

**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 December 31, 2022

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 February 7, 2023, there were 494,894,047 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 “Company”, “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 (the “2018 Farm Bill”), 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)

	December 31, 2022	March 31, 2022
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 598,131	\$ 776,005
Short-term investments	191,119	595,651
Restricted short-term investments	12,932	12,216
Amounts receivable, net	104,640	96,443
Inventory	213,937	204,387
Prepaid expenses and other assets	52,151	52,700
Total current assets	1,172,910	1,737,402
Other financial assets	598,387	800,328
Property, plant and equipment	874,029	942,780
Intangible assets	213,530	252,695
Goodwill	142,076	1,866,503
Other assets	19,223	15,342
Total assets	<u>\$ 3,020,155</u>	<u>\$ 5,615,050</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 63,139	\$ 64,270
Other accrued expenses and liabilities	75,985	75,278
Current portion of long-term debt	455,483	9,296
Other liabilities	84,134	64,054
Total current liabilities	678,741	212,898
Long-term debt	750,118	1,491,695
Deferred income tax liabilities	8,988	15,991
Liability arising from Acreage Arrangement	-	47,000
Warrant derivative liability	668	26,920
Other liabilities	141,891	190,049
Total liabilities	1,580,406	1,984,553
Commitments and contingencies		
Redeemable noncontrolling interest	11,408	36,200
Canopy Growth Corporation shareholders' equity:		
Common shares - \$nil par value; Authorized - unlimited number of shares;		
Issued - 494,891,390 shares and 394,422,604 shares, respectively	7,867,310	7,482,809
Additional paid-in capital	2,510,086	2,519,766
Accumulated other comprehensive loss	(14,248)	(42,282)
Deficit	(8,937,603)	(6,370,337)
Total Canopy Growth Corporation shareholders' equity	1,425,545	3,589,956
Noncontrolling interests	2,796	4,341
Total shareholders' equity	1,428,341	3,594,297
Total liabilities and shareholders' equity	<u>\$ 3,020,155</u>	<u>\$ 5,615,050</u>

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

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

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

	<u>Three months ended December 31,</u>		<u>Nine months ended December 31,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Revenue	\$ 113,349	\$ 155,024	\$ 366,570	\$ 456,095
Excise taxes	12,136	14,052	37,379	47,540
Net revenue	101,213	140,972	329,191	408,555
Cost of goods sold	103,654	130,882	329,203	442,367
Gross margin	(2,441)	10,090	(12)	(33,812)
Operating expenses				
Selling, general and administrative expenses	122,636	116,835	351,891	355,165
Share-based compensation	6,428	6,777	21,725	35,856
Asset impairment and restructuring costs	22,259	36,439	1,794,212	128,198
Total operating expenses	151,323	160,051	2,167,828	519,219
Operating loss	(153,764)	(149,961)	(2,167,840)	(553,031)
Loss from equity method investments	-	-	-	(100)
Other income (expense), net	(113,340)	34,282	(406,762)	810,769
(Loss) income before income taxes	(267,104)	(115,679)	(2,574,602)	257,638
Income tax recovery (expense)	382	183	(11,587)	490
Net (loss) income	(266,722)	(115,496)	(2,586,189)	258,128
Net loss attributable to noncontrolling interests and redeemable noncontrolling interest	(5,139)	(6,571)	(19,652)	(14,307)
Net (loss) income attributable to Canopy Growth Corporation	<u>\$ (261,583)</u>	<u>\$ (108,925)</u>	<u>\$ (2,566,537)</u>	<u>\$ 272,435</u>
Basic (loss) earnings per share	\$ (0.54)	\$ (0.28)	\$ (5.66)	\$ 0.70
Basic weighted average common shares outstanding	486,112,598	393,818,282	453,237,882	390,423,083
Diluted (loss) earnings per share	\$ (0.54)	\$ (0.28)	\$ (5.66)	\$ 0.43
Diluted weighted average common shares outstanding	486,112,598	393,818,282	453,237,882	410,986,802
Comprehensive (loss) income:				
Net (loss) income	\$ (266,722)	\$ (115,496)	\$ (2,586,189)	\$ 258,128
Other comprehensive income (loss), net of income tax effect				
Fair value changes of own credit risk of financial liabilities	4,538	16,200	32,847	26,280
Foreign currency translation	14,921	(15,479)	24,694	(18,767)
Total other comprehensive income, net of income tax effect	19,459	721	57,541	7,513
Comprehensive (loss) income	(247,263)	(114,775)	(2,528,648)	265,641
Comprehensive loss attributable to noncontrolling interests and redeemable noncontrolling interest	(5,139)	(6,571)	(19,652)	(14,307)
Comprehensive (loss) income attributable to Canopy Growth Corporation	<u>\$ (242,124)</u>	<u>\$ (108,204)</u>	<u>\$ (2,508,996)</u>	<u>\$ 279,948</u>

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

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

		Additional paid-in capital				Accumulated other comprehensive income (loss)		Noncontrolling interests	Total
	Common shares	Share-based reserve	Warrants	Ownership changes	Redeemable noncontrolling interest		Deficit		
Balance at March 31, 2022	\$ 7,482,809	\$ 492,041	\$ 2,581,788	\$ (509,723)	\$ (44,340)	\$ (42,282)	\$ (6,370,337)	\$ 4,341	\$ 3,594,297
Cumulative effect from adoption of ASU 2020-06	-	4,452	-	-	-	-	(729)	-	3,723
Other issuances of common shares and warrants	82,231	(1,732)	-	-	-	-	-	-	80,499
Exercise of Omnibus Plan stock options	1,506	(1,236)	-	-	-	-	-	-	270
Share-based compensation	-	20,892	-	-	-	-	-	-	20,892
Issuance and vesting of restricted share units and performance share units	8,993	(8,993)	-	-	-	-	-	-	-
Changes in redeemable noncontrolling interest	-	-	-	-	6,983	-	-	17,808	24,791
Ownership changes relating to noncontrolling interests, net	-	-	-	-	-	-	-	1,851	1,851
Redemption of redeemable noncontrolling interest	26,506	-	-	(2,696)	(27,350)	-	-	(1,552)	(5,092)
Settlement of unsecured senior notes	265,265	-	-	-	-	(29,507)	-	-	235,758
Comprehensive income (loss)	-	-	-	-	-	57,541	(2,566,537)	(19,652)	(2,528,648)
Balance at December 31, 2022	<u>\$ 7,867,310</u>	<u>\$ 505,424</u>	<u>\$ 2,581,788</u>	<u>\$ (512,419)</u>	<u>\$ (64,707)</u>	<u>\$ (14,248)</u>	<u>\$ (8,937,603)</u>	<u>\$ 2,796</u>	<u>\$ 1,428,341</u>

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

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

		Additional paid-in capital				Accumulated other comprehensive income (loss)	Deficit	Noncontrolling interests	Total
	Common shares	Share-based reserve	Warrants	Ownership changes	Redeemable noncontrolling interest				
Balance at March 31, 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	296,574	(30,126)	-	-	-	-	-	-	266,448
Replacement equity instruments from the acquisition of Supreme Cannabis	-	5,566	13,350	-	-	-	-	-	18,916
Exercise of Omnibus Plan stock options	8,690	(3,235)	-	-	-	-	-	-	5,455
Share-based compensation	-	35,172	-	-	-	-	-	-	35,172
Issuance and vesting of restricted share units	5,013	(5,013)	-	-	-	-	-	-	-
Changes in redeemable noncontrolling interest	-	-	-	-	53,500	-	-	13,100	66,600
Ownership changes relating to noncontrolling interests	-	-	-	-	-	-	-	684	684
Redemption of redeemable noncontrolling interest	-	-	-	2,617	(5,109)	-	-	-	(2,492)
Comprehensive income (loss)	-	-	-	-	-	7,513	272,435	(14,307)	265,641
Balance at December 31, 2021	<u>\$ 7,478,834</u>	<u>\$ 483,150</u>	<u>\$ 2,581,788</u>	<u>\$ (509,723)</u>	<u>\$ (72,843)</u>	<u>\$ (26,727)</u>	<u>\$ (5,795,721)</u>	<u>\$ 4,186</u>	<u>\$ 4,142,944</u>

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

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

	<b>Nine months ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (2,586,189)	\$ 258,128
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property, plant and equipment	43,185	56,467
Amortization of intangible assets	20,561	27,462
Share of loss on equity method investments	-	100
Share-based compensation	21,725	35,856
Asset impairment and restructuring costs	1,797,854	113,250
Income tax expense (recovery)	11,587	(490)
Non-cash fair value adjustments and charges related to settlement of unsecured senior notes	325,742	(893,024)
Change in operating assets and liabilities, net of effects from purchases of businesses:		
Amounts receivable	(8,197)	4,083
Inventory	(9,550)	6,702
Prepaid expenses and other assets	(6,866)	28,818
Accounts payable and accrued liabilities	(3,202)	(30,764)
Other, including non-cash foreign currency	(24,459)	(25,713)
Net cash used in operating activities	<u>(417,809)</u>	<u>(419,125)</u>
<b>Cash flows from investing activities:</b>		
Purchases of and deposits on property, plant and equipment	(6,176)	(36,620)
Purchases of intangible assets	(1,265)	(4,564)
Proceeds on sale of property, plant and equipment	10,894	25,660
Redemption of short-term investments	415,322	340,218
Net cash proceeds on sale of subsidiaries	12,432	10,324
Investment in other financial assets	(67,186)	(374,414)
Net cash outflow on acquisition of subsidiaries	(24,223)	(14,947)
Other investing activities	2,327	(16,759)
Net cash provided by (used in) investing activities	<u>342,125</u>	<u>(71,102)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common shares and warrants	856	1,460
Proceeds from exercise of stock options	270	5,455
Repayment of long-term debt	(117,951)	(50,217)
Other financing activities	(29,096)	(3,036)
Net cash used in financing activities	<u>(145,921)</u>	<u>(46,338)</u>
Effect of exchange rate changes on cash and cash equivalents	43,731	(2,942)
Net decrease in cash and cash equivalents	<u>(177,874)</u>	<u>(539,507)</u>
Cash and cash equivalents, beginning of period	776,005	1,154,653
Cash and cash equivalents, end of period	<u>\$ 598,131</u>	<u>\$ 615,146</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)

	Nine months ended December 31,	
	2022	2021
<b>Supplemental disclosure of cash flow information</b>		
Cash received during the period:		
Income taxes	\$ 4,709	\$ 993
Interest	\$ 20,140	\$ 10,844
Cash paid during the period:		
Income taxes	\$ 1,099	\$ 2,641
Interest	\$ 95,267	\$ 83,968
Noncash investing and financing activities		
Additions to property, plant and equipment	\$ 425	\$ (5,145)

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, unless otherwise indicated)

**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-use 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 adult-use cannabis markets in Canada. The Company has also expanded to jurisdictions outside of Canada where cannabis and/or hemp is federally 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, 2022 (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 21.

***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***

***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 removing the separation

models for convertible debt instruments and convertible preferred stock with (1) cash conversion features, and (2) beneficial conversion features. 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.

The Company adopted the guidance on April 1, 2022, using the modified retrospective approach with the cumulative effect recognized as an adjustment to the opening deficit balance, and, accordingly, prior period balances and disclosures have not been restated. Upon adoption of ASU 2020-06, the Supreme Debentures (as defined below) will be accounted for under the separation model for a substantial premium instead of a beneficial conversion feature resulting in an increased debt discount to be amortized over the life of the instrument. The adoption of this guidance resulted in increased additional paid-in capital by \$4,452, decreased long-term debt by \$3,723, and decreased accumulated deficit by \$729 for non-cash accretion expense prior to April 1, 2022.

### 3. CANOPY USA

#### Reorganization - Creation of Canopy USA

On October 24, 2022, Canopy Growth completed a number of strategic transactions in connection with the creation of a new U.S.-domiciled holding company, Canopy USA, LLC ("Canopy USA") (the "Reorganization"). Following the implementation of the Reorganization, Canopy USA, as of October 24, 2022, holds certain U.S. cannabis investments previously held by Canopy Growth, which is expected to enable Canopy USA, following, among other things, the Meeting (as defined below) and the exercise of the Acreage Option (as defined below), including the issuance of the Fixed Shares (as defined below) to Canopy USA, to consummate the acquisitions of Acreage Holdings, Inc. ("Acreage"), Mountain High Products, LLC, Wana Wellness, LLC and The Cima Group, LLC (collectively, "Wana"), and Lemurian, Inc. ("Jetty").

Following the implementation of the Reorganization, as of October 24, 2022, Canopy USA has an ownership interest in the following assets, among others:

- **Wana** - The option to acquire 100% of the membership interests of Wana (the "Wana Option"), a leading cannabis edibles brand in North America.
- **Jetty** - The option to acquire 100% of the shares of Jetty (the "Jetty Option"), a California-based producer of high-quality cannabis extracts and pioneer of clean vape technology.

Canopy Growth currently retains the option to acquire the issued and outstanding Class E subordinate voting shares (the "Fixed Shares") of Acreage (the "Acreage Option"), representing approximately 70% of the total shares of Acreage, at a fixed share exchange ratio of 0.3048 of a common share of Canopy Growth per Fixed Share. Concurrently with the closing of the acquisition of the Fixed Shares pursuant to the exercise of the Acreage Option, the Fixed Shares will be issued to Canopy USA. In addition, Canopy USA has agreed to acquire all of the issued and outstanding Class D subordinate voting shares of Acreage (the "Floating Shares") by way of a court-approved plan of arrangement (the "Floating Share Arrangement") in exchange for 0.45 of a common share of Canopy Growth for each Floating Share held. Acreage is a leading vertically-integrated multi-state cannabis operator, with its main operations in densely populated states across the Northeast U.S. including New Jersey and New York.

In addition, as of October 24, 2022, Canopy USA holds direct and indirect interests in the capital of TerrAscend Corp. ("TerrAscend"), a leading North American cannabis operator with vertically integrated operations and a presence in Pennsylvania, New Jersey, Michigan and California as well as licensed cultivation and processing operations in Maryland. Canopy USA's direct and indirect interests in TerrAscend includes: (i) 38,890,570 exchangeable shares in the capital of TerrAscend (the "TerrAscend Exchangeable Shares"), an option to purchase 1,072,450 TerrAscend common shares (the "TerrAscend Common Shares") for an aggregate purchase price of \$1.00 (the "TerrAscend Option") and 22,474,130 TerrAscend Common Share purchase warrants previously held by Canopy Growth (the "TerrAscend Warrants"); and (ii) the debentures and loan agreement between Canopy Growth and certain TerrAscend subsidiaries.

On December 9, 2022, Canopy USA and certain limited partnerships that are controlled by Canopy USA entered into a debt settlement agreement with TerrAscend and certain of its subsidiaries whereby all of the debt obligations, including all principal and interest, were extinguished and all of the previously issued TerrAscend Warrants controlled by Canopy USA were cancelled in exchange for the issuance of 24,601,467 TerrAscend Exchangeable Shares and 22,474,130 new TerrAscend Warrants expiring on December 31, 2032. See Note 10 for further details.

Canopy USA was determined to be a variable interest entity ("VIE") pursuant to Accounting Standards Codification ("ASC") 810 - *Consolidations* and Canopy Growth was determined to be the primary beneficiary of Canopy USA. As a result of such determination and in accordance with ASC 810, Canopy Growth has consolidated the financial results of Canopy USA.

## Ownership of U.S. Cannabis Investments

Following the implementation of the Reorganization, the shares and interests in Acreage, Wana, Jetty and TerrAscend are held, directly or indirectly, by Canopy USA, and Canopy Growth no longer holds a direct interest in any shares or interests in such entities, other than the Acreage Option. Canopy Growth holds non-voting and non-participating shares (the "Non-Voting Shares") in the capital of Canopy USA. The Non-Voting Shares do not carry voting rights, rights to receive dividends or other rights upon dissolution of Canopy USA, but are convertible into Class A common shares of Canopy USA (the "Canopy USA Common Shares"). The Company also has the right (regardless of the fact that its Non-Voting Shares are non-voting and non-participating) to appoint two members to the Canopy USA board of managers.

On October 24, 2022, Canopy USA issued 1,000,000 Canopy USA Common Shares to VCo Ventures LLC ("VCo Ventures"), a former shareholder of Jetty, in exchange for US\$1,000. Agustin Huneeus Jr. is the manager of VCo Ventures. Following the closing of the investment, a wholly-owned subsidiary of the Company holds Non-Voting Shares in the capital of Canopy USA, representing approximately 99.3% of the issued and outstanding shares in Canopy USA on an as-converted basis. Canopy USA retains a call right (the "Repurchase Right") to repurchase all shares of Canopy USA that have been issued to VCo Ventures at a price per Canopy USA Common Share equal to the greater of fair market value as determined by an appraiser appointed by Canopy USA and US\$2,000 in the aggregate; provided that if the repurchase occurs prior to March 31, 2023, the Repurchase Right can be exercised at the initial subscription price. VCo Ventures has also been granted the right to appoint one member to the Canopy USA board of managers and a put right following the conversion of the Non-Voting Shares into Canopy USA Common Shares on the same terms and conditions as the Repurchase Right.

On October 24, 2022, Canopy USA and the Company also entered into an agreement with, among others, Nancy Whiteman, the controlling shareholder of Wana, whereby subsidiaries of Canopy USA agreed to pay additional consideration in order to acquire the Wana Option and the future payments owed in connection with the exercise of the Wana Option will be reduced to US\$3.00 in exchange for the issuance of Canopy USA Common Shares and Canopy Growth common shares (the "Wana Amending Agreement"). In accordance with the terms of the Wana Amending Agreement, Canopy USA Common Shares and Canopy Growth common shares will be issued to the shareholders of Wana, each with a value equal to 7.5% of the fair market value of Wana as of January 1, 2023. The value of Wana and the number of Canopy USA Common Shares will be determined based on the fair market value of Wana and the Canopy USA Common Shares, respectively, as determined by an appraiser appointed by the Company and an appraiser appointed by the shareholders of Wana (and, if required, a third appraiser to be appointed by the initial two appraisers). The Canopy USA Common Shares and Canopy Growth common shares will only be issued to Ms. Whiteman, or entities controlled by Ms. Whiteman, after January 1, 2023 and only if CBG Holdings LLC ("CBG") and Greenstar Canada Investment Limited Partnership ("Greenstar"), indirect, wholly-owned subsidiaries of Constellation Brands, Inc. ("CBI"), have converted their Canopy Growth common shares into Exchangeable Shares (as defined below). The Wana Amending Agreement may be terminated and no Canopy USA Common Shares or Canopy Growth common shares will be issued to Ms. Whiteman, or entities controlled by Ms. Whiteman in the event that CBG and Greenstar have not converted their Canopy Growth common shares into Exchangeable Shares by the later of: (i) sixty days after the Meeting; or (ii) March 31, 2023. The Canopy USA Common Shares issuable to Ms. Whiteman, or entities controlled by Ms. Whiteman, will also be subject to a repurchase right (the "Wana Repurchase Right") to repurchase all Canopy USA Common Shares that have been issued at a price per Canopy USA Common Share equal to the greater of fair market value as determined by an appraiser and the initial subscription price multiplied by an accrued annual interest rate of 10%. As part of this agreement, Canopy USA has granted Ms. Whiteman the right to appoint one member to the Canopy USA board of managers and a put right on the same terms and conditions as the Wana Repurchase Right.

Canopy Growth and Canopy USA have also entered into a protection agreement (the "Protection Agreement") to provide for certain covenants in order to preserve the value of the Non-Voting Shares held by Canopy Growth until such time as the Non-Voting Shares are converted into Canopy USA Common Shares but does not provide Canopy Growth with the ability to direct the business, operations or activities of Canopy USA.

Upon closing of Canopy USA's acquisition of Acreage, Canopy Growth will receive additional Non-Voting Shares from Canopy USA in consideration for the issuance of common shares of the Company that shareholders of Acreage will receive in accordance with the terms of the Existing Acreage Arrangement Agreement (as defined below) and the Floating Share Arrangement Agreement.

In addition, subject to the terms and conditions of the Protection Agreement and the terms of the option agreements to acquire Wana and Jetty, as applicable, Canopy Growth may be required to issue additional common shares in satisfaction of certain deferred and/or option exercise payments to the shareholders of Wana and Jetty. Canopy Growth will receive additional Non-Voting Shares from Canopy USA as consideration for any Company common shares issued in the future to the shareholders of Wana and Jetty.

Until such time as Canopy Growth converts the Non-Voting Shares into Canopy USA Common Shares, Canopy Growth will have no economic or voting interest in Canopy USA, Wana, Jetty, TerrAscend, or Acreage. Canopy USA, Wana, Jetty, TerrAscend, and Acreage will continue to operate independently of Canopy Growth.

