.2 Other Definitions

Other than as specified above, words and expressions defined in the Act, have the same meanings when used herein. Words importing the singular number include the plural and *vice versa*; words importing gender include the masculine, feminine and neuter genders; and words importing a person include an individual, sole proprietorship, partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate and a natural person in such person's capacity as trustee, executor, administrator or other legal representative.

SECTION 2 - GENERAL BUSINESS

2.1 Corporate Seal

The Corporation may, but need not, adopt a corporate seal and, if one is adopted, it may be changed from time to time by the Board.

2.2 Financial Year

The Board may, by resolution, fix the financial year-end of the Corporation and may from time to time, by resolution, change the financial year-end of the Corporation.

2.3 Execution of Instruments

- (1) Deeds, transfers, assignments, contracts, obligations, certificates and other instruments may be signed on behalf of the Corporation by any Director or officer of the Corporation.
- (2) In addition, the Board may from time to time authorize any other person or persons to sign any particular instruments.
- (3) The Secretary, or any other officer or any Director, may sign certificates and similar instruments (other than share certificates) on the Corporation's behalf with respect to any factual matters relating to the Corporation's business and affairs, including, without limitation, certificates verifying copies of the Articles, By-laws, resolutions and minutes of meetings of the Corporation. Any signing officer may affix the corporate seal to any instrument requiring the same.
- (4) The signature of any person authorized to sign on behalf of the Corporation may, if specifically authorized by resolution of the Board, be written, printed, stamped, engraved, lithographed or otherwise mechanically reproduced or may be an electronic signature. Anything so signed shall be as valid as if it had been signed manually, even if that person has ceased to hold office when anything so signed is issued or delivered, until revoked by resolution of the Board.

2.4 Banking Arrangements

The banking business of the Corporation including, without limitation, the borrowing of money and the giving of security therefor, shall be transacted with such banks, trust companies, credit unions or other bodies corporate or organizations as may from time to time be designated by or under the authority of the Board. Such banking business or any part thereof shall be transacted under such agreements, instructions and delegations of powers as the Board may from time to time prescribe.

SECTION 3 - BORROWING AND SECURITY

3.1 Borrowing Power

- (1) Without limiting the borrowing powers of the Corporation as set forth in the Act, but subject to the Articles and any Unanimous Shareholder Agreement, the Board may from time to time on behalf of the Corporation, without authorization of the shareholders:
 - (a) borrow money upon the credit of the Corporation;
 - (b) issue, reissue, sell or pledge bonds, debentures, notes or other debt obligations or guarantees of the Corporation, whether secured or unsecured;
 - (c) give, directly or indirectly, financial assistance to any person by means of a loan, a guarantee on behalf of the Corporation to secure performance of any present or future indebtedness, liability or obligation of any person, or otherwise; and
 - (d) mortgage, hypothecate, pledge or otherwise create a security interest in all or any currently owned or subsequently acquired real or personal, movable or immovable, property of the Corporation, including, without limitation, accounts, rights, powers, franchises and undertakings to secure any such bonds, debentures, notes or other debt obligations or guarantees or any other present or future indebtedness, liability or obligation of the Corporation.

- (2) Nothing in Section 3.1(1) limits or restricts the borrowing of money by the Corporation on bills of exchange or promissory notes made, drawn, accepted or endorsed by or on behalf of the Corporation.

3.2 Delegation

Subject to the Act, the Articles and any Unanimous Shareholder Agreement, the Board may from time to time delegate to a committee of the Board, a Director or an officer of the Corporation or any other person as may be designated by the Board all or any of the powers conferred on the Board by Section 3.1 or by the Act to such extent and in such manner as the Board may determine at the time of such delegation.

SECTION 4 - DIRECTORS

4.1 Duties of Directors

Subject to any Unanimous Shareholder Agreement, the Board shall manage or supervise the management of the business and affairs of the Corporation.

4.2 Number of Directors

Until changed in accordance with the Act, the Board shall consist of not fewer than the minimum number and not more than the maximum number of Directors as set out in the Articles.

4.3 Qualification

- (1) No person shall be qualified for election or appointment as a Director if such person:
 - (a) is less than 18 years of age;
 - (b) is of unsound mind and has been so found by a court in Canada or elsewhere;
 - (c) is not an individual; or
 - (d) has the status of a bankrupt.
- (2) A Director need not be a shareholder.
- (3) Not less than 25% of the Directors shall be resident Canadians; however, in the event that the Corporation has only two directors, one of its Directors shall be a resident Canadian.

4.4 Election and Term

- (1) Directors shall be elected by the shareholders at the first meeting of shareholders after the effective date of this By-law and at each succeeding annual meeting at which an election of Directors is required, and shall hold office until the next annual meeting of shareholders or, if elected for an expressly stated term, for a term expiring not later than the close of the third annual meeting of shareholders following the election.
- (2) The election of Directors shall be by resolution, or if demanded by a shareholder or a proxyholder, by ballot.
- (3) If an election of Directors is not held at the proper time, the incumbent Directors shall continue in office until their successors are elected.

- (4) A person who is elected or appointed to hold office as a Director is not a Director and is deemed not to have been elected or appointed to hold office as a Director unless:
- (a) such person was present at the meeting when the election or appointment took place and such person did not refuse to hold office as a Director; or
 - (b) such person was not present at the meeting when the election or appointment took place, and:
 - (i) such person consented to hold office as a Director in writing before the election or appointment or within 10 days after it; or
 - (ii) such person has acted as a Director pursuant to the election or appointment.

4.5 Removal of Directors

Subject to the Act, the shareholders may by ordinary resolution passed, at an annual or special meeting of shareholders, remove any Director from office, and the vacancy created by such removal may be filled at the same meeting, failing which it may be filled by the Board.

4.6 Ceasing to Hold Office

A Director ceases to hold office when:

- (a) such person dies;
- (b) such person is removed from office by the shareholders;
- (c) such person ceases to be qualified for election as a Director; or
- (d) such person's written resignation is received by the Corporation, or, if a time is specified in such resignation, at the time so specified, whichever is later.

4.7 Filling Vacancies

Subject to the Act and any Unanimous Shareholder Agreement, a quorum of the Board may fill a vacancy in the Board, except for a vacancy resulting from:

- (a) an increase in the number or minimum number of Directors;
- (b) a failure of the shareholders to elect the number or minimum number of Directors provided for in the Articles.

4.8 Action by the Board

- (1) Subject to any Unanimous Shareholder Agreement, the Board shall exercise its powers by or pursuant to a By-law or resolution either by the signatures of all the Directors then in office, if constituting a quorum or passed at a meeting of the Directors at which a quorum is present and at which not less than 25% of the Directors present are resident Canadians.
- (2) Where there is a vacancy in the Board, the remaining Directors may exercise all the powers of the Board so long as a quorum remains in office.

4.9 Conflict of Interest

A Director who is a party to, or who is a director or officer of or has a material interest in any person who is a party to, a material contract or transaction or proposed material contract or transaction with

the Corporation shall disclose in writing to the Corporation, or request to have entered in the minutes of the meeting of Directors, the nature and extent of such person's interest at the time and in the manner provided by the Act. Such a Director may participate in any discussion related thereto but shall not vote on any resolution to approve the same except as provided by the Act.

4.10 Remuneration and Expenses

Subject to any Unanimous Shareholder Agreement, the Directors shall be paid such remuneration for their services as the Board may from time to time determine. The Directors shall also be entitled to be reimbursed for travelling and other expenses properly incurred by them in attending meetings of the Board or any committee thereof. Nothing herein contained shall preclude any Director from serving the Corporation in any other capacity and receiving remuneration therefor.

SECTION 5 - MEETINGS OF DIRECTORS

5.1 Resident Canadian Directors at Meetings

Subject to the Act and any Unanimous Shareholder Agreement, the Board shall not transact business at a meeting, unless the required number of Directors present are resident Canadians, except where:

- (a) a resident Canadian Director who is unable to be present approves in writing or by telephonic, electronic or other communication facility, the business transacted at the meeting; and
- (b) the required number of resident Canadian Directors would have been present had that Director been present at the meeting.

5.2 Meeting by Telephone or Electronic Facilities

If all the Directors consent thereto generally or in respect of a particular meeting, a Director may participate in a meeting of the Board or of a committee of the Board by means of such telephonic, electronic or other communication facility that permits all participants to communicate adequately with each other during the meeting, and a Director participating in such a meeting by such means shall be deemed to be present at such meeting. Any such consent shall be effective whether given before or after the meeting to which it relates and may be given with respect to all meetings of the Board and of committees of the Board.

5.3 Calling of Meetings

Meetings of the Board shall be held from time to time at such time and at such place as the Board, the Chairperson of the Board, the Chief Executive Officer, the President or any two Directors may determine.

5.4 Notice of Meeting

- (1) Notice of the time and place of each meeting of the Board shall be given in the manner provided in Section 10 to each Director:
 - (a) not less than 48 hours before the time when the meeting is to be held if the notice is mailed; or
 - (b) not less than 24 hours before the time the meeting is to be held if the notice is given personally, is delivered or sent by any means of transmitted or recorded communication.

- (2) A notice of a meeting of Directors need not specify the purpose of or the business to be transacted at the meeting except where the Act requires such purpose or business or the general nature thereof to be specified.

5.5 Waiver of Notice

A Director may in any manner or at any time waive notice of or otherwise consent to a meeting of the Board. Attendance of a Director at a meeting of the Board shall constitute a waiver of notice of that meeting except where a Director attends for the express purpose of objecting to the transaction of any business on the grounds that the meeting has not been properly called.

5.6 First Meeting of New Board

As long as a quorum of Directors is present, each newly elected Board may without notice hold its first meeting immediately following the meeting of shareholders at which such Board is elected.

5.7 Adjourned Meeting

Notice of an adjourned meeting of the Board is not required if the time and place of the adjourned meeting is announced at the original meeting.

5.8 Regular Meetings

The Board may appoint a day or days in any month or months for regular meetings of the Board at a place and hour to be named. A copy of any resolution of the Board fixing the place and time of such regular meetings shall be sent to each Director forthwith after being passed, but no other notice shall be required for any such regular meeting except where the Act requires the purpose thereof or the business to be transacted thereat to be specified.

5.9 Chairperson and Secretary

The chairperson of any meeting of the Board shall be the first mentioned of such of the following officers as have been appointed and who is a Director and is present at the meeting: Chairperson of the Board; Chief Executive Officer; or President. If no such officer is present, the Directors present shall choose one of their number to be chairperson. The Secretary shall act as secretary of any meeting of the Board, and, if the Secretary is absent, the chairperson of the meeting shall appoint a person who need not be a Director to act as secretary of the meeting.

5.10 Quorum

Subject to Section 5.1 and any Unanimous Shareholder Agreement, a majority of the Directors constitutes a quorum at a meeting of the Board.

5.11 Votes to Govern

- (1) At all meetings of the Board, every question shall, subject to any Unanimous Shareholder Agreement, be decided by a majority of the votes cast on the question.
- (2) Unless a ballot is demanded, an entry in the minutes of a meeting to the effect that the chairperson of the meeting declared a resolution to be carried or defended is, in the absence of evidence to the

contrary, proof of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.

5.12 Casting Vote

In case of an equality of votes at a meeting of the Board, the chairperson of the meeting shall, subject to any Unanimous Shareholder Agreement, not be entitled to a second or casting vote.

5.13 Resolution in Lieu of Meeting

A resolution in writing, signed by all the Directors entitled to vote on that resolution at a meeting of Directors, is as valid as if it had been passed at a meeting of Directors.

5.14 One Director Meeting

Where the Board consists of only one Director, that Director may constitute a meeting.

SECTION 6 - OFFICERS

6.1 Appointment

Subject to any Unanimous Shareholder Agreement, the Board may from time to time designate the offices of the Corporation and from time to time appoint a Chairperson of the Board, Chief Executive Officer, President, one or more vice-presidents (to which title may be added words indicating seniority or function), a Secretary, a Treasurer and such other officers as the Board may determine, including, without limitation, one or more assistants to any of the officers so appointed. One person may hold more than one office. The Board may specify the duties of and, in accordance with these By-laws and subject to the Act, delegate to such officers powers to manage the business and affairs of the Corporation. Except for the Chairperson of the Board and the Chief Executive Officer, an officer may but need not be a Director.

6.2 Chairperson of the Board

The Board may from time to time appoint a Chairperson of the Board who shall be a Director. If appointed, the Board may assign to the Chairperson of the Board any of the powers and duties that are by any provisions of these By-laws assigned to the Chief Executive Officer or to the President. The Chairperson shall have such other powers and duties as the Board may specify.