#### Acreage Agreements

On October 24, 2022, Canopy Growth entered into an arrangement agreement with Canopy USA and Acreage (the "Floating Share Arrangement Agreement"), pursuant to which, subject to approval of the holders of the Floating Shares and the terms and conditions of the Floating Share Arrangement Agreement, Canopy USA will acquire all of the issued and outstanding Floating Shares by way of a court-approved plan of arrangement (the "Floating Share Arrangement") in exchange for 0.45 of a Company common share for each Floating Share held. In connection with the Floating Share Arrangement Agreement, the Company has irrevocably waived the Acreage Floating Option (as defined below) existing under the Existing Acreage Arrangement Agreement.

It is expected that the Floating Share Arrangement will be effected by way of a court-approved plan of arrangement under the *Business Corporations Act* (British Columbia). The Floating Share Arrangement requires the approval of: (i) at least two-thirds of the votes cast by the holders of the Floating Shares; and (ii) at least a majority of the votes cast by the holders of the Floating Shares, excluding the votes cast by "interested parties" and "related parties" (as such terms are defined in Multilateral Instrument 61-101 - *Protection Of Minority Security Holders In Special Transactions*), at a special meeting of Acreage shareholders.

On October 24, 2022, Canopy Growth and Canopy USA entered into voting support agreements with certain of Acreage's directors, officers and consultants pursuant to which such persons have agreed, among other things, to vote their Floating Shares in favor of the Floating Share Arrangement, representing approximately 7.3% of the issued and outstanding Floating Shares.

In addition to shareholder and court approvals, the Floating Share Arrangement is subject to approval of the Amendment Proposal (as defined below) and applicable regulatory approvals including, but not limited to, Toronto Stock Exchange approval and the satisfaction of certain other closing conditions customary in transactions of this nature. Assuming timely receipt of all necessary court, shareholder, regulatory and other third-party approvals and the satisfaction of all other conditions, closing of the acquisition of Acreage is expected to occur in late 2023.

It is intended that Canopy Growth's existing option to acquire the Fixed Shares on the basis of 0.3048 of a Company common share per Fixed Share will be exercised after the Meeting in accordance with the terms of the arrangement agreement dated April 18, 2019, as amended on May 15, 2019, September 23, 2020 and November 17, 2020 (the "Existing Acreage Arrangement Agreement"). Canopy Growth will not hold any Fixed Shares or Floating Shares. Completion of the acquisition of the Fixed Shares following exercise of the option is subject to the satisfaction of certain conditions set forth in the Existing Acreage Arrangement Agreement. The acquisition of the Floating Shares pursuant to the Floating Share Arrangement is anticipated to occur immediately prior to the acquisition of the Fixed Shares pursuant to the Existing Acreage Arrangement Agreement in late 2023 such that 100% of the issued and outstanding shares of Acreage will be owned by Canopy USA on closing of the acquisition of both the Fixed Shares and the Floating Shares.

In addition, the Company entered into additional agreements related to Acreage that are described in Note 10.

#### Special Shareholder Meeting

In connection with the Reorganization, Canopy Growth expects to hold a special meeting of shareholders (the "Meeting") at which Canopy Growth shareholders will be asked to consider and, if deemed appropriate, to pass a special resolution authorizing an amendment to its articles of incorporation, as amended (the "Amendment Proposal"), in order to: (i) create and authorize the issuance of an unlimited number of a new class of non-voting and non-participating exchangeable shares in the capital of Canopy Growth (the "Exchangeable Shares"); and (ii) restate the rights of the Company's common shares to provide for a conversion feature whereby each common share may at any time, at the option of the holder, be converted into one Exchangeable Share. The Exchangeable Shares will not carry voting rights, rights to receive dividends or other rights upon dissolution of Canopy Growth but will be convertible into common shares.

The Amendment Proposal must be approved by at least 66⅔% of the votes cast on a special resolution by Canopy Growth's shareholders present in person or represented by proxy at the Meeting.

On October 24, 2022, CBG and Greenstar entered into a voting and support agreement with Canopy Growth (the "Voting and Support Agreement"). Pursuant to the terms of the Voting and Support Agreement, CBG and Greenstar agreed, subject to the terms and conditions thereof, among other things, to vote all of the Canopy Growth common shares beneficially owned, directed or controlled, directly or indirectly, by them for the Amendment Proposal.

In the event the Amendment Proposal is approved, and subject to the conversion by CBI of their Canopy Growth common shares into Exchangeable Shares, Canopy USA is expected to exercise the Wana Option and the Jetty Option. In the event the Amendment Proposal is not approved, Canopy USA will not be permitted to exercise its rights to acquire shares of Acreage, Wana or Jetty and the Floating Share Arrangement Agreement will be terminated. In such circumstances, Canopy will retain its option to acquire the Fixed Shares under the Existing Acreage Arrangement Agreement and Canopy USA will continue to hold the Wana Option and the Jetty Option, as well as the TerrAscend Exchangeable Shares and other securities in the capital of TerrAscend. In addition, the Company is contractually required to cause Canopy USA to exercise its Repurchase Right to acquire the Canopy USA Common Shares held by the third party investors, being the Canopy USA Common Shares held by VCo Ventures.

#### Balance Sheet Actions

On October 24, 2022, Canopy Growth entered into agreements with certain of its lenders under its term loan credit agreement dated March 18, 2021 (the "Credit Agreement") pursuant to which Canopy Growth will tender US\$187,500 of the principal amount outstanding thereunder at a discounted price of US\$930 per US\$1,000 or US\$174,375 in the aggregate (the "Paydown"). The first payment of \$117,528 (US \$87,852) was made on November 10, 2022 to reduce the principal indebtedness by \$126,324 (US \$94,427). The second payment pursuant to the Paydown is required to be made by no later than April 17, 2023. See Note 15 for further details.

Canopy Growth also agreed with its lenders to amend certain terms of the Credit Agreement (collectively, the "Credit Agreement Amendments"). The Credit Agreement Amendments include, among other things: (i) reductions to the minimum Liquidity (as defined in the Credit Agreement) covenant to US\$100,000, which is to be further reduced as payments are made in accordance with the Paydown; (ii) certain changes to the application of net proceeds from asset sales; (iii) the establishment of a new committed delayed draw term credit facility in an aggregate principal amount of US\$100,000; and (iv) the elimination of the additional US\$500,000 incremental term loan facility.

#### Relationship with CBI

In connection with the Reorganization, CBI has indicated its current intention to convert all of its common shares of the Company into Exchangeable Shares, conditional upon the approval of the Amendment Proposal. However, any decision to convert will be made by CBI in its sole discretion, and CBI is not obligated to effect any such conversion.

In connection with the foregoing, on October 24, 2022, Canopy Growth entered into a consent agreement with CBG and Greenstar (the "Consent Agreement"), pursuant to which the parties agreed, among other things, that following the conversion by CBG and Greenstar of their respective Canopy Growth common shares into Exchangeable Shares, other than the Consent Agreement and the termination rights contained therein and the 4.25% unsecured senior Canopy Growth notes due in 2023 (the "Notes") held by Greenstar, all agreements between Canopy Growth and CBI, including the Second Amended and Restated Investor Rights Agreement, dated as of April 18, 2019, by and among certain wholly-owned subsidiaries of CBI and Canopy Growth (the "Second Amended and Restated Investor Rights Agreement"), will be terminated. Pursuant to the terms of the Consent Agreement, CBG and Greenstar also agreed, among other things, that at the time of the conversion by CBG and Greenstar of their Canopy Growth common shares into Exchangeable Shares, (i) CBG will surrender the warrants held by CBG to purchase 139,745,453 common shares for cancellation for no consideration; and (ii) all nominees of CBI that are currently sitting on the board of directors of Canopy Growth (the "Board") will resign from the Board. In addition, pursuant to the Consent Agreement, Canopy Growth is contractually required to convert its Non-Voting Shares into Canopy USA Common Shares and cause Canopy USA to repurchase the Canopy USA Common Shares held by certain third-party investors in Canopy USA in the event CBG and Greenstar have not converted their respective common shares into Exchangeable Shares by the later of: (i) sixty days after the Meeting; or (ii) February 28, 2023 (the "Termination Date"). The Consent Agreement will automatically terminate on the Termination Date.

In the event that CBI does not convert its Canopy Growth common shares into Exchangeable Shares, Canopy USA will not be permitted to exercise its rights to acquire the Fixed Shares, Wana or Jetty, and the Floating Share Arrangement Agreement will be terminated. In such circumstances, Canopy Growth will retain its option to acquire the Fixed Shares under the Existing Acreage Arrangement Agreement and Canopy USA will continue to hold the Wana Option and the Jetty Option, as well as the TerrAscend Exchangeable Shares and other securities in the capital of TerrAscend. In addition, the Company is contractually required to cause Canopy USA to exercise its Repurchase Right to acquire the Canopy USA Common Shares held by the third party investors, being the Canopy USA Common Shares held by VCo Ventures.

#### Potential Changes to Canopy USA Structure

The Company is committed to both optimizing the value of Canopy USA and remaining in compliance with the Nasdaq Stock Market (the "Nasdaq") listing requirements. Accordingly, while Canopy Growth remains in discussions with the Nasdaq and another

exchange with respect to its ongoing listing despite the consolidation of the financial results of Canopy USA with the Company's financial results, the Company is prepared to make changes to the structure of its interest in Canopy USA such that Canopy Growth would not be required to consolidate the financial results of Canopy USA into Canopy Growth's financial statements, which may include: (1) reducing Canopy Growth's economic interest in Canopy USA on an as-converted basis to no greater than 90%; (2) reducing the number of managers on Canopy USA's board of managers from four to three, including, reducing Canopy Growth's nomination right to a single manager; (3) modifying the terms of the Protection Agreement and Canopy USA's Limited Liability Company Agreement in order to eliminate certain negative covenants; and (4) modifying the terms of the agreements with third-party investors in Canopy USA to, among other things, eliminate their right to guaranteed returns.

#### 4. ASSET IMPAIRMENT AND RESTRUCTURING COSTS

##### Three months ended June 30, 2022

In the three months ended June 30, 2022, the Company performed a quantitative goodwill impairment assessment for the cannabis operations reporting unit in the global cannabis segment, and recognized impairment losses totaling \$1,725,368. Refer to Note 13 for further details. Additionally, in the three months ended June 30, 2022, the Company recognized incremental costs primarily associated with the restructuring actions completed in the year ended March 31, 2022, including the closure of certain of its Canadian production facilities, and other operational changes initiated in the three months ended March 31, 2022 to: (i) implement cultivation-related efficiencies and improvements in the Canadian adult-use cannabis business, and (ii) implement a flexible manufacturing platform, including contract manufacturing for certain product formats.

##### Three months ended September 30, 2022

In the three months ended September 30, 2022, the Company recorded asset impairment and restructuring costs primarily related to:

- Impairment losses associated with the divestiture of the Company's Canadian retail operations pursuant to the OEGRC Transaction and the FOUR20 Transaction (as each term is defined below), as described in Note 28 below. In connection with this divestiture, the Company recorded write-downs of property, plant and equipment, operating licenses and brand intangible assets, right-of-use assets, and certain other assets due to the excess of their carrying values over their estimated fair values.
- Incremental costs primarily associated with the restructuring actions completed in the year ended March 31, 2022, including the closure of certain of the Company's Canadian production facilities.
- Goodwill impairment losses of \$2,311 associated with one of the Company's reporting units (refer to Note 13 for further details) and asset impairment charges relating to certain acquired brand intangible assets.

##### Three months ended December 31, 2022

In the three months ended December 31, 2022, the Company recorded asset impairment and restructuring costs primarily related to:

- Asset impairment charges totaling \$10,600 relating to certain acquired brand intangible assets within our Canada cannabis segment.
- Employee-related restructuring charges associated with actions completed in the three months ended December 31, 2022 as part of the Company's ongoing program to align general and administrative costs with business objectives, and further streamline the Company's operations.
- Incremental impairment losses associated with the divestiture of the Company's Canadian retail operations, as described above and in Note 28, as the Company recorded write-downs of certain other assets due to the excess of their carrying values over their estimated fair values, and recognized contractual and other settlement obligations.
- Incremental costs primarily associated with the restructuring actions completed in the year ended March 31, 2022, including the closure of certain of the Company's Canadian production facilities.

As a result, in the three and nine months ended December 31, 2022, the Company recognized asset impairment and restructuring costs of \$22,259 and \$1,794,212, respectively (three and nine months ended December 31, 2021 – \$36,439 and \$128,198, respectively).

## 5. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are as follows:

	December 31, 2022	March 31, 2022
Cash	\$ 524,979	\$ 470,682
Cash equivalents	73,152	305,323
	<u>\$ 598,131</u>	<u>\$ 776,005</u>

## 6. SHORT-TERM INVESTMENTS

The components of short-term investments are as follows:

	December 31, 2022	March 31, 2022
Term deposits	\$ 98,286	\$ 319,092
Asset-backed securities	80,924	21,905
Government securities	-	22,253
Commercial paper and other	11,909	232,401
	<u>\$ 191,119</u>	<u>\$ 595,651</u>

The amortized cost of short-term investments at December 31, 2022 is \$193,537 (March 31, 2022 – \$599,862).

## 7. AMOUNTS RECEIVABLE, NET

The components of amounts receivable, net are as follows:

	December 31, 2022	March 31, 2022
Accounts receivable, net	\$ 85,297	\$ 78,059
Indirect taxes receivable	7,835	7,524
Interest receivable	2,585	4,406
Other receivables	8,923	6,454
	<u>\$ 104,640</u>	<u>\$ 96,443</u>

Included in the accounts receivable, net balance at December 31, 2022 is an allowance for doubtful accounts of \$6,477 (March 31, 2022 – \$4,764).

## 8. INVENTORY

The components of inventory are as follows:

	December 31, 2022	March 31, 2022
Raw materials, packaging supplies and consumables	\$ 34,940	\$ 26,821
Work in progress	64,483	65,245
Finished goods	114,514	112,321
	<u>\$ 213,937</u>	<u>\$ 204,387</u>

In the three and nine months ended December 31, 2022, the Company recorded write-downs related to inventory in cost of goods sold of \$9,820 and \$32,978, respectively (three and nine months ended December 31, 2021 – \$11,811 and \$104,662, respectively).

## 9. PREPAID EXPENSES AND OTHER ASSETS

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

	December 31, 2022	March 31, 2022
Prepaid expenses	\$ 28,736	\$ 23,041
Deposits	7,740	10,145
Prepaid inventory	786	449
Other assets	14,889	19,065
	<u>\$ 52,151</u>	<u>\$ 52,700</u>



## 10. 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 22.

Entity	Instrument	Balance at March 31, 2022	Additions	Fair value changes	Foreign currency translation adjustments	Other	Balance at December 31, 2022
Acreage <sup>1</sup>	Option	\$ -	\$ -	\$ 37,000	\$ -	\$ -	\$ 37,000
TerrAscend Exchangeable Shares	Exchangeable shares	229,000	51,000	(207,000)	-	-	73,000
TerrAscend Canada - October 2019	Term loan / debenture	10,280	-	(146)	-	(10,134)	-
TerrAscend Canada - March 2020	Term loan / debenture	49,890	-	(4,804)	-	(45,086)	-
Arise Bioscience	Term loan / debenture	13,343	-	(1,767)	1,268	(12,844)	-
TerrAscend - October 2019	Warrants	3,730	-	(3,372)	-	(358)	-
TerrAscend - March 2020	Warrants	60,740	-	(46,376)	-	(14,364)	-
TerrAscend - December 2020	Warrants	3,460	-	(2,246)	-	(1,214)	-
TerrAscend - December 2022	Warrants	-	33,000	(17,500)	-	-	15,500
TerrAscend	Option	6,300	-	(5,050)	-	-	1,250
Wana	Option	372,343	-	(135,405)	22,398	-	259,336
Jetty	Options	-	90,120	(9,778)	5,048	-	85,390
Acreage Hempco <sup>1</sup>	Debenture	28,824	-	874	2,373	(4,218)	27,853
Acreage Debt Option Premium	Option	-	38,048	-	581	-	38,629
Acreage Tax Receivable Agreement	Other	-	41,491	-	(231)	-	41,260
Other - at fair value through net income (loss)	Various	10,396	-	(1,185)	524	-	9,735
Other - classified as held for investment	Loan receivable	12,022	-	-	-	(2,588)	9,434
		<u>\$ 800,328</u>	<u>\$ 253,659</u>	<u>\$ (396,755)</u>	<u>\$ 31,961</u>	<u>\$ (90,806)</u>	<u>\$ 598,387</u>

<sup>1</sup> See Note 29 for information regarding the Acreage Arrangement and Acreage Hempco.

For information regarding the Reorganization, see Note 3. Following the implementation of the Reorganization, Canopy USA, as of October 24, 2022, holds an ownership interest in certain U.S. cannabis investments previously held by the Company, including, among others, interests in the Floating Shares of Acreage, Wana, Jetty, and TerrAscend.

## **TerrAscend Arrangement**

On December 9, 2022, Canopy USA and certain limited partnerships that are controlled by Canopy USA entered into a debt settlement agreement (the "TerrAscend Settlement Agreement") with TerrAscend, TerrAscend Canada Inc. ("TerrAscend Canada") and Arise BioScience, Inc. ("Arise BioScience", together with TerrAscend and TerrAscend Canada, the "TerrAscend Entities") whereby \$125,467 in aggregate loans, including accrued interest thereon, payable by certain subsidiaries of TerrAscend were extinguished and 22,474,130 TerrAscend Warrants, being all of the previously issued TerrAscend Warrants controlled by Canopy USA (the "Prior Warrants") were cancelled in exchange for the issuance of: (i) 24,601,467 TerrAscend Exchangeable Shares at a notional price of \$5.10 per TerrAscend Exchangeable Share; and (ii) 22,474,130 new TerrAscend Warrants (the "New Warrants" and, together with the TerrAscend Exchangeable Shares, the "New TerrAscend Securities") with a weighted average exercise price of \$6.07 per TerrAscend Common Share and expiring on December 31, 2032 (collectively, the "TerrAscend Arrangement").

Following the issuance of the New TerrAscend Securities, Canopy USA beneficially owns: (i) 63,492,037 TerrAscend Exchangeable Shares; (ii) 22,474,130 New Warrants; and (iii) the TerrAscend Option. The TerrAscend Exchangeable Shares can be converted into TerrAscend Common Shares at Canopy USA's option, subject to the terms of the Protection Agreement.

On December 9, 2022, the estimated fair value of the financial instruments that were derecognized from these consolidated financial statements was \$89,094, consisting of: (i) the aggregate term loans or debentures that were extinguished, including accrued interest, with an estimated fair value of \$72,191; and (ii) the Prior Warrants that were cancelled, with an estimated fair value of \$16,903. Changes in the estimated fair value of these financial instruments up to December 9, 2022 were recorded in other income (expense), net. On December 9, 2022, the estimated fair value of the financial instruments that were received from the TerrAscend Entities was \$84,000, consisting of: (i) 24,601,467 TerrAscend Exchangeable Shares with an estimated fair value of \$51,000; and (ii) the New Warrants, with an estimated fair value of \$33,000. Changes in estimated fair value of these financial instruments from initial recognition to December 31, 2022 were recorded in other income (expense), net. See Note 22 for additional details on how the fair value of all TerrAscend financial instruments are calculated on a recurring basis. The loss of \$5,094 resulting from the difference, on December 9, 2022, between the carrying amounts of the derecognized financial instruments and the fair value of the financial assets received, was also recorded in other income (expense), net.

See Note 3 for information regarding the Reorganization. Following the implementation of the Reorganization, as of October 24, 2022, Canopy USA holds certain U.S. cannabis investments previously held by the Company, including the aforementioned direct and indirect interests in the capital of TerrAscend.

## **Jetty**

On May 17, 2022, the Company and Jetty entered into definitive agreements (the "Jetty Agreements") providing the Company with the right to acquire up to 100% of the outstanding equity interests in Jetty (i) upon the occurrence 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; or (ii) an earlier date at the Company's sole discretion (the "Jetty Triggering Event").

The Jetty Agreements are structured as two separate option agreements whereby the Company has the right to acquire up to 100% of the equity interests in Jetty. As consideration for entering into the Jetty Agreements, the Company (i) made an upfront cash payment in the amount of \$29,226 (US\$22,911), and (ii) issued 8,426,539 common shares with a fair value on closing of \$59,123 (US\$45,928), for total consideration of \$88,349 (collectively, the "Upfront Payment").