6.3 Chief Executive Officer

The Board may from time to time appoint a Chief Executive Officer. If appointed, subject to the authority of the Board, the Chief Executive Officer shall have general supervision of the business and affairs of the Corporation. The Chief Executive Officer shall have such other powers and duties as the Board may specify. During the absence or disability of the President, or if no President has been appointed, the Chief Executive Officer shall also have the powers and duties of that office.

6.4 President

If appointed, the President shall, subject to the authority of the Board, have general supervision of the business of the Corporation. The President shall have such other powers and duties as the Board may specify. During the absence or disability of the Chief Executive Officer, or if no Chief Executive Officer has been appointed, the President shall also have the powers and duties of that office.

6.5 Secretary

Unless otherwise determined by the Board, the Secretary shall attend and be the secretary of all meetings of the Board, shareholders and committees of the Board that such person attends. The Secretary shall enter or cause to be entered in records kept for that purpose minutes of all proceedings at meetings of the Board, shareholders and committees of the Board, whether or not such person attends such meetings. The Secretary shall give or cause to be given, as and when instructed, all notices to shareholders, Directors, officers, auditors and members of committees of the Board. The Secretary shall be the custodian of the stamp or mechanical device generally used for affixing the corporate seal of the Corporation and of all books, records and instruments belonging to the Corporation, except when some other officer or agent has been appointed for that purpose. The Secretary shall have such other powers and duties as otherwise may be specified.

6.6 Treasurer

The Treasurer shall keep proper accounting records in compliance with the Act and shall be responsible for the deposit of money, the safekeeping of securities and the disbursement of the funds of the Corporation. The Treasurer shall render to the Board whenever required an account of all such person's transactions as treasurer and of the financial position of the Corporation. The Treasurer shall have such other powers and duties as otherwise may be specified.

6.7 Powers and Duties of Officers

The powers and duties of all officers shall be such as the terms of their engagement call for or as the Board or (except for those whose powers and duties are to be specified only by the Board) the chief executive officer may specify. The Board and (except as aforesaid) the chief executive officer may, from time to time and subject to the provisions of the Act and any Unanimous Shareholder Agreement, vary, add to or limit the powers and duties of any officer. Any of the powers and duties of an officer to whom an assistant has been appointed may be exercised and performed by such assistant, unless the Board or the chief executive officer otherwise directs.

6.8 Term of Office

Subject to any Unanimous Shareholder Agreement, the Board, in its discretion, may remove any officer of the Corporation. Otherwise, each officer appointed by the Board shall hold office until such person's successor is appointed or until such person's earlier resignation.

6.9 Agents and Attorneys

The Board shall have power from time to time to appoint agents or attorneys for the Corporation in or outside Canada with such powers (including, without limitation, the power to sub-delegate) of management, administration or otherwise as may be thought fit.

6.10 Conflict of Interest

An officer shall disclose such person's interest in any material contract or transaction or proposed material contract or transaction with the Corporation in accordance with Section 4.9.

6.11 Fidelity Bonds

The Board may require such officers, employees and agents of the Corporation as the Board deems advisable to furnish bonds for the faithful discharge of their duties, in such form and with such surety as the Board may from time to time prescribe.

SECTION 7 - PROTECTION OF DIRECTORS, OFFICERS AND OTHERS

7.1 Limitation of Liability

Every Director and officer of the Corporation in exercising such person's powers and discharging such person's duties shall act honestly and in good faith with a view to the best interests of the Corporation and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Subject to the foregoing, no Director or officer shall be liable for the acts, omissions, failures, neglects or defaults of any other Director, officer or employee, or for joining in any act for conformity, or for any loss, damage or expense suffered or incurred by the Corporation through the insufficiency or deficiency of title to any property acquired by the Corporation or for or on behalf of the Corporation, or for the insufficiency or deficiency of any security in or upon which any of the moneys of the Corporation shall be invested, or for any loss or damage arising from the bankruptcy, insolvency or tortious act of any person with whom any of the moneys, securities or effects of the Corporation shall be deposited, or for any loss occasioned by any error of judgment or oversight on such person's part, or for any other loss, damage or misfortune which shall happen in the execution of the duties of such person's office or in relation thereto. Nothing herein shall relieve any Director or officer from the duty to act in accordance with the Act and the regulations thereunder or from liability for any breach thereof.

7.2 Indemnity

- (1) The Corporation shall indemnify a Director or officer of the Corporation, a former Director or officer of the Corporation or another individual who acts or acted at the Corporation's request as a Director or officer (or an individual acting in a similar capacity) of another entity, against all costs, charges and expenses, including, without limitation, an amount paid to settle an action or satisfy a judgment, reasonably incurred by the individual in respect of any civil, criminal, administrative, investigative or other proceeding in which the individual is involved because of that association with the Corporation or other entity.
- (2) The Corporation shall advance monies to a Director, officer or other individual for the costs, charges and expenses of a proceeding referred to in Section 7.2(1). Such person shall repay such monies if such person does not fulfil the conditions of Section 7.2(3).
- (3) The Corporation shall not indemnify a person under Section 7.2(1) unless such person:
 - (a) acted honestly and in good faith with a view to the best interests of the Corporation or, as the case may be, to the best interests of the other entity for which such person acted as a director or officer or in a similar capacity at the Corporation's request; and
 - (b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, such person had reasonable grounds for believing that such person's conduct was lawful.
- (4) The Corporation shall also indemnify a person referred to in Section 7.2(1) in such other circumstances as the Act or law permits or requires. Nothing in these By-laws shall limit the right of any person entitled to indemnity to claim indemnity apart from the provisions of these By-laws.

7.3 Insurance

Subject to the Act, the Corporation may purchase and maintain such insurance for the benefit of any individual referred to in Section 7.2(1) as the Board may from time to time determine.

SECTION 8 - SECURITIES

8.1 Options or Rights

Subject to the Act, the Articles and any Unanimous Shareholder Agreement, the Board may from time to time issue or grant options to purchase the whole or any part of the authorized and unissued shares of the Corporation at such times and to such persons and for such consideration as the Board shall determine, except that no share shall be issued until it is fully paid as provided by the Act.

8.2 Commissions

The Board may from time to time authorize the Corporation to pay a reasonable commission to any person in consideration of such person's purchasing or agreeing to purchase shares of the Corporation, whether from the Corporation or from any other person, or procuring or agreeing to procure purchasers for any such shares.