The first option agreement is exercisable in two tranches, with the first tranche providing the Company with the option to acquire 52.78% of Jetty's equity interests, exercisable following the occurrence of the Jetty Triggering Event. The second tranche provides the Company with the option to acquire 25% of Jetty's equity interests for their fair market value, subject to certain adjustments. Additionally, the Company expects to make deferred payments (the "Deferred Payments") computed based on a pre-determined contractual formula. The second option agreement provides the Company with the option to acquire 22.22% of Jetty's equity interests, exercisable following the occurrence of the Jetty Triggering Event.

Upon initial recognition, the Company estimated the fair value of the Jetty financial instrument to be \$90,120, consisting of (i) the Upfront Payment as noted above; and (ii) the present value of the estimated Deferred Payments.

At December 31, 2022, the estimated fair value of the Jetty financial instruments was \$85,390, with the change in estimated fair value from initial recognition recorded in other income (expense), net. See Note 22 for additional details on how the fair value of the Jetty financial instruments is calculated on a recurring basis.

See Note 3 for information regarding the Reorganization. Following the implementation of the Reorganization, Canopy USA, as of October 24, 2022, holds certain U.S. cannabis investments previously held by the Company, which is expected to enable Canopy USA, following, among other things, the Meeting and the exercise of the Acreage Option, including the issuance of the Fixed Shares to Canopy USA, to consummate the acquisitions of Acreage, Wana, and Jetty.

Until such time as the Company or Canopy USA (as applicable) elects to exercise its rights to acquire Jetty and the Company converts the Non-Voting Shares into Canopy USA Common Shares, the Company will have no direct or indirect economic or voting interests in Jetty, the Company will not directly or indirectly control Jetty, and the Company and Jetty will continue to operate independently of one another.

## **Acreage-Related Agreements**

### **Tax Receivable Agreement**

On October 24, 2022, the Company and Canopy USA entered into a third amendment to the tax receivable agreement (the "Amended TRA") with, among others, certain current or former unitholders (the "Holders") of High Street Capital Partners, LLC, a subsidiary of Acreage ("HSCP"), pursuant to HSCP's amended tax receivable agreement (the "TRA") and related tax receivable bonus plans with Acreage. Pursuant to the Amended TRA, the Company, on behalf of Canopy USA, agreed to issue common shares of the Company with a fair value of US\$30,441 to certain Holders as consideration for the assignment of such Holder's rights under the TRA to Canopy USA. As a result of the Amended TRA, Canopy USA is the sole member and beneficiary under the TRA.

In connection with the foregoing, the Company issued 5,648,927 common shares with a value of \$20,630 (US\$15,220) to certain Holders on November 4, 2022 as the first installment under the Amended TRA with the second payment of approximately US\$15,220 in common shares of the Company to occur on the earlier of: (a) the second business day following the date on which the shareholders of Acreage approve the Floating Share Arrangement; or (b) April 24, 2023. Accordingly, as the second payment pursuant to the Amended TRA is not contingent upon any condition, a liability has been recorded in the amount of \$20,630 (see Note 16).

The aggregate amount of \$41,491 paid, or to be paid, by the Company in common shares in relation to the assignment of rights in favor of Canopy USA in accordance with the Amended TRA represents a financial instrument that has been recorded at cost upon initial recognition.

The Company, on behalf of Canopy USA, also agreed to issue common shares of the Company with a value of approximately US\$19,559 to certain eligible participants pursuant to HSCP's existing tax receivable bonus plans to be issued immediately prior to completion of the Floating Share Arrangement. No accounting recognition was given to this payment in the three months ended December 31, 2022 as such payment is contingent upon the completion of the Floating Share Arrangement or, if the Floating Share Arrangement is not completed, upon the closing of the acquisition of the Fixed Shares under the Existing Acreage Arrangement Agreement.

### **Acreage Debt Option Premium**

On November 15, 2022, a wholly-owned subsidiary of Canopy Growth (the "Acreage Debt Optionholder") and Acreage's existing lenders (the "Lenders") entered into an option agreement, which superseded the letter agreement dated October 24, 2022 between the parties, pursuant to which the Acreage Debt Optionholder was granted the right to purchase the outstanding principal, including all accrued and unpaid interest thereon, of Acreage's debt, being an amount up to US\$150,000 (the "Acreage Debt") from the Lenders in exchange for an option premium payment of \$38,048 (US\$28,500) (the "Option Premium"), which was deposited into an escrow account on November 17, 2022. The Acreage Debt Optionholder has the right to exercise the option at its discretion, and if the option is exercised, the Option Premium will be used to reduce the purchase price to be paid for the outstanding Acreage Debt. In the event that Acreage repays the Acreage Debt on or prior to maturity, the Option Premium will be returned to the Acreage Debt Optionholder. In the event that Acreage defaults on the Acreage Debt and the Acreage Debt Optionholder does not exercise its option to acquire the Acreage Debt, the Option Premium will be released to the Lenders.

The Option Premium represents a financial instrument that has been recorded at cost upon initial recognition.

## 11. PROPERTY, PLANT AND EQUIPMENT

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

	December 31, 2022	March 31, 2022
Buildings and greenhouses	\$ 752,177	\$ 766,931
Production and warehouse equipment	140,975	159,314
Leasehold improvements	24,323	69,304
Office and lab equipment	24,263	29,879
Computer equipment	18,060	22,293
Land	17,395	18,917
Right-of-use-assets		
Buildings and greenhouses	74,153	89,228
Production and warehouse equipment	27	55
Assets in process	12,712	19,771
	1,064,085	1,175,692
Less: Accumulated depreciation	(190,056)	(232,912)
	<u>\$ 874,029</u>	<u>\$ 942,780</u>

Depreciation expense included in cost of goods sold for the three and nine months ended December 31, 2022 is \$12,033 and \$34,423, respectively (three and nine months ended December 31, 2021 – \$13,813 and \$38,663, respectively). Depreciation expense included in selling, general and administrative expenses for the three and nine months ended December 31, 2022 is \$1,544 and \$8,762, respectively (three and nine months ended December 31, 2021 – \$5,546 and \$17,804, respectively).

## 12. INTANGIBLE ASSETS

The components of intangible assets are as follows:

	December 31, 2022		March 31, 2022	
	Gross Carrying Amount	Net Carrying Amount	Gross Carrying Amount	Net Carrying Amount
<u>Finite lived intangible assets</u>				
Intellectual property	\$ 141,488	\$ 89,758	\$ 138,170	\$ 97,638
Distribution channel	72,799	22,045	72,642	24,834
Operating licenses	24,400	19,762	24,400	22,052
Software and domain names	36,464	15,221	29,822	14,206
Brands	5,620	3,128	5,547	3,680
Amortizable intangibles in process	842	842	5,476	5,476
Total	<u>\$ 281,613</u>	<u>\$ 150,756</u>	<u>\$ 276,057</u>	<u>\$ 167,886</u>
<u>Indefinite lived intangible assets</u>				
Acquired brands		\$ 62,774		\$ 74,809
Operating licenses		-		10,000
Total intangible assets		<u>\$ 213,530</u>		<u>\$ 252,695</u>

Amortization expense included in cost of goods sold for the three and nine months ended December 31, 2022 is \$16 and \$45, respectively (three and nine months ended December 31, 2021 – \$19 and \$62, respectively). Amortization expense included in selling, general and administrative expenses for the three and nine months ended December 31, 2022 is \$7,009 and \$20,516, respectively (three and nine months ended December 31, 2021 – \$10,639 and \$27,400, respectively).

### 13. GOODWILL

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

Balance, March 31, 2021	\$ 1,889,354
Purchase accounting allocations	105,323
Disposal of consolidated entities	(58,786)
Impairment losses	(40,748)
Foreign currency translation adjustments	(28,640)
Balance, March 31, 2022	\$ 1,866,503
Disposal of consolidated entities	(227)
Impairment losses	(1,727,679)
Foreign currency translation adjustments	3,479
Balance, December 31, 2022	<u>\$ 142,076</u>

As a result of the continued decline in the price of the Company's common shares in the three months ended June 30, 2022, the Company determined there to be an indicator of impairment for the cannabis operations reporting unit in the global cannabis segment, which was a reportable segment in the three months ended June 30, 2022. As a result, the Company performed a quantitative interim goodwill impairment assessment for the cannabis operations reporting unit as of June 30, 2022. The Company concluded that the carrying value of the cannabis operations reporting unit was higher than its estimated fair value, and a goodwill impairment loss totaling \$1,725,368 was recognized in the three months ended June 30, 2022, representing the entirety of the goodwill assigned to the cannabis operations reporting unit.

The estimated fair value of the cannabis operations reporting unit was determined using the market valuation method, which is consistent with the methodology used by the Company for its annual impairment test conducted at March 31, 2022. The most significant assumptions used in applying this method were (i) the price of the Company's common shares; and (ii) the estimated control premium associated with ownership of the Company's common shares.

While the Company changed its reportable segments in the three months ended September 30, 2022 (refer to Note 30), there were no changes to the composition of the Company's reporting units to which goodwill remains assigned at September 30, 2022. In the three months ended September 30, 2022, the Company determined there to be indicators of impairment for one of its other reporting units as slower growth rates resulted in updated long-term financial forecasts indicating lower forecasted revenue and cash flow generation. As a result, the Company performed a quantitative interim goodwill impairment test for the reporting unit as of September 30, 2022 and concluded that the carrying value of the reporting unit was higher than its estimated fair value, as determined using the income valuation method. The Company recognized a goodwill impairment loss totaling \$2,311 in the three months ended September 30, 2022, representing the entirety of the goodwill assigned to the reporting unit.

For the remaining reporting units, the Company does not believe that an event occurred or circumstances changed during the three months ended September 30, 2022 that would, more likely than not, reduce the fair value of these reporting units below their carrying value. Therefore, the Company concluded that the quantitative goodwill impairment assessment was not required for the remaining reporting units at September 30, 2022.

The Company does not believe that an event occurred or circumstances changed during the three months ended December 31, 2022 that would, more likely than not, reduce the fair values of the remaining reporting units below their carrying values. Therefore, the Company concluded that the quantitative goodwill impairment assessment was not required for the remaining reporting units at December 31, 2022. The carrying value of goodwill associated with all other reporting units was \$142,076 at December 31, 2022.

The Company is required to perform its next annual goodwill impairment analysis on March 31, 2023, or earlier should there be an event that occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

#### 14. OTHER ACCRUED EXPENSES AND LIABILITIES

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

	December 31, 2022	March 31, 2022
Employee compensation	\$ 29,213	\$ 24,873
Inventory	951	10,096
Professional fees	6,891	7,640
Taxes and government fees	8,541	7,144
Other	30,389	25,525
	<u>\$ 75,985</u>	<u>\$ 75,278</u>

#### 15. DEBT

The components of debt are as follows:

	Maturity Date	December 31, 2022	March 31, 2022
Unsecured senior notes at 4.25% interest with semi-annual interest payments	July 15, 2023		
Principal amount		\$ 337,380	\$ 600,000
Accrued interest		6,731	5,958
Non-credit risk fair value adjustment		19,062	7,140
Credit risk fair value adjustment		(37,618)	(49,140)
		325,555	563,958
Convertible debentures	September 10, 2025	30,867	32,858
Accretion debentures	September 10, 2025	8,506	7,720
Credit facility	March 18, 2026	838,407	893,647
Other revolving debt facility, loan, and financings		2,266	2,808
		1,205,601	1,500,991
Less: current portion		(455,483)	(9,296)
Long-term portion		<u>\$ 750,118</u>	<u>\$ 1,491,695</u>

##### *Credit Facility*

On March 18, 2021, the Company entered into 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 had the ability to obtain up to an additional US\$500,000 of incremental senior secured debt pursuant to the Credit Agreement. As described in Note 3, in connection with the balance sheet actions completed as part of the creation of Canopy USA, the Company entered into agreements with certain of its lenders under the Credit Agreement to complete the Paydown, which will result in the Company tendering US\$187,500 of principal amount outstanding thereunder at a discounted price of US\$930 per US\$1,000 or US\$174,375 in the aggregate. The first payment in the amount of \$117,528 (US\$87,852), representing an aggregate principal payment amount of \$126,324 (US\$94,427) was made on November 10, 2022, and the second payment pursuant to the Paydown is to be made no later than April 17, 2023. The Company also agreed to the Credit Agreement Amendments which, among other things, resulted in: (i) reductions to the minimum Liquidity (as defined in the Credit Agreement) covenant to US\$100,000, which is to be further reduced as payments are made in accordance with the Paydown; (ii) certain changes to the application of net proceeds from asset sales; (iii) the establishment of a new committed delayed draw term credit facility in an aggregate principal amount of US\$100,000; and (iv) the elimination of the additional US\$500,000 incremental term loan facility.

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; however, as noted above, as a result of the Credit Agreement Amendments, such minimum liquidity covenant has been reduced to US\$100,000, which is to be reduced as payments are made in accordance with the Paydown.

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

### ***Unsecured Senior Notes***

On June 20, 2018, the Company issued 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. 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.

On June 29, 2022 and June 30, 2022, the Company entered into privately negotiated exchange agreements (the "Exchange Agreements") with a limited number of holders of the Notes including Greenstar (collectively, the "Noteholders"). Pursuant to the Exchange Agreements, the Company agreed to acquire and cancel approximately \$262,620 of aggregate principal amount of the Notes from the Noteholders (the "Exchange Transaction") for an aggregate purchase price (excluding \$5,383 paid to the Noteholders in cash for accrued and unpaid interest) of \$259,994 (the "Purchase Price"), which was payable in the Company's common shares.

On the initial closings, 35,662,420 common shares were to be issued to the Noteholders, other than Greenstar, based on a price equal to US\$3.50 per common share, which was the closing price of the common shares on the Nasdaq Global Select Market on June 29, 2022. The Company satisfied the Purchase Price as follows:

- On June 30, 2022, 14,069,353 common shares were issued to Noteholders, representing the Company's acquisition and cancellation of an aggregate principal amount of Notes of \$63,098, which were recorded at a fair value of \$50,866.
- In July 2022, 21,593,067 common shares were issued to Noteholders, representing an aggregate principal amount of Notes of \$99,522, which were recorded at a fair value of \$76,424 upon acquisition and cancellation.
- On the final closing on July 18, 2022 (the "Final Closing"), 11,896,536 common shares were issued to Noteholders other than Greenstar, based on the volume-weighted average trading price of the common shares on the Nasdaq Global Select Market for the 10 consecutive trading days beginning on, and including, June 30, 2022, being US\$2.6245 (the "Averaging Price").
- In addition, on the Final Closing on July 18, 2022, 29,245,456 common shares were issued to Greenstar based on a price per common share equal to the Averaging Price. Pursuant to the Exchange Transaction, the Company agreed to acquire and cancel \$100,000 in aggregate principal amount, which was recorded at a fair value of \$98,078 upon acquisition and cancellation. Prior to the completion of the Exchange Transaction, Greenstar held \$200,000 in aggregate principal amount of the Notes.

In total, 62,735,059 common shares were issued in July 2022, representing the Company's acquisition and cancellation of an aggregate principal amount of Notes of \$199,522, and a total of 76,804,412 common shares were issued in June and July 2022, representing the Company's acquisition and cancellation of an aggregate principal amount of Notes of \$262,620.

The Notes were issued pursuant to an indenture dated June 20, 2018, as supplemented on April 30, 2019 and June 29, 2022 (collectively, the "Indenture"). As a result of a supplement to the Indenture dated June 29, 2022 (the "Second Supplemental Indenture"), the Company irrevocably surrendered its right to settle the conversion of any Note with its common shares. As a result, all conversions of Notes following the execution of the Second Supplemental Indenture will be settled entirely in cash.

The Noteholders may redeem the Notes at their option at any time from January 15, 2023 to the maturity date for cash. In addition, the holder has the right to redeem the Notes from September 30, 2018 to January 15, 2023, if (i) the market price of the Company's 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 the CBI and its affiliates (together, the "CBI Group") in the Company in November 2018, and no holders of Notes surrendered any portion of their Notes in connection therewith.

Under the terms of the Indenture, if a Fundamental Change occurs and a holder elects to redeem 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, upon conversion by the holder, will settle in cash, subject to certain circumstances.

Prior to July 20, 2021, the Company could not redeem the Notes except in the event of certain changes in Canadian tax law. On or after July 20, 2021, the Company can 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 initial 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.

The Notes were initially recognized at fair value on the balance sheet and continue to be recorded at fair value. 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 (expense), net. The changes in fair value related to the Company's own credit risk are recorded through other comprehensive income (loss). During the three and nine months ended December 31, 2022, the Company acquired and cancelled an aggregate principal amount of Notes of \$nil and \$262,620, respectively, which resulted in a release of accumulated other comprehensive income into other income (expense), net for the three and nine months ended December 31, 2022 of \$nil and \$44,370, respectively. The related tax impact of \$nil and \$14,862 for the three and nine months ended December 31, 2022, respectively, associated with the aggregate principal amount acquired and cancelled was also released from accumulated other comprehensive income into income tax expense. Refer to Note 20.

In connection with the Exchange Transaction, in the three months ended June 30, 2022, the Company recognized a derivative liability of \$26,594 in connection with the incremental common shares that were potentially issuable to Noteholders, other than Greenstar, as at June 30, 2022 at the Averaging Price on the Final Closing. The derivative liability, and associated fair value changes in the three and nine months ended December 31, 2022, were recorded through other income (expense), net. The derivative liability with a fair value of \$39,896 was derecognized upon Final Closing on July 18, 2022.

The overall change in fair value of the Notes during the three and nine months ended December 31, 2022, was an increase of \$4,427 and a decrease of \$238,403, respectively (three and nine months ended December 31, 2021, a decrease of \$16,806 and a decrease of \$120,372, respectively), which included contractual interest of \$3,583 and \$13,370, respectively (three and nine months ended December 31, 2021 – \$6,444 and \$19,128, respectively) and principal redemption of \$nil and \$262,620, respectively. Upon redemption, the principal redeemed during the three and nine months ended December 31, 2022 had a fair value of \$nil and \$225,369, respectively. Refer to Note 22 for additional details on how the fair value of the Notes is calculated.

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

On October 19, 2018, The Supreme Cannabis Company, Inc. ("Supreme Cannabis") 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 the common shares of Supreme Cannabis (the "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 completion of an arrangement, on June 22, 2021 by the Company and Supreme Cannabis, pursuant to which the Company acquired 100% of the issued and outstanding Supreme Shares (the "Supreme Arrangement"), 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.

## 16. OTHER LIABILITIES

The components of other liabilities are as follows:

	As at December 31, 2022			As at March 31, 2022		
	Current	Long-term	Total	Current	Long-term	Total
Lease liabilities	\$ 35,537	\$ 83,167	\$ 118,704	\$ 38,035	\$ 101,125	\$ 139,160
Acquisition consideration and other investment related liabilities	7,908	47,169	55,077	4,020	77,834	81,854
Refund liability	2,937	-	2,937	3,437	-	3,437
Settlement liabilities and other	37,752	11,555	49,307	18,562	11,090	29,652
	<u>\$ 84,134</u>	<u>\$ 141,891</u>	<u>\$ 226,025</u>	<u>\$ 64,054</u>	<u>\$ 190,049</u>	<u>\$ 254,103</u>

The estimated deferred payments associated with the Wana financial instrument within acquisition consideration and other investment related liabilities at December 31, 2022 is \$39,307 (March 31, 2022 – \$70,066).

In connection with the second installment payable by the Company, on behalf of Canopy USA, pursuant to the Amended TRA, as described in Note 10, a liability has been recorded at December 31, 2022 in the amount of \$20,630 in settlement liabilities and other.

## 17. REDEEMABLE NONCONTROLLING INTEREST

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

	Vert Mirabel	BioSteel	Total
As at March 31, 2022	\$ 1,000	\$ 35,200	\$ 36,200
Net income (loss) attributable to redeemable noncontrolling interest	508	(18,316)	(17,808)
Adjustments to redemption amount	(508)	20,874	20,366
Redemption of redeemable noncontrolling interest	-	(27,350)	(27,350)
As at December 31, 2022	<u>\$ 1,000</u>	<u>\$ 10,408</u>	<u>\$ 11,408</u>

  

	Vert Mirabel	BioSteel	Total
As at March 31, 2021	\$ 11,500	\$ 123,800	\$ 135,300
Net income (loss) attributable to redeemable noncontrolling interest	(2,401)	(10,699)	(13,100)
Adjustments to redemption amount	2,401	(50,792)	(48,391)
Redemption of redeemable noncontrolling interest	-	(5,109)	(5,109)
As at December 31, 2021	<u>\$ 11,500</u>	<u>\$ 57,200</u>	<u>\$ 68,700</u>

## 18. SHARE CAPITAL

### CANOPY GROWTH

#### Authorized

An unlimited number of common shares.

#### (i) Equity financings

There were no equity financings during the nine months ended December 31, 2022 (nine months ended December 31, 2021 - none).