8.3 Form of Securities

The shares of the Corporation shall be represented by certificates, or shall be uncertificated if so provided by resolution or resolutions of the Board. Any such resolution that shares of a class or series will only be uncertificated shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Except as otherwise required by law, the rights and obligations of the holders of uncertificated shares and the rights and obligations of the holders of shares represented by certificates of the same class and series shall be identical. Certificates for the shares, if any, shall be in such form as is consistent with the Articles and the Act.

8.4 Securities Register

The Corporation shall prepare and maintain, at its registered office or, subject to the Act, at any other place designated by the Board, a securities register in which it records the securities issued by it in registered form, showing with respect to each class or series of securities:

- (a) the names, alphabetically arranged, of each person who:
 - (i) is or has been registered as a shareholder of the Corporation, the latest known address including, without limitation, the street and number, if any, of every such person while a holder, and the number and class of shares registered in the name of such holder; or
 - (ii) is or has been registered as a holder of debt obligations of the Corporation, the latest known address including, without limitation, the street and number, if any, of every such person while a holder, and the class or series and principal amount of the debt obligations registered in the name of such holder; and
- (b) the date and particulars of the issue and transfer of each security.

8.5 Registration of Transfers

Subject to the Act, no transfer of shares of the Corporation shall be registered in a securities register, except (i) in the case of certificated shares, on presentation of the certificate representing the share with an endorsement which complies with the Act made on or delivered with it duly executed by an appropriate person as provided by the Act, together with such reasonable assurance that the endorsement is genuine and effective as the Board may from time to time prescribe; and (ii) in the case of uncertificated shares, upon receipt of proper transfer instructions from the registered holder of uncertificated shares or by such holder's duly authorized attorney and upon compliance with appropriate procedures for transferring shares in uncertificated form, unless waived by the Corporation, and, in the case of each of clause (i) and clause (ii), on payment of all applicable taxes and any reasonable fees prescribed by the Board, on compliance with the restrictions on issue, transfer or ownership authorized by the Articles and on satisfaction of any lien referred to in Section 8.12(1).

8.6 Transfer Agents and Registrars

The Board may from time to time, in respect of each class of securities issued by it, appoint one or more trustees, transfer or other agents to keep the securities register and a registrar, trustee or agent to maintain a central securities register of issued securities and may appoint one or more persons or agents to keep branch registers, and, subject to the Act, one person may be appointed to keep the securities register and the records of issued securities. Such a person may be designated as transfer agent or registrar according to its functions, and one person may be designated both registrar and transfer agent. The Board may at any time terminate such appointment.

8.7 Non-recognition of Trusts

Subject to the Act, the Corporation may treat the registered holder of any security as the person exclusively entitled to vote, to receive notices, to receive any dividend or other payments in respect of the security, and otherwise to exercise all the rights and powers of an owner of the security.

8.8 Security Certificates

- (1) Every holder of one or more securities of the Corporation shall be entitled, at such person's option, to a security certificate, or to a non-transferable written certificate of acknowledgement of such person's right to obtain a security certificate, stating the number and class or series of shares held by such person as shown on the securities register. If shares are represented by certificates, the certificates shall be in such form as the Board may from time to time approve and need not be under the corporate seal. Unless otherwise ordered by the Board, any such certificate shall be signed by at least one of the following persons, or the signature shall be printed or otherwise mechanically reproduced on the certificate:
 - (a) a Director or officer of the Corporation;
 - (b) a registrar, transfer agent or branch transfer agent of the Corporation, or an individual on their behalf; and
 - (c) a trustee who certifies it in accordance with a trust indenture.
- (2) Unless the Board otherwise determines, certificates in respect of which a transfer agent or registrar has been appointed shall not be valid unless countersigned by or on behalf of such transfer agent or registrar.

- (3) Signatures of signing officers may be printed or mechanically reproduced in facsimile upon security certificates and every such facsimile shall for all purposes be deemed to be the signature of the officer whose signature it reproduces and shall be binding upon the Corporation. A security certificate executed as aforesaid shall be valid notwithstanding that the person has ceased to be a Director or an officer of the Corporation.

8.9 Replacement of Security Certificates

The Board may in its discretion (or any officer or agent designated by the Board may in such person's discretion) direct the issue of a new share or other such certificate in lieu of and on cancellation of a certificate that has been mutilated or in substitution for a certificate claimed to have been lost, apparently destroyed or wrongfully taken, on payment of such reasonable fee and on such terms as to indemnity, reimbursement of expenses and evidence of loss and of title as the Board may from time to time prescribe, whether generally or in any particular case.

8.10 Joint Holders

If two or more persons are registered as joint holders of any security, the Corporation shall not be bound to issue more than one certificate in respect of that security, and delivery of such certificate to one of those persons shall be sufficient delivery to all of them. Any one of those persons may give effectual receipts for the certificate issued in respect of it or for any dividend, interest, bonus, return of capital or other money payable or warrant issuable in respect of that security.

8.11 Deceased Holders

In the event of the death of a holder, or of one of the joint holders of any security, the Corporation shall not be required to make any entry in the securities register in respect of the death or to make any dividend, interest or other payments in respect of the security except on production of all such documents as may be required by law.

8.12 Enforcement of Lien

- (1) If any Defaulting Shareholder defaults in the payment due in respect of any Shareholder Debt when the same becomes due and payable and continues in default for a period of 15 days after the Corporation has given notice in writing of such default to the Defaulting Shareholder:
- (a) the Corporation may sell all or any part of the Liened Shares at a *bona fide* public or private sale or auction;
 - (b) the terms and manner of the auction or sale shall be in the sole discretion of the Corporation;
 - (c) the Corporation may accept any offer which it in its absolute discretion considers advisable upon such terms, whether for cash or credit or partly cash and partly credit, as it in its discretion considers advisable;
 - (d) notice of any public or private sale or auction shall be given to the Defaulting Shareholder at least 15 days prior to the date on which such sale is held;
 - (e) the proceeds of such sale shall be used and applied in descending order as follows:
 - (i) first, to the cost and expense of such sale incurred by the Corporation, including, without limitation, legal fees, disbursements and charges;