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

During the nine months ended December 31, 2022, the Company issued the following common shares, net of share issuance costs, as a result of business combinations, milestones being met, and other equity-settled transactions:

	Number of common shares	Share capital	Share based reserve
Jetty Agreements	8,426,539	\$ 59,013	\$ -
HSCP Holders pursuant to Amended TRA	5,648,927	20,630	-
Completion of acquisition milestones	222,421	1,379	(1,379)
Other issuances	237,802	1,209	(353)
Total	14,535,689	\$ 82,231	\$ (1,732)

For the three and nine months ended December 31, 2022, the Company also issued 8,692,128 common shares with a value of \$26,506 relating to its redemption of the redeemable noncontrolling interest in BioSteel. The redemption increases the Company's interest in BioSteel from 78.6% to 90.3%.

During the nine months ended December 31, 2021, the Company issued the following common shares, net of share issuance costs, as a result of business combinations, milestones being met, and other equity-settled transactions:

	Number of common shares	Share capital	Share based reserve
Acquisition of Supreme Cannabis	9,013,400	\$ 260,668	\$ -
Completion of acquisition milestones	1,295,285	29,276	(29,721)
Other issuances	351,252	6,630	(405)
Total	10,659,937	\$ 296,574	\$ (30,126)

**(iii) Warrants**

	Number of whole warrants	Average exercise price	Warrant value
Balance outstanding at March 31, 2022 <sup>1</sup>	128,193,047	\$ 58.04	\$ 2,581,788
Expiry of warrants	-	-	-
Balance outstanding at December 31, 2022 <sup>1</sup>	128,193,047	\$ 58.04	\$ 2,581,788

<sup>1</sup> This balance excludes the Tranche C Warrants (as defined below), which represent a derivative liability and have nominal value. See Note 29.

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

<sup>1</sup> This balance excludes the Tranche C Warrants, which represent a derivative liability and have nominal value. See Note 29.

**19. 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 (the "Board") 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 49,489,139 at December 31, 2022. As of December 31, 2022, 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 Board (the “CGC&N Committee”) which establishes exercise prices, at not less than the market price at the date of grant, and expiry dates. Awards under the Omnibus Plan generally vest in increments with 1/3 vesting 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 discretion of the CGC&N Committee pursuant to the Omnibus Plan to provide for an alternative expiry date or vesting period in an award agreement for the grant of Awards, 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 nine months ended December 31, 2022, nil and 237,802 common shares were issued under the Purchase Plan (three and nine months ended December 31, 2021 – nil and 61,103).

The following is a summary of the changes in the Options outstanding during the nine months ended December 31, 2022:

	Options issued	Weighted average exercise price
Balance outstanding at March 31, 2022	16,782,962	\$ 33.89
Options granted	4,651,176	4.94
Options exercised	(76,929)	3.41
Options forfeited	(6,058,172)	29.37
Balance outstanding at December 31, 2022	15,299,037	\$ 27.07

The following is a summary of the Options outstanding as at December 31, 2022:

Range of Exercise Prices	Options Outstanding		Options Exercisable	
	Outstanding at December 31, 2022	Weighted Average Remaining Contractual Life (years)	Exercisable at December 31, 2022	Weighted Average Remaining Contractual Life (years)
\$0.06 - \$24.62	6,083,908	4.83	1,369,076	2.77
\$24.63 - \$33.53	3,281,232	2.58	2,033,996	2.24
\$33.54 - \$36.80	1,569,568	1.94	1,569,568	1.94
\$36.81 - \$42.84	1,800,926	2.05	1,794,649	2.02
\$42.85 - \$67.64	2,563,403	2.10	2,563,403	2.10
	15,299,037	3.27	9,330,692	2.19

At December 31, 2022, the weighted average exercise price of Options outstanding and Options exercisable was \$27.07 and \$37.46, respectively (March 31, 2022 – \$33.89 and \$38.33, respectively).

The Company recorded \$1,790 and \$5,175 in share-based compensation expense related to Options and Purchase Plan shares issued to employees and contractors for the three and nine months ended December 31, 2022, respectively (three and nine months ended December 31, 2021 – \$3,696 and \$22,038, respectively). The share-based compensation expense for the nine months ended December 31, 2022, includes an amount related to 1,078,748 Options being provided in exchange for services which are subject to performance conditions (for the nine months ended December 31, 2021 – 1,559,413).

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

The Company uses the Black-Scholes option pricing model to establish the fair value of Options granted during the three months ended December 31, 2022 and 2021, on their measurement date by applying the following assumptions:

	December 31, 2022	December 31, 2021
Risk-free interest rate	3.47%	1.21%
Expected life of options (years)	3 - 5	3 - 5
Expected volatility	82%	75%
Expected forfeiture rate	20%	18%
Expected dividend yield	nil	nil
Black-Scholes value of each option	\$3.34	\$7.55

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 nine months ended December 31, 2022, 76,929 Options were exercised ranging in price from \$0.06 to \$8.18 for gross proceeds of \$271 (for the nine months ended December 31, 2021 – 421,476 Options were exercised ranging in price from \$0.06 to \$36.34 for gross proceeds of \$5,455).

For the three and nine months ended December 31, 2022, the Company recorded \$4,265 and \$15,718, respectively, in share-based compensation expense related to RSUs and PSUs (for the three and nine months ended December 31, 2021 – \$1,950 and \$7,935, respectively).

The following is a summary of the changes in the Company's RSUs and PSUs during the nine months ended December 31, 2022:

	Number of RSUs and PSUs
Balance outstanding at March 31, 2022	3,477,292
RSUs and PSUs granted	3,128,198
RSUs and PSUs released	(359,628)
RSUs and PSUs cancelled and forfeited	(1,925,026)
Balance outstanding at December 31, 2022	4,320,836

During the three and nine months ended December 31, 2022, the Company recorded \$nil in share-based compensation expense related to acquisition milestones (for the three and nine months ended December 31, 2021 – \$971 and \$4,376, respectively).

During the three and nine months ended December 31, 2022, 222,421 common shares were released on completion of acquisition milestones (during the three and nine months ended December 31, 2021 – 419,884 and 1,295,285, respectively). At December 31, 2022, there were up to 125,489 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 December 31, 2022.

### ***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 December 31, 2022, BioSteel had 924,719 (March 31, 2022 – 1,565,300) 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 \$373 and \$832 of share-based compensation expense related to the BioSteel options during the three and nine months ended December 31, 2022, respectively, (three and nine months ended December 31, 2021 – \$160 and \$684, respectively).

## 20. 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, 2022	\$ (57,468)	\$ 15,186	\$ (42,282)
Settlement of unsecured senior notes, net of tax	-	(29,507)	(29,507)
Other comprehensive income	24,694	32,847	57,541
As at December 31, 2022	<u>\$ (32,774)</u>	<u>\$ 18,526</u>	<u>\$ (14,248)</u>
	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 (loss) income	(18,767)	26,280	7,513
As at December 31, 2021	<u>\$ (47,013)</u>	<u>\$ 20,286</u>	<u>\$ (26,727)</u>

## 21. NONCONTROLLING INTERESTS

The net change in the noncontrolling interests is as follows:

	Vert Mirabel	BioSteel	Other	Total
As at March 31, 2022	\$ -	\$ 2,497	\$ 1,844	\$ 4,341
Comprehensive income (loss)	508	(18,316)	(1,844)	(19,652)
Net (income) loss attributable to redeemable noncontrolling interest	(508)	18,316	-	17,808
Share-based compensation	-	495	-	495
Ownership changes	-	(1,552)	1,356	(196)
As at December 31, 2022	<u>\$ -</u>	<u>\$ 1,440</u>	<u>\$ 1,356</u>	<u>\$ 2,796</u>
	Vert Mirabel	BioSteel	Other non- material interests	Total
As at March 31, 2021	\$ -	\$ 1,658	\$ 3,051	\$ 4,709
Comprehensive loss	(2,401)	(10,699)	(1,207)	(14,307)
Net loss attributable to redeemable noncontrolling interest	2,401	10,699	-	13,100
Share-based compensation	-	684	-	684
As at December 31, 2021	<u>\$ -</u>	<u>\$ 2,342</u>	<u>\$ 1,844</u>	<u>\$ 4,186</u>

## 22. 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. The Company determines 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			
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
<b>December 31, 2022</b>				
Assets:				
Short-term investments	\$ 191,119	\$ -	\$ -	\$ 191,119
Restricted short-term investments	12,932	-	-	12,932
Other financial assets	251	-	508,813	509,064
Liabilities:				
Unsecured senior notes	-	325,555	-	325,555
Warrant derivative liability	-	-	668	668
Other liabilities	-	-	43,102	43,102
<b>March 31, 2022</b>				
Assets:				
Short-term investments	\$ 595,651	\$ -	\$ -	\$ 595,651
Restricted short-term investments	12,216	-	-	12,216
Other financial assets	490	-	787,816	788,306
Liabilities:				
Unsecured senior notes	-	563,958	-	563,958
Liability arising from Acreage Arrangement	-	-	47,000	47,000
Warrant derivative liability	-	-	26,920	26,920
Other liabilities	-	-	70,066	70,066

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
Unsecured senior notes	Senior note pricing model	Quoted prices in over-the-counter broker market

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

<b>Financial asset / financial liability</b>	<b>Valuation techniques</b>	<b>Significant unobservable inputs</b>	<b>Relationship of unobservable inputs to fair value</b>
Acreage financial instrument	Probability weighted expected return model	Probability of each scenario	Change in probability of occurrence in each scenario will result in a change in fair value
		Number of common shares to be issued	Increase or decrease in value and number of common shares will result in a decrease or increase in fair value
		Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value
		Estimated premium on US legalization	Increase or decrease in estimated premium on US legalization will result in an increase or decrease in fair value
		Control premium	Increase or decrease in estimated control premium will result in an increase or decrease in fair value
		Market access premium	Increase or decrease in estimated market access premium will result in an increase or decrease in fair value
TerrAscend Exchangeable Shares, TerrAscend Option	Put option pricing model	Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value
Hempco Debenture	Discounted cash flow	Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
TerrAscend warrants - December 2022	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
Wana financial instrument - Call Option	Discounted cash flow	Expected future Wana cash flows	Increase or decrease in expected future Wana cash flows 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
Wana financial instrument - Deferred Payments	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
		Volatility of Wana equity	Increase or decrease in volatility will result in an increase or decrease in fair value
Jetty financial instrument - Call Option	Discounted cash flow	Expected future Jetty cash flows	Increase or decrease in expected future Jetty cash flows 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
Jetty financial instrument - Deferred Payments	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
		Volatility of Jetty equity and revenue	Increase or decrease in volatility 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 noncontrolling interest	Discounted cash flow	Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
		Expected future BioSteel cash flows	Increase or decrease in expected future BioSteel cash flows 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

## 23. REVENUE

Revenue is disaggregated as follows:

	Three months ended		Nine months ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Canada cannabis				
Canadian adult-use cannabis				
Business-to-business <sup>1</sup>	\$ 21,522	\$ 33,282	\$ 73,379	\$ 117,902
Business-to-consumer	11,036	14,477	36,243	48,473
	32,558	47,759	109,622	166,375
Canadian medical cannabis <sup>2</sup>	14,059	12,919	41,714	39,504
	\$ 46,617	\$ 60,678	\$ 151,336	\$ 205,879
Rest-of-world cannabis				
C <sup>3</sup>	-	9,675	-	33,005
Other rest-of-world cannabis	5,846	12,624	30,179	32,357
	\$ 5,846	\$ 22,299	\$ 30,179	\$ 65,362
Storz & Bickel	\$ 20,214	\$ 25,205	\$ 49,351	\$ 63,786
BioSteel	\$ 16,363	\$ 16,974	\$ 64,173	\$ 31,147
This Works	\$ 8,289	\$ 10,730	\$ 20,677	\$ 26,308
Other	3,884	5,086	13,475	16,073
Net revenue	\$ 101,213	\$ 140,972	\$ 329,191	\$ 408,555

<sup>1</sup>Canadian adult-use business-to-business net revenue during the three and nine months ended December 31, 2022 reflects excise taxes of \$10,797 and \$33,754, respectively (three and nine months ended December 31, 2021 – \$12,754 and \$43,501, respectively).

<sup>2</sup>Canadian medical cannabis net revenue for the three and nine months ended December 31, 2022 reflects excise taxes of \$1,339 and \$3,625, respectively (three and nine months ended December 31, 2021 – \$1,298 and \$4,039, 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 \$8,869 and \$15,345 for the three and nine months ended December 31, 2022, respectively (three and nine months ended December 31, 2021 – \$3,726 and \$12,375, respectively). As of December 31, 2022, the liability for estimated returns and price adjustments was \$2,937 (March 31, 2022 – \$3,437).

## 24. OTHER INCOME (EXPENSE), NET

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

	Three months ended		Nine months ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Fair value changes on other financial assets	\$ (95,815)	\$ (68,666)	\$ (396,755)	\$ (263,946)
Fair value changes on liability arising from Acreage Arrangement	-	59,000	47,000	497,000
Fair value changes on unsecured senior notes	(8,964)	606	(32,365)	81,342
Fair value changes on warrant derivative liability	23	67,282	26,252	578,084
Fair value changes on acquisition related contingent consideration and other	1,762	712	25,902	544
Gain (loss) and charges related to settlement of debt	8,912	-	4,224	-
Interest income	7,048	1,575	15,922	6,977
Interest expense	(33,288)	(26,408)	(90,660)	(77,618)
Foreign currency gain (loss)	2,966	990	(8,828)	2,902
Gain (loss) on disposal/acquisition of consolidated entity	4,142	-	6,223	(1,653)
Other income (expense), net	(126)	(809)	(3,677)	(12,863)
	\$ (113,340)	\$ 34,282	\$ (406,762)	\$ 810,769



## 25. INCOME TAXES

There have been no material changes to income tax matters in connection with normal course operations during the nine months ended December 31, 2022.

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.

## 26. EARNINGS (LOSS) PER SHARE

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

	Three months ended		Nine months ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
<b>Basic (loss) earnings per share computation</b>				
Net (loss) income attributable to common shareholders of Canopy Growth	\$ (261,583)	\$ (108,925)	\$ (2,566,537)	\$ 272,435
Weighted average number of common shares outstanding	486,112,598	393,818,282	453,237,882	390,423,083
<b>Basic (loss) earnings per share</b>	<u>\$ (0.54)</u>	<u>\$ (0.28)</u>	<u>\$ (5.66)</u>	<u>\$ 0.70</u>
<b>Diluted (loss) earnings per share computation</b>				
Net (loss) income used in the computation of basic (loss) earnings per share	\$ (261,583)	\$ (108,925)	\$ (2,566,537)	\$ 272,435
Numerator adjustments for diluted (loss) earnings per share:				
Adjustment to net loss attributable to noncontrolling interests and redeemable noncontrolling interest	-	-	-	(13,100)
Removal of fair value changes on unsecured senior notes	-	-	-	(81,342)
Net (loss) income used in the computation of diluted (loss) earnings per share	\$ (261,583)	\$ (108,925)	\$ (2,566,537)	\$ 177,993
Weighted average number of common shares outstanding used in the computation of basic (loss) earnings per share	486,112,598	393,818,282	453,237,882	390,423,083
Denominator adjustments for diluted (loss) earnings per share:				
Dilutive impact of assumed exercise or conversion of:				
Unsecured senior notes	-	-	-	12,454,620
Redeemable noncontrolling interest	-	-	-	4,528,898
Stock options	-	-	-	745,700
Other securities	-	-	-	2,834,501
Weighted average number of common shares for computation of diluted (loss) earnings per share	486,112,598	393,818,282	453,237,882	410,986,802
<b>Diluted (loss) earnings per share<sup>1</sup></b>	<u>\$ (0.54)</u>	<u>\$ (0.28)</u>	<u>\$ (5.66)</u>	<u>\$ 0.43</u>

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

## 27. ACQUISITION

The following table summarizes the consolidated balance sheet impact at acquisition of the Company's business combination that occurred in the nine months ended December 31, 2022:

	<b>Verona Manufacturing Facility</b>
Property, plant and equipment	\$ 28,771
Debt and other liabilities	(2,373)
Net assets acquired	\$ 26,398
Consideration paid in cash	\$ 24,223
Other consideration	2,175
Total consideration	\$ 26,398
Consideration paid in cash	\$ 24,223
Less: Cash and cash equivalents acquired	-
Net cash outflow	\$ 24,223

The table above summarizes the fair value of the consideration given and the fair values assigned to the assets acquired and liabilities assumed for the acquisition completed in the nine months ended December 31, 2022.

### Acquisition of Verona Manufacturing Facility

On November 8, 2022, the Company, through its affiliate BioSteel, completed the acquisition (the "Verona Acquisition") of a manufacturing facility located in Verona, Virginia (the "Verona Facility") from Flow Beverage Corp. ("Flow"), one of BioSteel's contract manufacturers. Consideration was \$26,398 (US\$19,477), consisting of cash paid of \$15,685 (US\$11,573) and \$8,538 (US\$6,299) related to the repayment of debt and the retirement of certain lease obligations, and \$2,175 (US\$1,605) in remediation and indemnity holdbacks to be retained by the Company and paid within one year of the closing of the Verona Acquisition. BioSteel and Flow have also entered into a co-manufacturing agreement whereby, in addition to the production of BioSteel-branded sports hydration beverages, BioSteel will produce Flow's portfolio of branded water at the Verona Facility.

Due to the timing of the Verona Acquisition, the purchase price allocation for the Verona Acquisition is provisional. The fair value assigned to the consideration paid 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.

## 28. RETAIL DIVESTITURE

The Company entered into the following two agreements to divest its retail business in Canada, which includes the retail stores operating under the Tweed and Tokyo Smoke banners:

- An agreement with OEG Retail Cannabis ("OEGRC"), a prior Canopy Growth licensee partner, pursuant to which OEGRC acquired ownership of 23 of the Company's corporate-owned retail stores in Manitoba, Saskatchewan and Newfoundland and Labrador, as well as all Tokyo Smoke-related intellectual property (the "OEGRC Transaction"). In connection with the OEGRC Transaction, the Tokyo Smoke brand has been transferred to OEGRC and all acquired retail stores branded as Tweed will be rebranded by OEGRC. In addition, the master franchise agreement between the Company and OEGRC, pursuant to which OEGRC licenses the Tokyo Smoke brand in Ontario, was terminated effective on the closing of the OEGRC Transaction. The OEGRC Transaction closed on December 30, 2022.
- An agreement (the "FOUR20 Agreement") with 420 Investments Ltd. ("FOUR20"), a licensed cannabis retailer, pursuant to which FOUR20 acquired ownership of five of the Company's corporate-owned retail stores in Alberta (the "FOUR20 Transaction"). Pursuant to the FOUR20 Agreement, the stores will be rebranded under FOUR20's retail banner upon closing of the FOUR20 Transaction. The FOUR20 Transaction closed on October 26, 2022.

In the three months ended December 31, 2022, upon closing of the OEGRC Transaction and the FOUR20 Transaction, the Company received a cash payment of \$88. The Company will also be entitled to deferred consideration of \$5,500, and an earn-out payment of \$6,099, subject to the achievement of certain revenue targets by the divested retail stores.

Following the divestiture of the retail stores pursuant to the OEGRC Transaction and the FOUR20 Transaction, the Company derecognized the assets and liabilities of the associated retail stores from these consolidated financial statements at their carrying amounts on their respective closing dates, as follows:

Current assets	\$	6,461
Property, plant and equipment		7,990
Other long-term assets		144
Current liabilities		(9,492)
Net assets disposed	\$	<u>5,103</u>
Consideration received in cash	\$	88
Future cash consideration		11,599
Costs to sell		(2,442)
Total consideration	\$	<u>9,245</u>
Gain on disposal of consolidated entity	\$	<u>4,142</u>

The gain calculated on the derecognition of the assets and liabilities of the retail stores is the difference between the carrying amounts of the derecognized assets and liabilities, and the fair value of consideration received, net of costs to sell.

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

### Acreage Arrangement

On September 23, 2020, the Company and Acreage entered into a second amendment (the “Acreage Amending Agreement”) to the arrangement agreement (the “Original Acreage Arrangement Agreement”) and plan of arrangement (the “Original Acreage Arrangement”) between the Company and Acreage dated April 18, 2019, as amended on May 15, 2019. In connection with the Acreage Amending Agreement, the Company and Acreage implemented an amended and restated plan of arrangement (the “Acreage Amended Arrangement”) on September 23, 2020. Pursuant to the terms of the Original Acreage Arrangement, shareholders of Acreage and holders of certain securities convertible into the existing Acreage subordinated voting shares as of June 26, 2019, received an immediate aggregate total payment of US\$300,000 (\$395,190) in exchange for granting Canopy Growth both the right and the obligation to acquire all of the issued and outstanding shares of Acreage following the occurrence or waiver of changes in U.S. federal law to permit the general cultivation, distribution, and possession of marijuana or to remove the regulation of such activities from the federal laws of the United States (the “Triggering Event”) and subject to the satisfaction or waiver of the conditions set out in the Original Acreage Arrangement Agreement.

The Acreage Amended Arrangement provides for, among other things, the following:

- Following the occurrence or waiver (at the discretion of Canopy Growth) of the Triggering Event and subject to the satisfaction or waiver of the conditions set out in the Original Acreage Arrangement Agreement (as modified in connection with the Acreage Amending Agreement), Canopy Growth will acquire all of the issued and outstanding Fixed Shares based on an amended exchange ratio equal to 0.3048 of a common share to be received for each Fixed Share held. 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 (the “Acreage Floating Option”) exercisable for a period of 30 days, to acquire all of the issued and outstanding Floating Shares for cash or common shares or a combination thereof, in Canopy Growth’s sole discretion at a price equal to the 30-day volume weighted average trading price of the Floating Shares on the 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.

See Note 3 for information regarding the Reorganization. In connection with the Reorganization, Canopy Growth irrevocably waived the Acreage Floating Option and subject to, among other things, the terms of the Floating Share Arrangement Agreement, Canopy USA will acquire all of the issued and outstanding Floating Shares. Following the implementation of the Reorganization, Canopy USA, as of October 24, 2022, holds certain U.S. cannabis investments previously held by the Company, which is expected to enable Canopy USA, following, among other things, the Meeting and the exercise of the Acreage Option, including the issuance of the Fixed Shares to Canopy USA, to consummate the acquisitions of Acreage, Wana and Jetty.

At December 31, 2022, the right and the obligation (the “Acreage financial instrument”) to acquire the Fixed Shares pursuant to the Existing Acreage Arrangement Agreement represents a financial asset of \$37,000 (March 31, 2022 – \$47,000 liability), as the estimated fair value of the Acreage business is more than the estimated fair value of the consideration to be provided upon the exercise of the Acreage financial instrument. Fair value changes on the Acreage financial instrument are recognized in other income (expense), net; see Note 24. The fair value determination includes a high degree of subjectivity and judgment, which results in significant estimation uncertainty. See Note 22 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 - *Financial Instruments* (“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 (“Hempco Debenture”). In accordance with the terms of the Hempco Debenture, the funds advanced to Acreage Hempco 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 Hempco Debenture bears interest at a rate of 6.1% per annum and matures on September 23, 2030, or such earlier date in accordance with the terms of the Hempco Debenture. All interest payments made pursuant to the Hempco Debenture are payable in cash by Acreage Hempco. The Hempco Debenture is not convertible and is not guaranteed by Acreage. In connection with the Reorganization, as described in Note 3, on October 24, 2022, the Company transferred the Hempco Debenture to Canopy USA.

The amount advanced on September 23, 2020 pursuant to the Hempco Debenture has been recorded in other financial assets (see Note 10), and the Company has elected the fair value option under ASC 825 (see Note 22). At December 31, 2022, the estimated fair value of the Hempco Debenture issued to an affiliate of the Company by Acreage Hempco was \$27,853 (March 31, 2022 – \$28,824), measured using a discounted cash flow model (see Note 22). Refer to Note 10 for details on fair value changes, foreign currency translation adjustment, and interest received. An additional US\$50,000 may be advanced pursuant to the Hempco 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 the 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 December 31, 2022.

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 (the “warrant derivative liability”) measured at fair value in accordance with ASC 815. At December 31, 2022, the fair value of the warrant derivative liability was \$668 (March 31, 2022 – \$26,920), and fair value changes are recognized in other income (expense), net; see Note 24. See Note 22 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 December 31, 2022.

As described in Note 3, in connection with the Reorganization, the Company entered into the Consent Agreement, pursuant to which CBG and Greenstar agreed, among other things, that in the event that CBG and Greenstar convert their ownership in the Company's common shares into Exchangeable Shares, CBG will surrender the warrants held by CBG to purchase 139,745,453 common shares of the Company for cancellation for no consideration.

### 30. SEGMENT INFORMATION

#### Reportable segments

Prior to the three months ended September 30, 2022, the Company had the following two reportable segments: (i) global cannabis; and (ii) other consumer products. Following the completion of certain restructuring actions which were initiated in the three months ended March 31, 2022, and which were aligned with the Company's strategic review of its business, the Company has changed the structure of its internal management financial reporting. Accordingly, in the three months ended September 30, 2022, the Company began reporting its financial results for the following five reportable segments:

- **Canada cannabis** - includes the production, distribution and sale of a diverse range of cannabis, hemp and cannabis products in Canada pursuant to the *Cannabis Act*;
- **Rest-of-world cannabis** - includes the production, distribution and sale of a diverse range of cannabis, hemp and cannabis products internationally pursuant to applicable international legislation, regulations and permits;
- **Storz & Bickel** - includes the production, distribution and sale of vaporizers;
- **BioSteel** - includes the production, distribution and sale of consumer packaged goods ("CPG") including sports nutrition beverages, mixes, protein, gum and mints, some of which have been blended with hemp-derived CBD isolate; and
- **This Works** - includes the production, distribution and sale of beauty, skincare, wellness and sleep products, some of which have been blended with hemp-derived CBD isolate.

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 CODM evaluates the performance of these segments, with a focus on (i) segment net revenue, and (ii) segment gross margin as the measure of segment profit or loss. Accordingly, information regarding segment net revenue and segment gross margin for the comparative periods has been restated to reflect the aforementioned change in reportable segments. The remainder of the Company's operations include revenue derived from, and cost of sales associated with, the Company's non-cannabis extraction activities and other ancillary activities; these are included within "other".

	Three months ended		Nine months ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Segmented net revenue				
Canada cannabis	\$ 46,617	\$ 60,678	\$ 151,336	\$ 205,879
Rest-of-world cannabis	5,846	22,299	30,179	65,362
Storz & Bickel	20,214	25,205	49,351	63,786
BioSteel	16,363	16,974	64,173	31,147
This Works	8,289	10,730	20,677	26,308
Other	3,884	5,086	13,475	16,073
	<u>\$ 101,213</u>	<u>\$ 140,972</u>	<u>\$ 329,191</u>	<u>\$ 408,555</u>
Segmented gross margin:				
Canada cannabis	\$ (5,281)	\$ (13,121)	(25,466)	\$ (97,925)
Rest-of-world cannabis	(2,184)	4,660	(3,676)	24,245
Storz & Bickel	9,186	11,172	20,809	27,623
BioSteel	(7,669)	1,352	(804)	(2,361)
This Works	4,032	5,469	8,982	12,423
Other	(525)	558	143	2,183
	<u>(2,441)</u>	<u>10,090</u>	<u>(12)</u>	<u>(33,812)</u>
Selling, general and administrative expenses	122,636	116,835	351,891	355,165
Share-based compensation	6,428	6,777	21,725	35,856
Asset impairment and restructuring costs	22,259	36,439	1,794,212	128,198
Operating loss	(153,764)	(149,961)	(2,167,840)	(553,031)
Loss from equity method investments	-	-	-	(100)
Other income (expense), net	(113,340)	34,282	(406,762)	810,769
(Loss) income before incomes taxes	<u>\$ (267,104)</u>	<u>\$ (115,679)</u>	<u>\$ (2,574,602)</u>	<u>\$ 257,638</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		Nine months ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Canada	\$ 65,851	\$ 78,644	\$ 226,312	\$ 241,440
Germany	12,772	23,143	36,383	71,619
United States	10,292	22,764	30,688	60,856
Other	12,298	16,421	35,808	34,640
	<u>\$ 101,213</u>	<u>\$ 140,972</u>	<u>\$ 329,191</u>	<u>\$ 408,555</u>

Disaggregation of property, plant and equipment by geographic area:

	December 31, 2022	March 31, 2022
Canada	\$ 726,613	\$ 827,591
United States	96,159	63,247
Other	51,257	51,942
	<u>\$ 874,029</u>	<u>\$ 942,780</u>

For the three months ended December 31, 2022, no customer represented more than 10% of the Company's net revenue (three months ended December 31, 2021 – none).

For the nine months ended December 31, 2022, no customer represented more than 10% of the Company's net revenue (nine months ended December 31, 2021 – one)

## 31. SUBSEQUENT EVENTS

### Canadian Cannabis Operations Restructuring

On February 9, 2023, the Company announced a series of comprehensive steps to align its Canadian cannabis operations and resources in response to unfavorable market realities, which include:

- Transitioning to an asset-light model by: (i) exiting cannabis flower cultivation in the Company's Smiths Falls, Ontario facility; (ii) ceasing the sourcing of cannabis flower from the Company's Mirabel, Quebec facility; and (iii) consolidating cultivation at the Company's existing facilities in Kincardine, Ontario and Kelowna, British Columbia;
- Moving to an adaptive third-party sourcing model for all cannabis beverages, edibles, vapes, and extracts which will enable the Company to select and bring to market new product formats without the required investment in research and development and production footprint;
- As a result of the aforementioned changes, the Company intends to consolidate flower, pre-rolled joints, softgel, and oil manufacturing in the Company's current beverage production facility in Smiths Falls, Ontario and reduce headcount across the business; and
- The Company intends to close the 1 Hershey Drive facility in Smiths Falls, Ontario and the Company is in active discussions with respect to restructuring the joint-venture entity which holds the cultivation facility in Mirabel, Quebec.

## 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, 2022 (the "Annual Report"), Part I, Item 1A, Risk Factors, of the Annual Report and Part II, Item 1A, Risk Factors, of this Quarterly 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 third quarter of fiscal 2023 in comparison to the third quarter of fiscal 2022, and for the nine months ended December 31, 2022 in comparison to the nine months ended December 31, 2021.
- *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 accounting principles generally accepted in the United States of America ("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:

- 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 U.S. Drug Enforcement Administration, the U.S. Federal Trade Commission, the U.S. Patent and Trademark Office, the U.S. Department of Agriculture (the "USDA") and any state equivalent regulatory agencies over U.S. hemp (including CBD) products;
- expectations regarding the amount or frequency of impairment losses, including as a result of the write-down of intangible assets, including goodwill;
- the Company's ability to execute on its strategy to accelerate the Company's entry into the U.S. cannabis market through the creation of Canopy USA, LLC ("Canopy USA");
- expectations regarding the potential success of, and the costs and benefits associated with the Reorganization (as defined below);
- expectations regarding the potential success of, and the costs and benefits associated with the comprehensive steps and actions being undertaken by the Company with respect to its Canadian operations (the "Canadian Transformative Plan");
- expectations to capitalize on the opportunity for growth in the United States cannabis sector and the anticipated benefits of such strategy;



- the timing and outcome of the Floating Share Arrangement (as defined below), the anticipated benefits of the Floating Share Arrangement, the anticipated timing of the Acreage (as defined below) special meeting of shareholders and the acquisition of the Fixed Shares (as defined below) and the Floating Shares (as defined below) by Canopy USA, the satisfaction or waiver of the closing conditions set out in the Floating Share Arrangement Agreement (as defined below) and the Existing Acreage Arrangement Agreement (as defined below), including receipt of all regulatory approvals, and the anticipated timing and occurrence of the Company's exercise of the option to acquire the Fixed Shares and closing of such transaction;
- the issuance of additional common shares of the Company to satisfy the payments to certain Holders (as defined below) under the Amended TRA (as defined below), to eligible participants to the existing tax receivable bonus plans of HSCP (as defined below), to satisfy any deferred and/or option exercise payments to the shareholders of Wana (as defined below) and Jetty (as defined below) and the issuance of additional Non-Voting Shares (as defined below) issuable to Canopy Growth from Canopy USA in consideration thereof;
- the potential conversion of common shares held by the CBI Group (as defined below) to Exchangeable Shares (as defined below), including the termination of the Second Amended and Restated Investor Rights Agreement (as defined below);
- the anticipated timing and occurrence of the Meeting (as defined below) to approve the Amendment Proposal (as defined below);
- the timing of the Paydown (as defined below) and the reduction in interest rates;
- expectations related to our announcement of certain restructuring actions (the "Restructuring Actions"), the Reorganization, the Canadian Transformative Plan and any progress, challenges and effects related thereto as well as changes in strategy, metrics, investments, costs, operating expenses, employee turnover and other changes with respect thereto;
- 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;
- 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) and the Floating Share Arrangement, including the occurrence or waiver (at our discretion) of the Triggering Event (as defined below), the anticipated timing and occurrence of the Company's exercise of the option to acquire the Fixed Shares and the satisfaction or waiver of the conditions to closing the acquisition of Acreage;
- the Wana Agreements (as defined below), including the occurrence or waiver (at Canopy USA's 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;
- expectations regarding the use of proceeds of equity financings, including the proceeds from the CBI Group Investments;
- the legalization of the use of cannabis for medical or adult-use 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 adult-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;
- 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; and (xiii) 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, our limited operating history; the risks that if Canopy USA acquires Wana, Jetty or the Fixed Shares of Acreage without structural amendments to our interest in Canopy USA, the listing of our common shares on the Nasdaq Stock Market (the "Nasdaq") may be jeopardized; our ability to implement structural changes to our interest in Canopy USA, if necessary; inherent uncertainty associated with projections; the diversion of management time on issues related to Canopy USA; the ability of parties to certain transactions to receive, in a timely manner and on satisfactory terms, the necessary regulatory, court and shareholder approvals; the risks that our Restructuring Actions will not result in the expected cost-savings, efficiencies and other benefits or will result in greater than anticipated turnover in personnel; risks that we may be required to write down intangible assets, including goodwill, due to impairment; changes in laws, regulations and guidelines and our compliance with such laws, regulations and guidelines; risk relating to the long term macroeconomics effects of the COVID-19 pandemic and any future pandemic or epidemic; consumer demand for cannabis and U.S. hemp products; inflation risks; 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; the implementation and effectiveness of key personnel changes; risks associated with jointly owned investments; risks relating to our current and future operations in emerging markets; risks relating to inventory write downs; 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 manufacturing risks; 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 and in Item 1A of Part II of this Quarterly 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 cannabis and consumer packaged goods (“CPG”) company which produces, distributes, and sells a diverse range of cannabis, hemp, and CPG products. Cannabis products are principally sold for adult-use and medical purposes under a portfolio of distinct brands in Canada pursuant to the *Cannabis Act*, and globally pursuant to applicable international legislation, regulations, and permits. 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) BioSteel Sports Nutrition Inc. (“BioSteel”) sports nutrition beverages, mixes, protein, gum and mints, some of which have been infused with hemp-derived CBD isolate; and (iii) This Works beauty, skincare, wellness and sleep products, some of which have been blended with hemp-derived CBD isolate. Our core operations are in Canada, the United States, and Germany.

On October 17, 2018, the *Cannabis Act* came into effect in Canada, regulating both the medical and adult-use cannabis markets in Canada and providing provincial, territorial and municipal governments the authority to prescribe regulations regarding the distribution and sale of adult-use cannabis. On October 17, 2019, the second phase of adult-use 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 adult-use 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. As described under “Recent Developments” below, in the second quarter of fiscal 2023, we entered into agreements to divest our retail business across Canada, which included the retail stores operating under the Tweed and Tokyo Smoke banners under a “business-to-consumer” model. The divestiture was completed in the third quarter of fiscal 2023.

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.

Subsequent to the passage of the 2018 Farm Bill in December 2018, we began building our hemp supply chain in the United States through our investment in processing, extraction and finished goods manufacturing facilities. In the United States, we currently offer (i) a line of premium quality, hemp-derived wellness gummies, oils, softgels and topicals under the Martha Stewart CBD brand; (ii) a line of premium, ready-to-drink CBD-infused sparkling waters; and (iii) whisl, a CBD vape.

In June 2019, we implemented a plan of arrangement pursuant to an arrangement agreement (the “Original 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 Original 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 Original 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 (the “Acreage Floating Option”) to acquire the other approximately 30% of the issued and outstanding shares of Acreage. In connection with the Floating Share Arrangement Agreement, Canopy Growth has irrevocably waived the Acreage Floating Option existing under the Existing Acreage Arrangement Agreement. 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.

On October 14, 2021, we entered into definitive option agreements (the “Wana Agreements”) with Mountain High Products, LLC, Wana Wellness, LLC and The Cima Group, LLC (collectively, “Wana”) 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 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, and across Canada. Additionally, on May 17, 2022, we and Lemurian, Inc. (“Jetty”) entered into definitive agreements (the “Jetty Agreements”) providing us with the right to acquire up to 100% of the outstanding equity interests in Jetty upon the Triggering Event. Jetty is a California-based producer of high-quality cannabis extracts and pioneer of clean vape technology.

As described below under “Recent Developments”, on October 25, 2022, we announced the implementation of our internal reorganization pursuant to which, among other things, we formed a new Delaware holding company, Canopy USA (the “Reorganization”). Following the implementation of the Reorganization, as of October 24, 2022, Canopy USA holds certain U.S. cannabis investments that were previously held by Canopy Growth, which is expected to enable Canopy USA, following, among other things, the Meeting and the exercise of the Acreage Option (as defined below), including the issuance of the Fixed Shares (as defined below) to Canopy USA, to consummate the acquisitions of Acreage, Wana, and Jetty.

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 softgel encapsulation and pre-rolled joints; a beverage production facility; and confectionary manufacturing. These capabilities allow us to supply the adult-use 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.

## Segment Reporting

Prior to the second quarter of fiscal 2023, we had the following two reportable segments: (i) global cannabis; and (ii) other consumer products. Following the completion of certain restructuring actions which were initiated in the fourth quarter of fiscal 2022, and which were aligned with our strategic review of our business, we have changed the structure of our internal management financial reporting. Accordingly, in the second quarter of fiscal 2023 we began reporting our financial results for the following five reportable

segments: (i) Canada cannabis; (ii) rest-of-world cannabis; (iii) Storz & Bickel; (iv) BioSteel; and (v) This Works, with the principal activities of each of these reportable segments described above under "Business Overview".

These segments reflect how our operations are managed, how our Chief Executive Officer, who is the Chief Operating Decision Maker ("CODM"), allocates resources and evaluates performance, and how our internal management financial reporting is structured. Our CODM evaluates the performance of these segments, with a focus on (i) segment net revenue, and (ii) segment gross margin as the measure of segment profit or loss. Accordingly, information regarding segment net revenue and segment gross margin for the comparative periods has been restated to reflect the aforementioned change in reportable segments. The remainder of our operations include revenue derived from, and cost of sales associated with, our non-cannabis extraction activities and other ancillary activities; these are included within "other".

### **Recent Developments**

#### **Reorganization - Creation of Canopy USA**

On October 24, 2022, Canopy Growth completed a number of strategic transactions in connection with the creation of a new U.S.-domiciled holding company, Canopy USA (the "Reorganization"). Following the implementation of the Reorganization, Canopy USA, as of October 24, 2022, holds certain U.S. cannabis investments previously held by Canopy Growth, which is expected to enable Canopy USA, following, among other things, the Meeting (as defined below) and the exercise of the Acreage Option, including the issuance of the Fixed Shares to Canopy USA, to consummate the acquisitions of Acreage, Wana, and Jetty.

Following the implementation of the Reorganization, as of October 24, 2022, Canopy USA has an ownership interest in the following assets, among others:

- **Wana** - The option to acquire 100% of the membership interests of Wana (the "Wana Option"), a leading cannabis edibles brand in North America.
- **Jetty** - The option to acquire 100% of the shares of Jetty (the "Jetty Option"), a California-based producer of high-quality cannabis extracts and pioneer of clean vape technology.

Canopy Growth currently retains the option to acquire the issued and outstanding Class E subordinate voting shares (the "Fixed Shares") of Acreage (the "Acreage Option"), representing approximately 70% of the total shares of Acreage, at a fixed share exchange ratio of 0.3048 of a common share of Canopy Growth per Fixed Share. Concurrently with the closing of the acquisition of the Fixed Shares pursuant to the exercise of the Acreage Option, the Fixed Shares will be issued to Canopy USA. In addition, Canopy USA has agreed to acquire all of the issued and outstanding Class D subordinate voting shares of Acreage (the "Floating Shares") by way of a court-approved plan of arrangement (the "Floating Share Arrangement") in exchange for 0.45 of a common share of Canopy Growth for each Floating Share held. Acreage is a leading vertically-integrated multi-state cannabis operator, with its main operations in densely populated states across the Northeast U.S. including New Jersey and New York.