- (ii) second, to reimburse the Corporation for out-of-pocket expenses incurred in connection with the sale;
 - (iii) third, for the payment in full of the Shareholder Debt and all other sums due to the Corporation by the Defaulting Shareholder; and
 - (iv) the balance, if any, to the Defaulting Shareholder;
 - (f) if the proceeds of the sale are insufficient to pay the Shareholder Debt, the Defaulting Shareholder shall remain liable for any such deficiency;
 - (g) the Corporation may apply any dividends or other distributions paid or payable on or in respect of the Liened Shares in repayment of the Shareholder Debt;
 - (h) where the Liened Shares are redeemable pursuant to the Articles or may be repurchased at a price determined pursuant to the terms of any Unanimous Shareholder Agreement, the Corporation may redeem or repurchase all or any part of the Liened Shares and apply the redemption or repurchase price to the Shareholder Debt; and
 - (i) the Corporation may refuse to register a transfer of all or part of the Liened Shares until the Shareholder Debt is paid.
- (2) In exercising one or more of the rights granted in Section 8.12(1), the Corporation shall not prejudice or surrender any other rights of enforcement of its lien which may by law be available to it, or any other remedy available to the Corporation for collection of the Shareholder Debt, and the Defaulting Shareholder shall remain liable for any deficiency remaining.

SECTION 9 - MEETINGS OF SHAREHOLDERS

9.1 Annual Meetings

The annual meeting of shareholders shall be held at such time in each year and, subject to Section 9.4, at such place as the Board may from time to time determine, for the purpose of considering the minutes of an earlier meeting, considering the financial statements and reports required by the Act to be placed before the annual meeting, electing Directors, appointing or waiving the appointment of an auditor, fixing or authorizing the Directors to fix the remuneration payable to any such auditor and for the transaction of such other business as may properly be brought before the meeting.

9.2 Special Meetings

The Board shall have power to call a special meeting of shareholders at any time.

9.3 Meeting Held by Electronic Means

- (1) Any person entitled to attend a meeting of shareholders may vote and otherwise participate in the meeting by means of a telephonic, electronic or other communication facility made available by the Corporation that permits all participants to communicate adequately with each other during the meeting. A person participating in a meeting of shareholders by such means is deemed to be present at the meeting.
- (2) Directors who call (but not shareholders who requisition) a meeting of shareholders may determine that:

- (a) the meeting shall be held, in accordance with the regulations, entirely by means of a telephonic, electronic or other communication facility that permits all participants to communicate adequately with each other during the meeting; and
 - (b) any vote shall be held, in accordance with the regulations, entirely by means of a telephone, electronic or other communication facility that the corporation has made available for that purpose.
- (3) Any vote at a meeting of shareholders may be carried out by means of a telephonic, electronic or other communication facility, if the facility:
- (a) enables the votes to be gathered in a manner that permits their subsequent verification; and
 - (b) permits the tallied votes to be presented to the Corporation without it being possible for the Corporation to identify how each shareholder or group of shareholders voted.

9.4 Place of Meetings

- (1) Meetings of shareholders shall be held at such place in Canada as the Directors determine or, in the absence of such a determination, at the place where the registered office of the Corporation is located. If all the shareholders entitled to vote at that meeting so agree or the Articles specify a place outside Canada where a meeting of shareholders may be held, a meeting of shareholders of the Corporation may be held outside Canada. A meeting held under Section 9.3 shall be deemed to be held at the place where the registered office of the Corporation is located.
- (2) A shareholder who attends a meeting of shareholders held outside Canada is deemed to have agreed to it being held outside Canada except when the shareholder attends the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully held.

9.5 Notice of Meetings

Notice of the time and place of each meeting of shareholders shall be given in the manner provided in Section 10, in the case of a distributing corporation, not less than 21 days and, in the case of any other corporation, not less than 10 days, but in either case, not more than 60 days before the date of the meeting to each Director, to any auditor and to each shareholder who at the close of business on the record date for notice is entered in the securities register as the holder of one or more shares carrying the right to receive notice of or vote at the meeting. Notice of a meeting of shareholders called for any purpose other than consideration of the minutes of an earlier meeting, financial statements and auditor's report, election of Directors and reappointment of the incumbent auditor or fixing or authorizing the Directors to fix the remuneration payable to such auditor shall state or be accompanied by a statement of:

- (a) the nature of the business in sufficient detail to permit the shareholders to form a reasoned judgment on it; and
- (b) the text of any special resolution to be submitted to the meeting.

9.6 List of Shareholders Entitled to Notice

For every meeting of shareholders, the Corporation shall prepare a list of shareholders entitled to receive notice of the meeting, arranged in alphabetical order and showing the number of shares held by each shareholder entitled to vote at the meeting. If a record date for the meeting is fixed pursuant to Section 9.7, the shareholders listed shall be those registered at the close of business on that record date. If no record date is fixed, the shareholders listed shall be those registered at the close of business on the day immediately

preceding the day on which notice of the meeting is given or, where no such notice is given, on the day on which the meeting is held. The list shall be available for examination by any shareholder during usual business hours at the registered office of the Corporation or at the place where the central securities register is maintained and at the meeting for which the list was prepared. Where a separate list of shareholders has not been prepared, the names of persons appearing in the securities register at the requisite time as the holder of one or more shares carrying the right to vote at such a meeting shall be deemed to be a list of shareholders.

9.7 Record Date for Notice

The Board may fix in advance a date, preceding the date of any meeting of shareholders by not more than 60 days and not less than 21 days, as a record date for the determination of the shareholders entitled to notice of the meeting, and notice of any such record date shall be given not less than seven days before the record date, by advertisement in a newspaper published or distributed in the place where the Corporation has its registered office and in each place in Canada where it has a transfer agent or where a transfer of the Corporation's shares may be recorded, and, where applicable, by written notice to each stock exchange in Canada on which the Corporation's shares are listed for trading unless notice of the record date is waived in writing by every holder of a share of the class or series affected whose name is set out in the securities register of the Corporation at the close of business on the day the Directors fix the record date. If no such record date is so fixed, the record date for the determination of the shareholders entitled to receive notice of the meeting shall be at the close of business on the day preceding the day on which the notice is given or, if no notice is given, shall be the day on which the meeting is held.

9.8 Meetings Without Notice

- (1) A meeting of shareholders may be held without notice at any time and place permitted by the Act if:
 - (a) all the shareholders entitled to vote at the meeting are present in person or duly represented or if those not present or represented waive notice of or otherwise consent to the meeting being held; and
 - (b) the auditor and the Directors are present or waive notice of or otherwise consent to the meeting being held,so long as the shareholders, auditor or Directors present are not attending for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.
- (2) At a meeting held under Section 9.8(1), any business may be transacted which the Corporation may transact at a meeting of shareholders.