In addition, as of October 24, 2022, Canopy USA holds direct and indirect interests in the capital of TerrAscend Corp. ("TerrAscend"), a leading North American cannabis operator with vertically integrated operations and a presence in Pennsylvania, New Jersey, Michigan and California as well as licensed cultivation and processing operations in Maryland. Canopy USA's direct and indirect interests in TerrAscend includes: (i) 38,890,570 exchangeable shares in the capital of TerrAscend (the "TerrAscend Exchangeable Shares"), an option to purchase 1,072,450 TerrAscend common shares (the "TerrAscend Common Shares") for an aggregate purchase price of \$1.00 (the "TerrAscend Option"), and 22,474,130 TerrAscend Common Share purchase warrants previously held by Canopy Growth (the "TerrAscend Warrants"); and (ii) the debentures and loan agreement between Canopy Growth and certain TerrAscend subsidiaries. On December 9, 2022, Canopy USA and certain limited partnerships that are controlled by Canopy USA entered into a debt settlement agreement with TerrAscend and certain of its subsidiaries whereby all of the debt obligations, including all principal and interest, were extinguished and all of the previously issued TerrAscend Warrants controlled by Canopy USA were cancelled in exchange for the issuance of 24,601,467 TerrAscend Exchangeable Shares and 22,474,130 new TerrAscend Warrants expiring on December 31, 2032; see "TerrAscend Arrangement" below.

Canopy USA was determined to be a variable interest entity ("VIE") pursuant to Accounting Standards Codification ("ASC") 810 – *Consolidations* and Canopy Growth was determined to be the primary beneficiary of Canopy USA. As a result of such determination and in accordance with ASC 810, Canopy Growth has consolidated the financial results of Canopy USA.

#### **Ownership of U.S. Cannabis Investments**

Following the implementation of the Reorganization, the shares and interests in Acreage, Wana, Jetty, and TerrAscend are held, directly or indirectly, by Canopy USA, and Canopy Growth no longer holds a direct interest in any shares or interests in such entities, other than the Acreage Option. Canopy Growth holds non-voting and non-participating shares (the "Non-Voting Shares") in the

capital of Canopy USA. The Non-Voting Shares do not carry voting rights, rights to receive dividends or other rights upon dissolution of Canopy USA, but are convertible into Class A common shares of Canopy USA (the “Canopy USA Common Shares”). The Company also has the right (regardless of the fact that its Non-Voting Shares are non-voting and non-participating) to appoint two members to the Canopy USA board of managers.

On October 24, 2022, Canopy USA issued 1,000,000 Canopy USA Common Shares to VCo Ventures LLC (“VCo Ventures”), a former shareholder of Jetty, in exchange for US\$1 million. Agustin Huneeus Jr. is the manager of VCo Ventures. Following the closing of the investment, a wholly-owned subsidiary of the Company holds Non-Voting Shares in the capital of Canopy USA, representing approximately 99.3% of the issued and outstanding shares in Canopy USA on an as-converted basis. Canopy USA retains a call right (the “Repurchase Right”) to repurchase all shares of Canopy USA that have been issued to VCo Ventures at a price per Canopy USA Common Share equal to the greater of fair market value as determined by an appraiser appointed by Canopy USA and US\$2 million in the aggregate; provided that if the repurchase occurs prior to March 31, 2023, the Repurchase Right can be exercised at the initial subscription price. VCo Ventures has also been granted the right to appoint one member to the Canopy USA board of managers and a put right following the conversion of the Non-Voting Shares into Canopy USA Common Shares on the same terms and conditions as the Repurchase Right.

On October 24, 2022, Canopy USA and the Company also entered into an agreement with, among others, Nancy Whiteman, the controlling shareholder of Wana, whereby subsidiaries of Canopy USA agreed to pay additional consideration in order to acquire the Wana Option and the future payments owed in connection with the exercise of the Wana Option will be reduced to US\$3.00 in exchange for the issuance of Canopy USA Common Shares and Canopy Growth common shares (the “Wana Amending Agreement”). In accordance with the terms of the Wana Amending Agreement, Canopy USA Common Shares and Canopy Growth common shares will be issued to the shareholders of Wana, each with a value equal to 7.5% of the fair market value of Wana as of January 1, 2023. The value of Wana and the number of Canopy USA Common Shares will be determined based on the fair market value of Wana and the Canopy USA Common Shares, respectively, as determined by an appraiser appointed by the Company and an appraiser appointed by the shareholders of Wana (and, if required, a third appraiser to be appointed by the initial two appraisers). The Canopy USA Common Shares and Canopy Growth common shares will only be issued to Ms. Whiteman, or entities controlled by Ms. Whiteman, after January 1, 2023 and only if CBG Holdings LLC (“CBG”) and Greenstar Canada Investment Limited Partnership (“Greenstar”) have converted their Canopy Growth common shares into Exchangeable Shares. The Wana Amending Agreement may be terminated and no Canopy USA Common Shares or Canopy Growth common shares will be issued to Ms. Whiteman, or entities controlled by Ms. Whiteman in the event that CBG and Greenstar have not converted their Canopy Growth common shares into Exchangeable Shares by the later of: (i) sixty days after the Meeting; or (ii) March 31, 2023. The Canopy USA Common Shares issuable to Ms. Whiteman, or entities controlled by Ms. Whiteman, will also be subject to a repurchase right (the “Wana Repurchase Right”) to repurchase all Canopy USA Common Shares that have been issued at a price per Canopy USA Common Share equal to the greater of fair market value as determined by an appraiser and the initial subscription price multiplied by an accrued annual interest rate of 10%. As part of this agreement, Canopy USA has granted Ms. Whiteman the right to appoint one member to the Canopy USA board of managers and a put right on the same terms and conditions as the Wana Repurchase Right.

Canopy Growth and Canopy USA have also entered into a protection agreement (the “Protection Agreement”) to provide for certain covenants in order to preserve the value of the Non-Voting Shares held by Canopy Growth until such time as the Non-Voting Shares are converted into Canopy USA Common Shares but does not provide Canopy Growth with the ability to direct the business, operations or activities of Canopy USA.

Upon closing of Canopy USA's acquisition of Acreage, Canopy Growth will receive additional Non-Voting Shares from Canopy USA in consideration for the issuance of common shares of the Company that shareholders of Acreage will receive in accordance with the terms of the Existing Acreage Arrangement Agreement and the Floating Share Arrangement Agreement.

In addition, subject to the terms and conditions of the Protection Agreement and the terms of the option agreements to acquire Wana and Jetty, as applicable, Canopy Growth may be required to issue additional common shares in satisfaction of certain deferred and/or option exercise payments to the shareholders of Wana and Jetty. Canopy Growth will receive additional Non-Voting Shares from Canopy USA as consideration for any Company common shares issued in the future to the shareholders of Wana and Jetty.

Until such time as Canopy Growth converts the Non-Voting Shares into Canopy USA Common Shares, Canopy Growth will have no economic or voting interest in Canopy USA, Wana, Jetty, TerrAscend, or Acreage. Canopy USA, Wana, Jetty, TerrAscend, and Acreage will continue to operate independently of Canopy Growth.

#### Acreage Agreements

On October 24, 2022, Canopy Growth entered into an arrangement agreement with Canopy USA and Acreage (the “Floating Share Arrangement Agreement”), pursuant to which, subject to approval of the holders of the Floating Shares and the terms and

conditions of the Floating Share Arrangement Agreement, Canopy USA will acquire all of the issued and outstanding Floating Shares by way of a court-approved plan of arrangement (the "Floating Share Arrangement") in exchange for 0.45 of a Company common share for each Floating Share held. In connection with the Floating Share Arrangement Agreement, Canopy Growth has irrevocably waived the Acreage Floating Option existing under the Existing Acreage Arrangement Agreement.

It is expected that the Floating Share Arrangement will be effected by way of a court-approved plan of arrangement under the *Business Corporations Act (British Columbia)*. The Floating Share Arrangement requires the approval of: (i) at least two-thirds of the votes cast by the holders of the Floating Shares; and (ii) at least a majority of the votes cast by the holders of the Floating Shares, excluding the votes cast by "interested parties" and "related parties" (as such terms are defined in Multilateral Instrument 61-101 - *Protection Of Minority Security Holders In Special Transactions*), at a special meeting of Acreage shareholders.

On October 24, 2022, the Company and Canopy USA entered into a third amendment to tax receivable agreement (the "Amended TRA") with, among others, certain current or former unitholders (the "Holders") of High Street Capital Partners, LLC, a subsidiary of Acreage ("HSCP"), pursuant to HSCP's amended tax receivable agreement (the "TRA") and related tax receivable bonus plans with Acreage. Pursuant to the Amended TRA, the Company, on behalf of Canopy USA, agreed to issue common shares of the Company with a value of US\$30.4 million to certain Holders as consideration for the assignment of such Holder's rights under the TRA to Canopy USA. As a result of the Amended TRA, Canopy USA is the sole member and beneficiary under the TRA. In connection with the foregoing, the Company issued 5,648,927 common shares with a value of \$20.6 million (US\$15.2 million) to certain Holders on November 4, 2022 as the first installment under the Amended TRA with the second payment of approximately US\$15.2 million in common shares of the Company to occur on the earlier of: (a) the second business day following the date on which the shareholders of Acreage approve the Floating Share Arrangement; or (b) April 24, 2023. The Company, on behalf of Canopy USA, also agreed to issue common shares of the Company with a value of approximately US\$19.6 million to certain eligible participants pursuant to HSCP's existing tax receivable bonus plans to be issued immediately prior to completion of the Floating Share Arrangement.

On October 24, 2022, Canopy Growth and Canopy USA entered into voting support agreements with certain of Acreage's directors, officers and consultants pursuant to which such persons have agreed, among other things, to vote their Floating Shares in favor of the Floating Share Arrangement, representing approximately 7.3% of the issued and outstanding Floating Shares.

In addition to shareholder and court approvals, the Floating Share Arrangement is subject to approval of the Amendment Proposal and applicable regulatory approvals including, but not limited to, Toronto Stock Exchange ("TSX") approval and the satisfaction of certain other closing conditions customary in transactions of this nature. Assuming timely receipt of all necessary court, shareholder, regulatory and other third-party approvals and the satisfaction of all other conditions, closing of the acquisition of Acreage is expected to occur in late 2023.

It is intended that Canopy Growth's existing option to acquire the Fixed Shares on the basis of 0.3048 of a Company common share per Fixed Share will be exercised after the Meeting in accordance with the terms of the arrangement agreement dated April 18, 2019, as amended on May 15, 2019, September 23, 2020 and November 17, 2020 (the "Existing Acreage Arrangement Agreement"). Canopy Growth will not hold any Fixed Shares or Floating Shares. Completion of the acquisition of the Fixed Shares following exercise of the option is subject to the satisfaction of certain conditions set forth in the Existing Acreage Arrangement Agreement. The acquisition of the Floating Shares pursuant to the Floating Share Arrangement is anticipated to occur immediately prior to the acquisition of the Fixed Shares pursuant to the Existing Acreage Arrangement Agreement in late 2023 such that 100% of the issued and outstanding shares of Acreage will be owned by Canopy USA on closing of the acquisition of both the Fixed Shares and the Floating Shares.

On November 15, 2022, a wholly-owned subsidiary of Canopy Growth (the "Acreage Debt Optionholder") and Acreage's existing lenders (the "Lenders") entered into an option agreement, which superseded the letter agreement dated October 24, 2022 between the parties, pursuant to which the Acreage Debt Optionholder was granted the right to purchase the outstanding principal, including all accrued and unpaid interest thereon, of Acreage's debt, being an amount up to US\$150.0 million (the "Acreage Debt") from the Lenders in exchange for an option premium payment of \$38.0 million (US\$28.5 million) (the "Option Premium"), which was deposited into an escrow account on November 17, 2022. The Acreage Debt Optionholder has the right to exercise the option at its discretion, and if the option is exercised, the Option Premium will be used to reduce the purchase price to be paid for the outstanding Acreage Debt. In the event that Acreage repays the Acreage Debt on or prior to maturity, the Option Premium will be returned to the Acreage Debt Optionholder. In the event that Acreage defaults on the Acreage Debt and the Acreage Debt Optionholder does not exercise its option to acquire the Acreage Debt, the Option Premium will be released to the Lenders.

## Special Shareholder Meeting

In connection with the Reorganization, Canopy Growth expects to hold a special meeting of shareholders (the "Meeting") at which Canopy Growth shareholders will be asked to consider and, if deemed appropriate, to pass a special resolution authorizing an amendment to its articles of incorporation, as amended (the "Amendment Proposal"), in order to: (i) create and authorize the issuance of an unlimited number of a new class of non-voting and non-participating exchangeable shares in the capital of Canopy Growth (the "Exchangeable Shares"); and (ii) restate the rights of the Company's common shares to provide for a conversion feature whereby each common share may at any time, at the option of the holder, be converted into one Exchangeable Share. The Exchangeable Shares will not carry voting rights, rights to receive dividends or other rights upon dissolution of Canopy Growth but will be convertible into common shares.

The Amendment Proposal must be approved by at least 66⅔% of the votes cast on a special resolution by Canopy Growth's shareholders present in person or represented by proxy at the Meeting. On October 24, 2022, CBG and Greenstar, indirect, wholly-owned subsidiaries of CBI, entered into a voting and support agreement with Canopy Growth (the "Voting and Support Agreement"). Pursuant to the terms of the Voting and Support Agreement, CBG and Greenstar agreed, subject to the terms and conditions thereof, among other things, to vote all of the Canopy Growth common shares beneficially owned, directed or controlled, directly or indirectly, by them for the Amendment Proposal.

In the event the Amendment Proposal is approved, and subject to the conversion by CBI of their Canopy Growth common shares into Exchangeable Shares, Canopy USA is expected to exercise the Wana Option and the Jetty Option. In the event the Amendment Proposal is not approved, Canopy USA will not be permitted to exercise its rights to acquire shares of Acreage, Wana or Jetty, and the Floating Share Arrangement Agreement will be terminated. In such circumstances, Canopy will retain its option to acquire the Fixed Shares under the Existing Acreage Arrangement Agreement and Canopy USA will continue to hold the Wana Option and the Jetty Option, as well as the TerrAscend Exchangeable Shares and other securities in the capital of TerrAscend. In addition, the Company is contractually required to cause Canopy USA to exercise its Repurchase Right to acquire the Canopy USA Common Shares held by the third party investors, being the Canopy USA Common Shares held by VCo Ventures.

## Balance Sheet Actions

On October 24, 2022, Canopy Growth entered into agreements with certain of its lenders under its term loan credit agreement dated March 18, 2021 (the "Credit Agreement") pursuant to which Canopy Growth will tender US\$187.5 million of the principal amount outstanding thereunder at a discounted price of US\$930 per US\$1,000 or US\$174.4 million in the aggregate (the "Paydown"). The first payment of approximately \$117.5 million (US\$87.9 million) was made on November 10, 2022 to reduce the principal indebtedness by approximately \$126.3 million (US\$94.4 million). The second payment pursuant to the Paydown is required to be made by no later than April 17, 2023.

Canopy Growth also agreed with its lenders to amend certain terms of the Credit Agreement (collectively, the "Credit Agreement Amendments"). The Credit Agreement Amendments include, among other things: (i) reductions to the minimum Liquidity (as defined in the Credit Agreement) covenant to US\$100.0 million, which is to be further reduced as payments are made in accordance with the Paydown; (ii) certain changes to the application of net proceeds from asset sales; (iii) the establishment of a new committed delayed draw term credit facility in an aggregate principal amount of US\$100.0 million; and (iv) the elimination of the additional US\$500.0 million incremental term loan facility.

## Relationship with CBI

In connection with the Reorganization, CBI has indicated its current intention to convert all of its common shares of the Company into Exchangeable Shares, conditional upon the approval of the Amendment Proposal. However, any decision to convert will be made by CBI in its sole discretion, and CBI is not obligated to effect any such conversion.

In connection with the foregoing, on October 24, 2022, Canopy Growth entered into a consent agreement with CBG and Greenstar (the "Consent Agreement"), pursuant to which the parties agreed, among other things, that following the conversion by CBG and Greenstar of their respective Canopy Growth common shares into Exchangeable Shares, other than the Consent Agreement and the termination rights contained therein and the 4.25% unsecured senior notes due in 2023 (the "Notes") held by Greenstar, all agreements between Canopy Growth and CBI, including the Second Amended and Restated Investor Rights Agreement, dated as of April 18, 2019, by and among certain wholly-owned subsidiaries of CBI and Canopy Growth (the "Second Amended and Restated Investor Rights Agreement"), will be terminated. Pursuant to the terms of the Consent Agreement, CBG and Greenstar also agreed, among other things, that at the time of the conversion by CBG and Greenstar of their Canopy Growth common shares into Exchangeable Shares, (i) CBG will surrender the warrants held by CBG to purchase 139,745,453 common shares for cancellation for no consideration; and (ii) all nominees of CBI that are currently sitting on the board of directors of Canopy Growth (the "Board") will

resign from the Board. In addition, pursuant to the Consent Agreement, Canopy Growth is contractually required to convert its Non-Voting Shares into Canopy USA Common Shares and cause Canopy USA to repurchase the Canopy USA Common Shares held by certain third-party investors in Canopy USA in the event CBG and Greenstar have not converted their respective common shares into Exchangeable Shares by the later of: (i) sixty days after the Meeting; or (ii) February 28, 2023 (the "Termination Date"). The Consent Agreement will automatically terminate on the Termination Date.

In the event that CBI does not convert its Canopy Growth common shares into Exchangeable Shares, Canopy USA will not be permitted to exercise its rights to acquire the Fixed Shares, Wana or Jetty and the Floating Share Arrangement Agreement will be terminated. In such circumstances, Canopy Growth will retain its option to acquire the Fixed Shares under the Existing Acreage Arrangement Agreement and Canopy USA will continue to hold the Wana Option and the Jetty Option, as well as the TerrAscend Exchangeable Shares and other securities in the capital of TerrAscend. In addition, the Company is contractually required to cause Canopy USA to exercise its Repurchase Right to acquire the Canopy USA Common Shares held by the third party investors, being the Canopy USA Common Shares held by VCo Ventures.

#### Potential Changes to Canopy USA Structure

We remain committed to both optimizing the value of Canopy USA and remaining in compliance with the Nasdaq listing requirements. Accordingly, while we remain in discussions with the Nasdaq and another exchange with respect to our ongoing listing despite the consolidation of the financial results of Canopy USA with our financial results, we are prepared to make changes to the structure of our interest in Canopy USA such that we would not be required to consolidate the financial results of Canopy USA into Canopy Growth's financial statements, which may include: (1) reducing Canopy Growth's economic interest in Canopy USA on an as-converted basis to no greater than 90%, (2) reducing the number of managers on Canopy USA's board of managers from four to three, including, reducing Canopy Growth's nomination right to a single manager, (3) modifying the terms of the Protection Agreement and Canopy USA's Limited Liability Company Agreement in order to eliminate certain negative covenants, and (4) modifying the terms of the agreements with third-party investors in Canopy USA to, among other things, eliminate their right to guaranteed returns.

#### **Canadian Cannabis Operations Restructuring**

On February 9, 2023, we announced a series of comprehensive steps to align our Canadian cannabis operations and resources in response to unfavorable market realities, which include:

- Transitioning to an asset-light model by: (i) exiting cannabis flower cultivation in our Smiths Falls, Ontario facility; (ii) ceasing the sourcing of cannabis flower from our Mirabel, Quebec facility; and (iii) consolidating cultivation at our existing facilities in Kincardine, Ontario and Kelowna, British Columbia;
- Moving to an adaptive third-party sourcing model for all cannabis beverages, edibles, vapes, and extracts which will enable us to select and bring to market exciting and exclusive formats without the required investment in research and development and production footprint;
- As a result of the aforementioned changes, we intend to consolidate flower, pre-rolled joints, softgel, and oil manufacturing in our current beverage production facility in Smiths Falls, Ontario and reduce headcount across the business; and
- We intend to close the 1 Hershey Drive facility in Smiths Falls, Ontario and we are in active discussions with respect to restructuring the joint-venture entity which holds the cultivation facility in Mirabel, Quebec.

#### **TerrAscend Arrangement**

On December 9, 2022, Canopy USA and certain limited partnerships that are controlled by Canopy USA entered into a debt settlement agreement (the "TerrAscend Settlement Agreement") with TerrAscend, TerrAscend Canada Inc. ("TerrAscend Canada") and Arise BioScience, Inc. ("Arise BioScience", together with TerrAscend and TerrAscend Canada, the "TerrAscend Entities") whereby \$125,467 in aggregate loans, including accrued interest thereon, payable by certain subsidiaries of TerrAscend, were extinguished and 22,474,130 TerrAscend Warrants, being all of the previously issued TerrAscend Warrants controlled by Canopy USA (the "Prior Warrants") were cancelled in exchange for: (i) 24,601,467 TerrAscend Exchangeable Shares at a notional price of \$5.10 per TerrAscend Exchangeable Share; and (ii) 22,474,130 new TerrAscend Warrants (the "New Warrants" and, together with the TerrAscend Exchangeable Shares, the "New TerrAscend Securities") with a weighted average exercise price of \$6.07 per TerrAscend Common Share and expiring on December 31, 2032 (collectively, the "TerrAscend Arrangement").

Following the issuance of the New TerrAscend Securities, Canopy USA beneficially owns: (i) 63,492,037 TerrAscend Exchangeable Shares; (ii) 22,474,130 New Warrants; and (iii) the TerrAscend Option. The TerrAscend Exchangeable Shares can be converted into TerrAscend Common Shares at Canopy USA's option, subject to the terms of the Protection Agreement.



## Acquisition of Verona Manufacturing Facility

On November 8, 2022, the Company, through its affiliate BioSteel, completed the acquisition (the "Verona Acquisition") of a manufacturing facility located in Verona, Virginia (the "Verona Facility") from Flow Beverage Corp. ("Flow"), one of BioSteel's contract manufacturers. Consideration was \$26.4 million (US\$19.5 million), consisting of cash paid of \$15.7 million (US\$11.6 million) and \$8.5 million (US\$6.3 million) for the repayment of debt and the retirement of certain lease obligations, and \$2.2 million (US\$1.6 million) in remediation and indemnity holdbacks to be retained by us and paid within one year of the closing of the Verona Acquisition. BioSteel and Flow have also entered into a co-manufacturing agreement whereby, in addition to the production of BioSteel-branded sports hydration beverages, BioSteel will produce Flow's portfolio of branded water at the Verona Facility.

Refer to Note 27 of our Interim Financial Statements for information regarding the fair value of the consideration given and the provisional fair values assigned to the assets acquired and liabilities assumed in connection with the Verona Acquisition.

## Divestiture of Canadian Retail Operations

On September 27, 2022, we announced entering into the following two agreements to divest our retail business in Canada, which includes the retail stores operating under the Tweed and Tokyo Smoke banners.

The first agreement (the "OEGRC Agreement") was entered into with OEG Retail Cannabis ("OEGRC"), a prior Canopy Growth licensee partner that previously owned and operated our franchised Tokyo Smoke stores in Ontario. As part of the OEGRC Agreement, OEGRC acquired ownership of 23 of our corporate-owned retail stores in Manitoba, Saskatchewan, and Newfoundland and Labrador, as well as all Tokyo Smoke-related intellectual property (the "OEGRC Transaction"). In connection with the OEGRC Transaction, the Tokyo Smoke brand has been transferred to OEGRC and all acquired retail stores branded as Tweed will be rebranded by OEGRC. In addition, the master franchise agreement between us and OEGRC, pursuant to which OEGRC licenses the Tokyo Smoke brand in Ontario, was terminated effective on the closing of the OEGRC Transaction. The OEGRC Transaction closed on December 30, 2022.

The second agreement (the "FOUR20 Agreement") was entered into with 420 Investments Ltd. ("FOUR20"), a licensed cannabis retailer, pursuant to which FOUR20 acquired the ownership of five of our corporate-owned retail stores in Alberta (the "FOUR20 Transaction"). Pursuant to the FOUR20 Agreement, these stores will be rebranded under FOUR20's retail banner following the closing of the FOUR20 Transaction. The FOUR20 Transaction closed on October 26, 2022.

Refer to Note 28 of our Interim Financial Statements for further information regarding the divestiture of our Canadian retail operations.

## Part 2 - Results of Operations

### Discussion of Third Quarter of Fiscal 2023 Results of Operations

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Three months ended December 31,			
	2022	2021	\$ Change	% Change
<b>Selected consolidated financial information:</b>				
Net revenue	\$ 101,213	\$ 140,972	\$ (39,759)	(28%)
Gross margin percentage	(2%)	7%	-	(900 bps)
Net loss	\$ (266,722)	\$ (115,496)	\$ (151,226)	(131%)
Net loss attributable to Canopy Growth Corporation	\$ (261,583)	\$ (108,925)	\$ (152,658)	(140%)
Basic and diluted loss per share <sup>1</sup>	\$ (0.54)	\$ (0.28)	\$ (0.26)	(93%)

<sup>1</sup>For the three months ended December 31, 2022, the weighted average number of outstanding common shares, basic and diluted, totaled 486,112,598 (three months ended December 31, 2021 - 393,818,282).

## Revenue

We report net revenue in five segments: (i) Canada cannabis; (ii) rest-of-world cannabis; (iii) Storz & Bickel; (iv) BioSteel; and (v) This Works. Revenue derived from the remainder of our operations are included within "other". The following tables present segmented net revenue, by channel and by form, for the three months ended December 31, 2022 and 2021:

Revenue by Channel <i>(in thousands of Canadian dollars)</i>	Three months ended December 31,		\$ Change	% Change
	2022	2021		
<b>Canada cannabis</b>				
Canadian adult-use cannabis				
Business-to-business <sup>1</sup>	\$ 21,522	\$ 33,282	\$ (11,760)	(35%)
Business-to-consumer	11,036	14,477	(3,441)	(24%)
	32,558	47,759	(15,201)	(32%)
Canadian medical cannabis <sup>2</sup>	14,059	12,919	1,140	9%
	\$ 46,617	\$ 60,678	\$ (14,061)	(23%)
Rest-of-world cannabis				
C <sup>3</sup>	-	9,675	(9,675)	(100%)
Other rest-of-world cannabis <sup>3</sup>	5,846	12,624	(6,778)	(54%)
	\$ 5,846	\$ 22,299	\$ (16,453)	(74%)
Storz & Bickel	\$ 20,214	\$ 25,205	\$ (4,991)	(20%)
BioSteel <sup>4</sup>	\$ 16,363	\$ 16,974	\$ (611)	(4%)
This Works	\$ 8,289	\$ 10,730	\$ (2,441)	(23%)
Other	3,884	5,086	(1,202)	(24%)
Net revenue	\$ 101,213	\$ 140,972	\$ (39,759)	(28%)

<sup>1</sup> Reflects excise taxes of \$10,797 and other revenue adjustments, representing our determination of returns and pricing adjustments, of \$2,000 for the three months ended December 31, 2022 (three months ended December 31, 2021 - excise taxes of \$12,754 and other revenue adjustments of \$1,000).

<sup>2</sup> Reflects excise taxes of \$1,339 for the three months ended December 31, 2022 (three months ended December 31, 2021 - \$1,298).

<sup>3</sup> Reflects other revenue adjustments of \$3,684 for the three months ended December 31, 2022 (three months ended December 31, 2021 - \$1,421).

<sup>4</sup> Reflects other revenue adjustments of \$3,185 for the three months ended December 31, 2022 (three months ended December 31, 2021 - \$1,305).

Net revenue was \$101.2 million in the third quarter of fiscal 2023, as compared to \$141.0 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the continuing decrease in net revenue from our Canada cannabis segment, as increased competition in the Canadian adult-use market has resulted in lower sales velocities and continued price compression; (ii) the divestiture of our interest in C<sup>3</sup> Cannabinoid Compound Company GmbH ("C<sup>3</sup>") in the fourth quarter of fiscal 2022; (iii) a decline in our U.S. CBD business, as we focused our product and brand portfolio; and (iv) softer performance in our Storz & Bickel and This Works businesses.

### Canada cannabis

Net revenue from our Canada cannabis segment was \$46.6 million in the third quarter of fiscal 2023, as compared to \$60.7 million in the third quarter of fiscal 2022.

Canadian adult-use cannabis net revenue was \$32.6 million in the third quarter of fiscal 2023, as compared to \$47.8 million in the third quarter of fiscal 2022.

- Net revenue from the business-to-business channel was \$21.5 million in the third quarter of fiscal 2023, as compared to \$33.3 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the continuing impacts of price compression across all categories of the Canadian adult-use market, predominantly resulting from increased competition; and (ii) lower sales volumes across the premium and value-priced categories of the Canadian adult-use cannabis market.
- Revenue from the business-to-consumer channel was \$11.0 million in the third quarter of fiscal 2023, as compared to \$14.5 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the closing of the FOUR20 Transaction on October 26, 2022, as described under "Recent Developments" above; (ii) the continuing rapid increase in the number of third-party owned retail stores across Canada, which has resulted in increased competition for traffic at our corporate-owned stores which we continued to operate in certain provinces; and (iii) price compression resulting from the increased competition, which impacted most of our product categories.

Canadian medical cannabis net revenue was \$14.1 million in the third quarter of fiscal 2023, as compared to \$12.9 million in the third quarter of fiscal 2022. The year-over-year increase is primarily attributable to an increase in the average size of medical orders

placed by our customers due largely to a shift in our customer mix, partially offset by a year-over-year decrease in the total number of medical orders which was primarily related to the increasing number of adult-use cannabis retail stores across Canada.

#### Rest-of-world cannabis

Rest-of-world cannabis revenue was \$5.8 million in the third quarter of fiscal 2023, as compared to \$22.3 million in the third quarter of fiscal 2022. The year-over-year decrease is attributable to:

- the divestiture of C<sup>3</sup>, which was completed on January 31, 2022, and resulted in a decrease in revenue of \$9.7 million as compared to the third quarter of fiscal 2022; and
- a year-over-year decrease of \$6.8 million in other rest-of-world cannabis revenue, primarily attributable to: (i) a decline in our U.S. CBD business following our strategy shift initiated in the fourth quarter of fiscal 2022 to re-focus and refine our portfolio of product and brand offerings, and we recognized additional variable consideration which we expect to incur as a result; and (ii) in the third quarter of fiscal 2022, we generated revenue of \$4.2 million from opportunistic bulk cannabis sales, predominantly to Israel; these sales did not repeat in the third quarter of fiscal 2023. Additionally, in the third quarter of fiscal 2023, we recognized a downward adjustment of \$0.9 million related to a customer in Israel. These declines were partially offset by year-over-year growth in our global medical cannabis business, particularly in Australia and in our European markets.

#### Storz & Bickel

Revenue from Storz & Bickel was \$20.2 million in the third quarter of fiscal 2023, as compared to \$25.2 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the slowdown in consumer spending in North America and Europe, as consumers are exercising caution in an uncertain and inflationary environment; and (ii) the impact of changes in foreign exchange rates.

#### BioSteel

Revenue from BioSteel was \$16.4 million in the third quarter of fiscal 2023, as compared to \$17.0 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to timing shifts in the distribution and sales of our products into our key markets.

#### This Works

Revenue from This Works was \$8.3 million in the third quarter of fiscal 2023, as compared to \$10.7 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to: (i) continuing softer performance in certain of our product lines, particularly our "Sleep" line, relative to the third quarter of fiscal 2022; (ii) lower sales velocities through e-commerce channels; and (iii) the impact of changes in foreign exchange rates.

### **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 December 31, 2022 and 2021:

(in thousands of Canadian dollars except where indicated)	Three months ended December 31,		\$ Change	% Change
	2022	2021		
Net revenue	\$ 101,213	\$ 140,972	\$ (39,759)	(28%)
Cost of goods sold	\$ 103,654	\$ 130,882	\$ (27,228)	(21%)
Gross margin	(2,441)	10,090	(12,531)	(124%)
Gross margin percentage	(2%)	7%	-	(900 bps)

Cost of goods sold was \$103.7 million in the third quarter of fiscal 2023, as compared to \$130.9 million in the third quarter of fiscal 2022. Our gross margin was \$(2.4) million in the third quarter of fiscal 2023, or (2%) of net revenue, as compared to a gross margin of \$10.1 million and gross margin percentage of 7% of net revenue in the third quarter of fiscal 2022. The year-over-year decrease in the gross margin percentage was primarily attributable to:

- a shift in the business mix relative to the third quarter of fiscal 2022 resulting from a decrease in the proportionate revenue contribution from the higher-margin C<sup>3</sup> business, as a result of the completion of the divestiture of C<sup>3</sup> on January 31, 2022;
- a decrease in the amount of payroll subsidies received from the Canadian government pursuant to a COVID-19 relief program, from \$6.6 million in the third quarter of fiscal 2022 to \$nil in the third quarter of fiscal 2023;

- a decline in BioSteel's gross margin, primarily due to: (i) inventory write-downs, primarily related to aging inventory; and (ii) higher third-party shipping, distribution and warehousing costs across North America relative to the third quarter of fiscal 2022; and
- additional variable consideration recognized in respect of our U.S. CBD business, which we expect to incur in relation to the re-focusing of our product and brand portfolio.

These factors, resulting in a year-over-year decrease in our gross margin percentage, were partially offset by the following:

- improvement in our Canada cannabis segment, attributable to the realized benefit of our cost savings program that we announced in April 2022;
- charges totaling \$3.1 million in the third quarter of fiscal 2022 relating to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022;
- a year-over-year decrease in restructuring charges, from \$4.6 million in the third quarter of fiscal 2022, related to inventory write-downs resulting from strategic changes to our business, including the closure of our facility in Langley, British Columbia, to \$3.6 million in the third quarter of fiscal 2023, related to inventory write-downs and other associated charges resulting primarily from the strategic changes to our business that were initiated in the fourth quarter of fiscal 2022, and charges associated with certain contract manufacturing agreements that are not expected to occur past fiscal 2023; and
- the realized benefit of our cost savings program and the strategic changes to our U.S. CBD business, including the shift to a the re-focusing of our U.S. CBD product and brand portfolio.

We report gross margin and gross margin percentage in five segments: (i) Canada cannabis; (ii) rest-of-world cannabis; (iii) Storz & Bickel; (iv) BioSteel; and (v) This Works. Cost of sales associated with the remainder of our operations are included within "other". The following table presents segmented gross margin and gross margin percentage for the three months ended December 31, 2022 and 2021:

	Three months ended December 31,			
(in thousands of Canadian dollars except where indicated)	2022	2021	\$ Change	% Change
Canada cannabis segment				
Net revenue	\$ 46,617	\$ 60,678	\$ (14,061)	(23%)
Cost of goods sold	51,898	73,799	(21,901)	(30%)
Gross margin	(5,281)	(13,121)	7,840	60%
Gross margin percentage	(11%)	(22%)		1,100 bps
Rest-of-world cannabis segment				
Revenue	\$ 5,846	\$ 22,299	\$ (16,453)	(74%)
Cost of goods sold	8,030	17,639	(9,609)	(54%)
Gross margin	(2,184)	4,660	(6,844)	(147%)
Gross margin percentage	(37%)	21%		(5,800) bps
Storz & Bickel segment				
Revenue	\$ 20,214	\$ 25,205	\$ (4,991)	(20%)
Cost of goods sold	11,028	14,033	(3,005)	(21%)
Gross margin	9,186	11,172	(1,986)	(18%)
Gross margin percentage	45%	44%		100 bps
BioSteel segment				
Revenue	\$ 16,363	\$ 16,974	\$ (611)	(4%)
Cost of goods sold	24,032	15,622	8,410	54%
Gross margin	(7,669)	1,352	(9,021)	(667%)
Gross margin percentage	(47%)	8%		(5,500) bps
This Works segment				
Revenue	\$ 8,289	\$ 10,730	\$ (2,441)	(23%)
Cost of goods sold	4,257	5,261	(1,004)	(19%)
Gross margin	4,032	5,469	(1,437)	(26%)
Gross margin percentage	49%	51%		(200) bps
Other				
Cost of goods sold	\$ 4,409	\$ 4,528	\$ (119)	(3%)

#### Canada cannabis

Gross margin for our Canada cannabis segment was \$(5.3) million in the third quarter of fiscal 2023, or (11%) of net revenue, as compared to \$(13.1) million in the third quarter of fiscal 2022, or (22%) of net revenue. The year-over-year increase in the gross margin percentage was primarily attributable to: (i) the realized benefit of our cost savings program that we announced in April 2022; and (ii) charges totaling \$3.1 million recognized in the third quarter of fiscal 2022 relating to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

These factors were partially offset by: (i) the impacts on our gross margin percentage from the year-over-year decrease in net revenue and continued price compression; and (ii) a decrease in the amount of payroll subsidies received from the Canadian government pursuant to a COVID-19 relief program, from \$6.6 million in the third quarter of fiscal 2022 to \$nil in the third quarter of fiscal 2023.

### Rest-of-world cannabis

Gross margin for our rest-of-world cannabis segment was \$(2.2) million in the third quarter of fiscal 2023, or (37%) of net revenue, as compared to \$4.7 million in the third quarter of fiscal 2022, or 21% of net revenue. The year-over-year decrease in the gross margin percentage is primarily attributable to:

- the decrease in the proportionate revenue contribution from the higher-margin C<sup>3</sup> business relative to the third quarter of fiscal 2022, as a result of the completion of the divestiture of C<sup>3</sup> on January 31, 2022;
- additional variable consideration recognized in respect of our U.S. CBD business, which we expect to incur in relation to the re-focusing of our product and brand portfolio; and
- a significant reduction in bulk cannabis sales relative to the third quarter of fiscal 2022, and an adjustment related to a customer in Israel which further impacted revenue.

These factors were partially offset by: (i) the growth in our Australian medical cannabis business; (ii) the realized benefit of our cost savings program and the strategic changes to our U.S. CBD business that were initiated in the fourth quarter of fiscal 2022, including the shift to a contract manufacturing model for certain product formats and the re-focusing of our U.S. CBD product and brand portfolio; and (iii) the year-over-year decrease in restructuring charges, as we recorded charges of \$2.6 million in the third quarter of fiscal 2022 relating to inventory write-downs resulting from strategic changes to our business. These charges decreased to \$0.3 million in the third quarter of fiscal 2023.

### Storz & Bickel

Gross margin for our Storz & Bickel segment was \$9.2 million in the third quarter of fiscal 2023, as compared to \$11.2 million in the third quarter of fiscal 2022. Our gross margin percentage was 45% in the third quarter of fiscal 2023, relatively consistent with our gross margin percentage of 44% in the third quarter of fiscal 2022.

### BioSteel

Gross margin for our BioSteel segment was \$(7.7) million in the third quarter of fiscal 2023, or (47%) of net revenue, as compared to \$1.4 million in the third quarter of fiscal 2022, or 8% of net revenue. The year-over-year decrease in the gross margin percentage is primarily attributable to: (i) inventory write-downs, primarily related to aging inventory; (ii) restructuring charges of \$1.6 million, relating primarily to charges associated with certain contract manufacturing agreements that are not expected to occur past fiscal 2023; and (iii) higher third-party shipping, distribution and warehousing costs across North America relative to the third quarter of fiscal 2022.

### This Works

Gross margin for our This Works segment was \$4.0 million in the third quarter of fiscal 2023, as compared to \$5.5 million in the third quarter of fiscal 2022. Our gross margin percentage was 49% in the third quarter of fiscal 2023, relatively consistent with our gross margin percentage of 51% in the third quarter of fiscal 2022.

## Operating Expenses

The following table presents operating expenses for the three months ended December 31, 2022 and 2021:

(in thousands of Canadian dollars)	Three months ended December 31,		\$ Change	% Change
	2022	2021		
<b>Operating expenses</b>				
General and administrative	\$ 33,677	\$ 27,421	\$ 6,256	23%
Sales and marketing	62,207	64,398	(2,191)	(3%)
Research and development	4,907	6,510	(1,603)	(25%)
Acquisition-related costs	13,347	1,617	11,730	725%
Depreciation and amortization	8,498	16,889	(8,391)	(50%)
Selling, general and administrative expenses	122,636	116,835	5,801	5%
Share-based compensation	6,428	5,806	622	11%
Share-based compensation related to acquisition milestones	-	971	(971)	(100%)
Share-based compensation expense	6,428	6,777	(349)	(5%)
Asset impairment and restructuring costs	22,259	36,439	(14,180)	(39%)
Total operating expenses	\$ 151,323	\$ 160,051	\$ (8,728)	(5%)

### Selling, general and administrative expenses

Selling, general and administrative expenses were \$122.6 million in the third quarter of fiscal 2023, as compared to \$116.8 million in the third quarter of fiscal 2022.

General and administrative expense was \$33.7 million in the third quarter of fiscal 2023, as compared to \$27.4 million in the third quarter of fiscal 2022. The year-over-year increase is primarily attributable to:

- a year-over-year decrease in the amount of payroll subsidies received from the Canadian government pursuant to a COVID-19 relief program, from \$10.6 million received in the third quarter of fiscal 2022 to \$nil in the third quarter of fiscal 2023.
- the increase noted above was partially offset by the impact of the restructuring actions initiated in the fourth quarter of fiscal 2022, which included operational changes designed to align general and administrative costs with business objectives, and further streamline the organization to drive process-related efficiencies. We realized reductions relative to the third quarter of fiscal 2022 primarily in relation to: (i) compensation costs for finance, information technology, legal and other administrative functions; (ii) third-party costs associated with administrative functions; and (iii) facilities and insurance costs.