9.9 Chairperson, Secretary and Scrutineers

The chairperson of any meeting of shareholders shall be the first mentioned of such of the following officers as have been appointed and who is present at the meeting: chairperson of the Board; Chief Executive Officer; President; or a vice-president who is a shareholder. If no such officer is present within 15 minutes from the time fixed for holding the meeting, the persons present and entitled to vote shall choose one of their number to be chairperson. If the Secretary is absent, the chairperson shall appoint some person, who need not be a shareholder, to act as secretary of the meeting. If desired, one or more scrutineers, who need not be shareholders, may be appointed by a resolution or by the chairperson with the consent of the meeting.

9.10 Persons Entitled to be Present

The only persons entitled to be present at a meeting of the shareholders shall be those entitled to attend or vote at the meeting, the Directors, auditor, legal counsel of the Corporation and others who, although not entitled to attend or vote, are entitled or required under any provision of the Act, the Articles, By-laws or Unanimous Shareholder Agreement to be present at the meeting. Any other person may be admitted only on the invitation of the chairperson of the meeting or with the consent of the meeting.

9.11 Quorum

At all meetings of shareholders, except where otherwise provided by the Act, the presence, in person, by remote communication, if applicable, or by proxy duly authorized, of the holders of thirty-three and one-third percent (33 1/3%) of the outstanding shares entitled to vote shall constitute a quorum for the transaction of business. A quorum need not be present throughout the meeting provided that a quorum is present at the opening of the meeting. If a quorum is not present at the time appointed for the meeting or within a reasonable time after that the shareholders may determine, the shareholders present or represented may adjourn the meeting to a fixed time and place but may not transact any other business.

9.12 Right to Vote

Every person named in the list referred to in Section 9.6 shall be entitled to vote the shares shown on the list opposite such person's name at the meeting to which the list relates.

9.13 Proxyholders and Representatives

Every shareholder entitled to vote at a meeting of shareholders may appoint a proxyholder, or one or more alternate proxyholders, as such person's nominee to attend and act at the meeting in the manner and to the extent authorized and with the authority conferred by the proxy. A proxy shall be in writing or electronic signature executed by the shareholder or such person's attorney and shall conform with the requirements of the Act. Alternatively, every shareholder which is a body corporate or other legal entity may authorize by resolution of its directors or governing body an individual to represent it at a meeting of shareholders and that individual may exercise on the shareholder's behalf all the powers it could exercise if it were an individual shareholder. The authority of such an individual shall be established by depositing with the Corporation a certified copy of the resolution, or in such other manner as may be satisfactory to the Secretary or the chairperson of the meeting. Any such proxyholder or representative need not be a shareholder. The proxy is valid only at the meeting in respect of which it is given or any adjournment thereof.

9.14 Time for Deposit of Proxies

The Board may fix a time not exceeding 48 hours, excluding non-business days, preceding any meeting or adjourned meeting of shareholders before which time proxies to be used at the meeting must be deposited with the Corporation or its agent, and any time so fixed shall be specified in the notice calling the meeting. A proxy shall be acted on only if, before the time so specified, it has been deposited with the Corporation or its agent specified in the notice or if, no such time having been specified in the notice, it has been received by the Secretary or by the chairperson of the meeting before the time of voting.

9.15 Joint Shareholders

If two or more persons hold shares jointly, any one of them present in person or duly represented at a meeting of shareholders may, in the absence of the other or others, vote the shares, but, if two or more

of those persons are present in person or represented and vote, they shall vote as one the shares jointly held by them.

9.16 Votes to Govern

At any meeting of shareholders, every question shall, unless otherwise required by the Articles, By-laws, any Unanimous Shareholder Agreement or by law, be determined by a majority of the votes cast on the question.

9.17 Casting Vote

In case of an equality of votes at any meeting of shareholders either on a show of hands or on a poll, the chairperson of the meeting shall not, subject to any Unanimous Shareholder Agreement, be entitled to a second or casting vote.

9.18 Show of Hands

Subject to the Act, any question at a meeting of shareholders shall be decided by a show of hands, unless a ballot is required or demanded as provided. On a show of hands, every person who is present and entitled to vote shall have one vote. Whenever a vote by show of hands has been taken on a question, unless a ballot is demanded, an entry in the minutes of a meeting of shareholders to the effect that the chairperson declared a resolution to be carried or defeated is, in the absence of proof to the contrary, proof of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.

9.19 Ballots

On any question proposed for consideration at a meeting of shareholders, and whether or not a show of hands has been taken on it, the chairperson may require a ballot or any person who is present and entitled to vote on the question at the meeting may demand a ballot. A ballot so required or demanded shall be taken in such manner as the chairperson shall direct. A requirement or demand for a ballot may be withdrawn at any time before the taking of the ballot. If a ballot is taken, each person present shall be entitled, in respect of the shares which such person is entitled to vote at the meeting on the question, to that number of votes provided by the Act or the Articles, and the result of the ballot so taken shall be the decision of the shareholders on the question.

9.20 Adjournment

The chairperson at a meeting of shareholders may, with the consent of the meeting and subject to such conditions as the meeting may decide, adjourn the meeting from time to time and from place to place. If a meeting of shareholders is adjourned for less than 30 days, it will not be necessary to give notice of the adjourned meeting, other than by announcement at the original meeting that is adjourned. Subject to the Act, if a meeting of shareholders is adjourned by one or more adjournments for an aggregate of 30 days or more, notice of the adjourned meeting shall be given as for an original meeting.

9.21 Resolution in Lieu of Meeting

A resolution in writing signed by all the shareholders entitled to vote on that resolution at a meeting of shareholders is as valid as if it had been passed at a meeting of the shareholders unless, in accordance with the Act:

- (a) in the case of the resignation or removal of a Director, or the appointment or election of another person to fill the place of that Director, a written statement is submitted to the

Corporation by the Director giving the reasons for such person's resignation or the reasons why such person opposes any proposed action or resolution for the purpose of removing such person from office or the election of another person to fill the office of that Director; or

- (b) in the case of the removal or resignation of an auditor, or the appointment or election of another person to fill the office of auditor, representations in writing are made to the Corporation by that auditor concerning its proposed removal, the appointment or election of another person to fill the office of auditor or its resignation.

9.22 Only One Shareholder

Where the Corporation has only one shareholder or only one holder of any class or series of shares, the shareholder present in person or duly represented constitutes a meeting.

SECTION 10 - NOTICES

10.1 Method of Giving Notices

Any notice (which term includes, without limitation, any communication or document) to be given (which term includes, without limitation, sent, delivered or served) pursuant to the Act, the regulations, the Articles, the By-laws, any Unanimous Shareholder Agreement or otherwise to a shareholder, Director, officer, auditor or member of a committee of the Board shall be sufficiently given if delivered personally to the person to whom it is to be given or if mailed to such person at such person's recorded address by prepaid, ordinary or air mail, or if sent to such person at such person's recorded address by means of any telephonic, electronic or other communication facility. A notice so delivered shall be deemed to have been given when it is delivered personally and a notice so mailed shall be deemed to have been given when deposited in a post office or public mailbox. A notice sent by any means of electronic or recorded telephonic communication shall be deemed to have been given when dispatched or delivered to the appropriate communication company or agency. The Secretary may change or cause to be changed the recorded address of any shareholder, Director, officer, auditor or member of a committee of the Board in accordance with any information believed by such person to be reliable.

10.2 Notice to Joint Shareholders

If two or more persons are registered as joint holders of any share, any notice may be addressed to all such joint holders, but notice addressed to one of those persons shall be sufficient notice to all of them.

10.3 Computation of Time

In computing the period of days when notice must be given under any provision requiring a specified number of days notice of any meeting or other event, the period shall be deemed to begin on the day following the event that began the period and shall be deemed to end at midnight of the last day of the period, except that, if the last day of the period falls on a non-business day, the period shall end at midnight on the day next following that is not a non-business day.

10.4 Undelivered Notices

If any notice given to a shareholder pursuant to Section 10.1 is returned on two consecutive occasions because such shareholder cannot be found, the Corporation shall not be required to give any further notices to that shareholder until such person informs the Corporation in writing of such person's new address.

10.5 Omissions and Errors

The accidental omission to give any notice to any shareholder, Director, officer, auditor or member of a committee of the Board or the non-receipt of any notice by any such person or any error in any notice not affecting the substance of the notice shall not invalidate any action taken at any meeting held pursuant to the notice or otherwise founded on it.

10.6 Persons Entitled by Death or Operation of Law

Every person who, by operation of law, transfer, death of a shareholder or any other means whatsoever, shall become entitled to any share, shall be bound by every notice in respect of the share which has been duly given to the shareholder from whom such person derives such person's title to the share before such person's name and address is entered on the securities register (whether the notice was given before or after the happening of the event on which such person became so entitled) and before such person furnished the Corporation with the proof of authority or evidence of such person's entitlement prescribed by the Act.

10.7 Waiver of Notice

Any shareholder, proxyholder or other person entitled to notice of or attend a meeting of shareholders, Director, officer, auditor or member of a committee of the Board may at any time waive any notice, or waive or abridge the time for any notice, required to be given to such person under the Act, the regulations, the Articles, the By-laws, any Unanimous Shareholder Agreement or otherwise, and that waiver or abridgement, whether given before or after the meeting or other event of which notice is required to be given, shall cure any default in the giving or in the time of the notice, as the case may be. Any such waiver or abridgement shall be in writing, except a waiver of notice of a meeting of shareholders or of the Board or a committee of the Board, which may be given in any manner.

SECTION 11 - EFFECTIVE DATE

11.1 Effective Date

These By-laws shall come into force when made by the Board in accordance with the Act.

11.2 Paramountcy

In the event of any conflict between any provision of these By-laws and any provision of any Unanimous Shareholder Agreement, the provision of the Unanimous Shareholder Agreement shall prevail to the extent of the conflict, and the Directors and the shareholders shall amend these By-laws accordingly.

11.3 Repeal

All previous By-laws of the Corporation are repealed as of the coming into force of these By-laws. The repeal shall not affect the previous operation of any By-laws so repealed or affect the validity of any act done or right, privilege, obligation or liability acquired or incurred under, or the validity of any contract or agreement made pursuant to, or the validity of any Articles or predecessor charter documents of the Corporation obtained pursuant to, any such By-laws before its repeal. All officers and persons acting under any By-laws so repealed shall continue to act as if appointed under the provisions of these By-laws, and all resolutions of the shareholders or the Board or a committee of the Board with continuing effect passed under any repealed By-laws shall continue to be good and valid except to the extent inconsistent with these By-laws and until amended or repealed.

CANOPY GROWTH CORPORATION
EMPLOYEE STOCK PURCHASE PLAN

1. Plan Description

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

2. Definitions

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

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

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

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

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

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

“**Change in Control**” shall mean:

- (i) when any person, together with any Affiliate or Associate of such person (other than the Company or its subsidiaries, or an employee benefit plan of the Company or its subsidiaries, including any trustee of such plan acting as trustee) hereafter acquires, the direct or indirect “**beneficial ownership**”, as defined by the *Canada Business*

Corporations Act (the “**CBCA**”), of securities of the Company representing fifty (50%) percent or more of the combined voting power of the Company’s then outstanding securities; or

- (ii) the occurrence of a transaction requiring approval of the Company’s shareholders involving the acquisition of the Company or all or substantially all of its business by an entity through purchase of assets by amalgamation, arrangement or otherwise;

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

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

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

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

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

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

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

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

“**Insider**” means:

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Shares Subject to the Plan

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

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

4. Eligible Persons

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

5. Offering Periods and Participation in the Plan

- a. Common Shares shall be offered for purchase under the Plan through a series of successive Offering Periods until such time as: (i) the maximum number of Common Shares available for purchase under the Plan shall have been purchased; or (ii) the Plan shall have been terminated in accordance with the terms hereof. With respect to the 423 Component, an Offering will comply with the requirement of Section 423(b)(5) of the Code that all Eligible Persons granted purchase rights will have the same rights and privileges.
- b. An Eligible Person who is an Employee may participate in the Plan by electronically enrolling using the Company's equity management software prior to the tenth day of an Offering Period (or such other date as the Committee may determine) a subscription agreement and an electronic election form which authorizes payroll deductions (the "**Payroll Deductions**") from such Employee's pay for the purposes of acquiring Common Shares. Such Payroll Deductions shall commence on the first regularly scheduled payroll day of the applicable Offering Period following the receipt by the Company of the electronic election form. Such Payroll Deductions shall continue until such Employee terminates participation in the Plan or the Plan is terminated prior to such time. Unless otherwise specified in an electronic election form or a new electronic election form is filed pursuant to Section 7 of the Plan or participation in the Plan is terminated pursuant to Section 7 of the Plan, Employees who have filed a completed subscription agreement and electronic election form shall be deemed to participate in the Plan in subsequent Offering Periods.

- c. Notwithstanding the foregoing, an Eligible Person shall not be entitled to purchase Common Shares under this Plan on any Purchase Date if the purchase would not comply with the restrictions respecting the issuance/sale of Common Shares set forth in Section 3.
- d. If the aggregate number of Common Shares subscribed for pursuant to the Plan exceeds the total number of Common Shares permitted to be issued under the Plan or the maximum number of Common Shares permitted to be issued under the Plan in respect of a fiscal year, the Common Shares available will be allocated by the Company on a pro rata basis in proportion to each Participant's balance in his or her Plan Account, and a cash payment for the balance remaining will be refunded to the Participant on the Purchase Date, such calculation and allotment by the Company to be final and binding on all Participants.
- e. Any provisions of the Plan to the contrary notwithstanding, with respect to any Offering under the 423 Component, no Eligible Person will be granted an option under the Plan (i) to the extent that, immediately after the grant, such Eligible Person (or any other person whose stock would be attributed to such Eligible Person pursuant to Section 424(d) of the Code) would own capital stock of the Company or any Parent or Subsidiary of the Company and/or hold outstanding options or rights to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Parent or Subsidiary of the Company, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans (as defined in Section 423 of the Code) of the Company or any Parent or Subsidiary of the Company accrues at a rate that exceeds twenty-five thousand dollars (\$25,000) worth of stock (determined at the Fair Market Value of the stock at the time such option is granted) for each calendar year in which such option is outstanding at any time, as determined in accordance with Section 423 of the Code.

6. Limits on Payroll Deductions

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

7. Changes in Payroll Deductions

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

8. Termination of Participation in Plan

A Participant's participation in the Plan shall be terminated upon the termination of such Employee's employment with the Company or a Designated Company for any reason and such Participant shall cease to be an Eligible Person at such time. Unless determined otherwise by the Committee, a Participant whose employment transfers between entities through a termination with an immediate rehire (with no break in service) by the Company or a Designated Company shall not be treated as terminated under the Plan or an Offering; however, if a Participant transfers from an Offering under the 423 Component to an Offering under the Non-423 Component, the exercise of the Participant's purchase right will be qualified under the 423 Component only to the extent such exercise complies with Section 423 of the Code and does not cause any option thereunder to fail to comply with Section 423 of the Code. If a Participant transfers from an Offering under the Non-423 Component to an Offering under the 423 Component, the exercise of the purchase right will remain non-qualified under the Non-423 Component. In the event that a Participant's participation in the Plan is voluntarily or involuntarily terminated, Payroll Deductions under the Plan shall cease and any payments credited to such Participant's Plan Account prior to such time shall be returned to the Participant. For purposes of this Section 8, the date of termination of an Employee's employment shall be the date designated in writing by the Company (or by its subsidiary, as the case may be) as the effective date of termination, notwithstanding any period of notice or reasonable notice that the Company (or subsidiary, as the case may be) may be required by contract or at law to provide to the Participant in connection with such termination. For greater clarity, a temporary leave of absence (whether with or without pay) of a Participant from his or her employment with the Company (a "**Leave of Absence**") shall not be treated as terminating such Participant's participation in any Offering Period, provided, however, that (a) in the event of any Leave of Absence of a Participant without pay, such Participant's Payroll Deductions under the Plan, if any, shall be suspended for the duration of such Leave of Absence, (b) any such suspension of Payroll Deductions shall not be deemed to be a change made pursuant to Sections 7 or 8 hereof for the determination of the amount of the Purchase Price related to any Common Shares to be purchased in an Offering Period, and (c) with respect to the 423 Component, where the Leave of Absence exceeds three (3) months and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship will be deemed to have terminated three (3) months and one (1) day following the commencement of such leave.

9. Purchase of Shares

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

10. Rights as a Shareholder

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

11. Rights Not Transferable

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

12. Application of Funds

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

13. Adjustments in Case of Changes Affecting Common Shares

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

14. Administration of the Plan

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

15. Amendments to the Plan

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

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

16. Termination of the Plan

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

17. Costs

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

18. Governmental Regulations

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

- a. the satisfaction of all requirements under applicable securities law in respect thereof and obtaining all regulatory approvals as the Company shall determine to be necessary or advisable in connection with the authorization, issuance or sale thereof, including shareholder approval, if required;
- b. the admission of such Common Shares to listing on any stock exchange on which Common Shares may then be listed; and

- c. the receipt from the Participant of such representations, agreements and undertakings as to future dealings in such Common Shares as the Company determines to be necessary or advisable in order to safeguard against the violation of the securities law of any jurisdiction.

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

19. Applicable Law

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

20. Effect on Employment

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

21. Withholding

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

22. Change in Control

In the event of a proposed or actual Change in Control, the Company shall require that each outstanding right hereunder be assumed or an equivalent right be substituted by the successor or purchaser corporation unless the Plan is terminated; provided, however, that if any successor or purchaser corporation (or its parent company) does not assume or continue purchase rights granted pursuant to the 423 Component or does not substitute similar rights for such purchase rights, then the accumulated contributions in the Plan Accounts of the Participants in the 423 Component will be used to purchase Common Shares within ten business days prior to the Change in Control, and the purchase rights under the 423 Component will terminate immediately after such purchase.

23. Approvals

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

24. Corporate Action

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

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

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

26. Administration

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

27. Shareholder Approval

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

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David Klein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Canopy Growth Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2021

By: /s/ David Klein
David Klein
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael Lee, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Canopy Growth Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2021

By: _____ /s/ Michael Lee
Michael Lee
Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report of Canopy Growth Corporation (the “Company”) on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David Klein, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

November 8, 2021

/s/ David Klein

David Klein
Chief Executive Officer
(Principal Executive Officer)

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

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

In connection with the Quarterly Report of Canopy Growth Corporation (the “Company”) on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael Lee, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

November 8, 2021

/s/ Michael Lee

Michael Lee
Chief Financial Officer
(Principal Financial Officer)

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