Sales and marketing expense was \$62.2 million in the third quarter of fiscal 2023, as compared to \$64.4 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to the previously-noted restructuring actions that were initiated in the fourth quarter of fiscal 2022, which resulted in a reduction in compensation costs and a rationalization of our sales and marketing spending in certain areas of our business. This decrease was partially offset by a year-over-year increase attributable to higher sponsorship fees associated with BioSteel's partnership deals, including the partnership with the National Hockey League and National Hockey League Players' Association, and increased advertising, trade activity and promotion expenses associated with BioSteel's new product launches.

Research and development expense was \$4.9 million in the third quarter of fiscal 2023, as compared to \$6.5 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to cost reductions associated with the previously-noted restructuring actions that were initiated in the fourth quarter of fiscal 2022, as we continued to realize reductions in compensation costs and concluded or curtailed certain research and development projects. We also realized a reduction in research and development costs associated with the completion of the divestiture of C<sup>3</sup> on January 31, 2022, which resulted in no costs being recorded in relation to C<sup>3</sup> in the third quarter of fiscal 2023.

Acquisition-related costs were \$13.3 million in the third quarter of fiscal 2023, as compared to \$1.6 million in the third quarter of fiscal 2022. In the third quarter of fiscal 2023, costs were incurred primarily in relation to the Reorganization and the divestiture of certain of our corporate-owned retail stores in Canada (both of which are described under "Recent Developments" above), and evaluating other potential acquisition opportunities. Comparatively, in the third quarter of fiscal 2022, costs were incurred primarily in relation to the plan to acquire Wana, the divestiture of C<sup>3</sup>, and evaluating other potential acquisition opportunities.



Depreciation and amortization expense was \$8.5 million in the third quarter of fiscal 2023, as compared to \$16.9 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to:

- the previously-noted restructuring actions that were initiated in fiscal 2022, including the closure of certain of our Canadian facilities and other operational changes to implement cultivation-related efficiencies and improvements in the Canadian adult-use cannabis business, and the shift to a contract manufacturing model for certain product formats;
- the divestiture of certain of our corporate-owned retail stores in Canada in connection with the OEGRC Transaction and the FOUR20 Transaction (as described under "Recent Developments" above);
- the decrease in amortization expense associated with the impairment of certain of our intellectual property intangible assets in the fourth quarter of fiscal 2022; and
- the completion of the divestiture of C3 on January 31, 2022, which resulted in no depreciation and amortization expense being recorded in relation to C3 in the third quarter of fiscal 2023.

#### Share-based compensation expense

Share-based compensation expense was \$6.4 million in the third quarter of fiscal 2023, as compared to \$5.8 million in the third quarter of fiscal 2022. The year-over-year increase is primarily attributable to 4.7 million stock option grants, and 3.1 million restricted share unit ("RSU") and performance share unit ("PSU") grants in the nine months ended December 31, 2022. The increase related to these grants was partially offset by the impact of our previously-noted restructuring actions, which resulted in 6.1 million stock option forfeitures and 1.9 million RSU and PSU forfeitures in the nine months ended December 31, 2022 (including 2.4 million stock option forfeitures and 0.8 million RSU and PSU forfeitures in the third quarter of fiscal 2023).

Share-based compensation expense related to acquisition milestones was \$nil in the third quarter of fiscal 2023, as compared to \$1.0 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the completion of vesting, in prior quarters, of the share-based compensation associated with certain of our acquisitions; and (ii) as a result of the restructuring actions completed in the fourth quarter of fiscal 2022, the acceleration of share-based compensation expense related to unvested milestones associated with acquisitions completed in prior fiscal years.

#### Asset impairment and restructuring costs

Asset impairment and restructuring costs recorded in operating expenses were \$22.3 million in the third quarter of fiscal 2023, as compared to \$36.4 million in the third quarter of fiscal 2022.

Asset impairment and restructuring costs recorded in the third quarter of fiscal 2023 were primarily related to:

- asset impairment charges totaling \$10.6 million relating to certain acquired brand intangible assets within our Canada cannabis segment;
- employee-related restructuring charges associated with actions completed in the third quarter of fiscal 2023 as part of our ongoing program to align general and administrative costs with business objectives, and further streamline the organization;
- incremental impairment losses associated with the divestiture of our Canadian retail operations in connection with the OEGRC Transaction and the FOUR20 Transaction, as described above under "Recent Developments", as we recorded write-downs of certain other assets due to the excess of their carrying values over their estimated fair values, and recognized contractual and other settlement obligations; and
- incremental costs primarily associated with the restructuring actions completed in fiscal 2022, including the closure of certain of our Canadian production facilities.

Comparatively, in the third quarter of fiscal 2022, we recorded charges primarily associated with adjustments related to changes in the estimated fair value of certain of our Canadian sites that were closed in December 2020 as part of a strategic review of our operations. The charges recorded in the third quarter of fiscal 2022 primarily represented the difference between the net book value of the associated long-lived assets and their estimated fair value.

#### **Other**

The following table presents other income (expense), net, and income tax (expense) recovery for the three months ended December 31, 2022 and 2021:

(in thousands of Canadian dollars)	Three months ended December 31,		\$ Change	% Change
	2022	2021		
Other income (expense), net	(113,340)	34,282	(147,622)	(431%)
Income tax recovery	382	183	199	109%



### Other income (expense), net

Other income (expense), net was an expense amount of \$113.3 million in the third quarter of fiscal 2023, as compared to an income amount of \$34.3 million in the third quarter of fiscal 2022. The year-over-year change of \$147.6 million, from an income amount to an expense amount, is primarily attributable to:

- Decrease in non-cash income of \$67.3 million related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI (as defined in Note 29 of the Interim Financial Statements). The fair value of the warrant derivative liability remained consistent during the third quarter of fiscal 2023, as the impact of the decrease in our share price during the period was completely offset by: (i) the fact that the warrant derivative liability was valued at only \$0.7 million at September 30, 2022, meaning the impact of factors such as changes in our share price during the period are having an increasingly insignificant impact on the fair value determination; and (ii) the shorter expected time to maturity of the Tranche B Warrants. Comparatively, the income amount recognized in the third quarter of fiscal 2022 of \$67.3 million, associated with a decrease in the fair value of the warrant derivative liability, was primarily attributable to a decrease of approximately 37% in our share price during the third quarter of fiscal 2022, further impacted by a shorter expected time to maturity of the Tranche B Warrants.
- Decrease in non-cash income of \$59.0 million related to the non-cash fair value changes on the liability arising from the Acreage Arrangement, from an income amount of \$59.0 million in the third quarter of fiscal 2022 to a fair value change of \$nil in the third quarter of fiscal 2023. The fair value change of \$nil associated with the Acreage Amended Arrangement in the third quarter of fiscal 2023 is a result of the change, in the first quarter of fiscal 2023, from a liability amount to an asset amount recorded in other financial assets; in the third quarter of fiscal 2023, the fair value of the Acreage call option decreased, as explained below, but remained in an asset position. Comparatively, the income amount recognized in the third quarter of fiscal 2022, associated with a decrease in the liability arising from the Acreage Arrangement, was primarily attributable to a decrease of approximately 37% in our share price in the third quarter of fiscal 2022, relative to a decrease of approximately 40% in Acreage's share price during that same period. As a result, the probability-weighted expected return model used to determine the fair value of the liability arising from the Acreage Arrangement at December 31, 2021 reflected a lower estimated value of the Canopy Growth common shares expected to be issued at the exchange ratio of 0.3048 upon a Triggering Event, relative to the estimated value of the Fixed 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 in the third quarter of fiscal 2022.
- Change of \$9.6 million related to the non-cash fair value changes on the Notes, from an income amount of \$0.6 million in the third quarter of fiscal 2022 to an expense amount of \$9.0 million in the third quarter of fiscal 2023. The expense amount recognized in the third quarter of fiscal 2023 was primarily attributable to the accrual of interest on the Notes, and changes in credit spreads during the period. Comparatively, the income amount recognized in the third quarter of fiscal 2022 was primarily attributable to the decrease in our share price of approximately 37% during that period.
- Increase in non-cash expense of \$27.1 million related to fair value changes on our other financial assets, from \$68.7 million in the third quarter of fiscal 2022 to \$95.8 million in the third quarter of fiscal 2023. The expense amount in the third quarter of fiscal 2023 is primarily attributable to fair value decreases relating to our investments in:
  - o The TerrAscend Exchangeable Shares, including the additional 24.6 million TerrAscend Exchangeable Shares received on December 9, 2022 as part of the TerrAscend Arrangement (as described under "Recent Developments" above), in the amount of \$31.5 million. This decrease is primarily attributable to: (i) a decrease of approximately 12% in TerrAscend's share price during the third quarter of fiscal 2023, impacting the 38.9 million TerrAscend Exchangeable Shares that were held by us throughout the entire period; and (ii) a decrease of approximately 43% in TerrAscend's share price from December 9, 2022 to December 31, 2022, impacting the additional TerrAscend Exchangeable Shares received as part of the TerrAscend Arrangement;
  - o The Wana and Jetty financial instruments, in the amounts of \$16.2 million and \$10.2 million, respectively, attributable primarily to an increase in the discount rates used in the valuation of these instruments; this increase was in-line with the increase in interest rates relative to the prior fiscal period;
  - o The Acreage call option, in the amount of \$35.0 million. On a quarterly basis, we determine the fair value of the Acreage call option using a probability-weighted expected return model, incorporating several potential scenarios and outcomes associated with the Acreage Amended Arrangement. The fair value decrease in the third quarter of fiscal 2023 is primarily attributable to a decrease of approximately 16% in our share price during the third quarter of fiscal 2023, relative to a decrease of approximately 29% in Acreage's share price during that same period. As a result, the model at December 31, 2022 reflects both a lower estimated value of the Canopy Growth common shares expected to be issued upon a Triggering Event, and a lower estimated value of the Acreage shares expected to be

acquired at that time. In the third quarter of fiscal 2023, the relative share price movements resulted in a decrease in the value of the Acreage call option;

- o The New Warrants issued by TerrAscend as part of the TerrAscend Arrangement, in the amount of \$17.5 million, primarily attributable to a decrease of approximately 43% in TerrAscend's share price from December 9, 2022 to December 31, 2022.

These fair value decreases were partially offset by fair value increases associated with the secured debentures issued by TerrAscend Canada and Arise Bioscience and the associated Prior Warrants, up to the closing of the TerrAscend Arrangement on December 9, 2022 (totaling \$9.9 million), which were driven largely by an increase of approximately 55% in TerrAscend's share price from September 30, 2022 to December 9, 2022.

Comparatively, in the third quarter of fiscal 2022 the expense amount was primarily attributable to fair value decreases relating to our investments in the TerrAscend Exchangeable Shares (\$53.0 million), and the secured debentures issued by TerrAscend Canada and Arise Bioscience and associated Prior Warrants (totaling \$13.0 million), driven largely by: (i) a decrease of approximately 12% in TerrAscend's share price in the third 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 third quarter of fiscal 2022.

- Increase in interest expense of \$6.9 million, from \$26.4 million in the third quarter of fiscal 2022 to \$33.3 million in the third quarter of fiscal 2023. The year-over-year increase is primarily attributable to: (i) the increase in interest rates relative to the prior period, thus impacting the amount of interest payable associated with the variable interest rate debt owing under the Credit Agreement; and (ii) the strengthening of the U.S. dollar relative to the Canadian dollar, as compared to the prior year period.
- In the third quarter of fiscal 2023, we recognized income in the amount of \$8.9 million in connection with the Paydown, as described under "Recent Developments" above, pursuant to the balance sheet actions completed as part of the Reorganization. The income amount represents the gain recognized upon the first payment made in connection with the Paydown on November 10, 2022, as we repaid \$126.3 million (US\$94.4 million) of the principal amount outstanding under the Credit Agreement at a discounted price of US\$930 per US\$1,000.
- Increase in interest income of \$5.5 million, from \$1.6 million in the third quarter of fiscal 2022 to \$7.0 million in the third quarter of fiscal 2023. The year-over-year increase is primarily attributable to the increase in interest rates relative to the comparative fiscal period, the impact of which was only partially offset by the year-over-year combined decrease in our cash and cash equivalents and short-term investments balances.
- In the third quarter of fiscal 2023, we recognized a gain of \$4.1 million associated with the closing of the OEGRC Transaction and the FOUR20 Transaction, and the derecognition of the assets and liabilities of the Canadian retail operations from our consolidated financial statements. The gain represents the difference between the carrying amounts of the derecognized assets and liabilities, and the fair value of the consideration received. See "Recent Developments" above for further details.

#### Income tax recovery

Income tax recovery in the third quarter of fiscal 2023 was \$0.4 million, compared to an income tax recovery of \$0.2 million in the third quarter of fiscal 2022. In the third quarter of fiscal 2023, income tax expense consisted of deferred income tax recovery of \$0.9 million (compared to an expense of \$2.4 million in the third quarter of fiscal 2022) and current income tax expense of \$0.5 million (compared to a recovery of \$2.6 million in the third quarter of fiscal 2022).

The change of \$3.2 million, from deferred income tax expense to deferred income tax recovery, is primarily a result of the change 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 \$3.0 million, from a current income tax recovery to 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 Loss

The net loss in the third quarter of fiscal 2023 was \$266.7 million, as compared to a net loss of \$115.5 million in the third quarter of fiscal 2022. The year-over-year increase in the net loss is primarily attributable to: (i) the year-over-year change in other income (expense), net, of \$147.6 million, from an income amount to an expense amount; (ii) the year-over-year decrease in our gross margin; and (iii) the year-over-year increase in selling, general and administrative expenses. These factors were only partially offset by the year-over-year decrease in asset impairment and restructuring costs. 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 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 December 31, 2022 and 2021:

(in thousands of Canadian dollars)	Three months ended December 31,		\$ Change	% Change
	2022	2021		
Net loss	\$ (266,722)	\$ (115,496)	\$ (151,226)	(131%)
Income tax recovery	(382)	(183)	(199)	(109%)
Other (income) expense, net	113,340	(34,282)	147,622	431%
Share-based compensation <sup>1</sup>	6,428	6,777	(349)	(5%)
Acquisition-related costs	13,347	1,617	11,730	725%
Depreciation and amortization <sup>1</sup>	20,602	30,017	(9,415)	(31%)
Asset impairment and restructuring costs	22,259	36,439	(14,180)	(39%)
Restructuring costs recorded in cost of goods sold	3,626	4,554	(928)	(20%)
Charges related to the flow-through of inventory step-up on business combinations	-	3,147	(3,147)	(100%)
Adjusted EBITDA	<u>\$ (87,502)</u>	<u>\$ (67,410)</u>	<u>\$ (20,092)</u>	<u>(30%)</u>

<sup>1</sup> From Consolidated Statements of Cash Flows.

The Adjusted EBITDA loss in the third quarter of fiscal 2023 was \$87.5 million, as compared to an Adjusted EBITDA loss of \$67.4 million in the third quarter of fiscal 2022. The year-over-year increase in the Adjusted EBITDA loss is primarily attributable to the year-over-year decrease in our gross margin, and the year-over-year increase in our general and administrative expenses. These variances are described above.

## Discussion of Results of Operations for the Nine Months Ended December 31, 2022

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Nine months ended December 31,			
	2022	2021	\$ Change	% Change
<b>Selected consolidated financial information:</b>				
Net revenue	\$ 329,191	\$ 408,555	\$ (79,364)	(19%)
Gross margin percentage	0%	(8%)	-	800 bps
Net (loss) income	\$ (2,586,189)	\$ 258,128	\$ (2,844,317)	(1,102%)
Net (loss) income attributable to Canopy Growth Corporation	\$ (2,566,537)	\$ 272,435	\$ (2,838,972)	(1,042%)
Basic (loss) earnings per share <sup>1</sup>	\$ (5.66)	\$ 0.70	\$ (6.36)	(909%)
Diluted (loss) earnings per share <sup>1</sup>	\$ (5.66)	\$ 0.43	\$ (6.09)	(1,416%)

<sup>1</sup>For the nine months ended December 31, 2022, the weighted average number of outstanding common shares, basic and diluted, totaled 453,237,882 (nine months ended December 31, 2021 - basic of 390,423,083 and diluted of 410,986,802).

## Revenue

We report net revenue in five segments: (i) Canada cannabis; (ii) rest-of-world cannabis; (iii) Storz & Bickel; (iv) BioSteel; and (v) This Works. Revenue derived from the remainder of our operations are included within "other". The following tables present segmented net revenue, by channel and by form, for the nine months ended December 31, 2022 and 2021:

Revenue by Channel (in thousands of Canadian dollars)	Nine months ended December 31,		\$ Change	% Change
	2022	2021		
<b>Canada cannabis</b>				
Canadian adult-use cannabis				
Business-to-business <sup>1</sup>	\$ 73,379	\$ 117,902	\$ (44,523)	(38%)
Business-to-consumer	36,243	48,473	(12,230)	(25%)
	109,622	166,375	(56,753)	(34%)
Canadian medical cannabis net revenue <sup>2</sup>	41,714	39,504	2,210	6%
	<u>\$ 151,336</u>	<u>\$ 205,879</u>	<u>\$ (54,543)</u>	<u>(26%)</u>
<b>Rest-of-world cannabis</b>				
C <sup>3</sup>	-	33,005	(33,005)	(100%)
Other rest-of-world cannabis <sup>3</sup>	30,179	32,357	(2,178)	(7%)
	<u>\$ 30,179</u>	<u>\$ 65,362</u>	<u>\$ (35,183)</u>	<u>(54%)</u>
<b>Storz &amp; Bickel</b>	\$ 49,351	\$ 63,786	\$ (14,435)	(23%)
<b>BioSteel<sup>4</sup></b>	\$ 64,173	\$ 31,147	\$ 33,026	106%
<b>This Works</b>	\$ 20,677	\$ 26,308	\$ (5,631)	(21%)
<b>Other</b>	13,475	16,073	(2,598)	(16%)
<b>Net revenue</b>	<u>\$ 329,191</u>	<u>\$ 408,555</u>	<u>\$ (79,364)</u>	<u>(19%)</u>

<sup>1</sup> Reflects excise taxes of \$33,754 and other revenue adjustments, representing our determination of returns and pricing adjustments, of \$2,903 for the nine months ended December 31, 2022 (nine months ended December 31, 2021 - excise taxes of \$43,501 and other revenue adjustments of \$4,000).

<sup>2</sup> Reflects excise taxes of \$3,625 for the nine months ended December 31, 2022 (nine months ended December 31, 2021 - \$4,039).

<sup>3</sup> Reflects other revenue adjustments of \$4,885 for the nine months ended December 31, 2022 (nine months ended December 31, 2021 - \$2,440).

<sup>4</sup> Reflects other revenue adjustments of \$7,557 for the nine months ended December 31, 2022 (nine months ended December 31, 2021 - \$5,935).

Net revenue was \$329.2 million in the nine months ended December 31, 2022, as compared to \$408.6 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable to: (i) the continuing decrease in net revenue from our Canada cannabis segment, as increased competition in the Canadian adult-use market has resulted in lower sales velocities, continued price compression, and reduced traffic at our corporate-owned retail stores; (ii) the divestiture of our interest in C<sup>3</sup> in the fourth quarter of fiscal 2022; (iii) a decline in our U.S. CBD business, as we focused our product and brand offerings; and (iv) lower revenues from our Storz & Bickel and This Works businesses. These decreases were partially offset by continued growth in our BioSteel business, resulting from the continued expansion of our distribution and retail channels, and strong international sales growth.

### Canada cannabis

Net revenue from our Canada cannabis segment was \$151.3 million in the nine months ended December 31, 2022, as compared to \$205.9 million in the nine months ended December 31, 2021.

Canadian adult-use cannabis net revenue was \$109.6 million in the nine months ended December 31, 2022, as compared to \$166.4 million in the nine months ended December 31, 2021.

- Net revenue from the business-to-business channel was \$73.4 million in the nine months ended December 31, 2022, as compared to \$117.9 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable to: (i) the continuing impacts of price compression across all categories of the Canadian adult-use market, predominantly resulting from increased competition; and (ii) lower sales volumes across the premium and value-priced categories of the Canadian adult-use market. These factors were partially offset by a more favorable product mix due primarily to a decrease in the volume of value-priced dried product sold compared to the prior year.
- Revenue from the business-to-consumer channel was \$36.2 million in the nine months ended December 31, 2022, as compared to \$48.5 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable to: (i) the continuing rapid increase in the number of third-party owned retail stores across Canada, which has resulted in increased competition for traffic at our corporate-owned stores which we operate in certain provinces; (ii) price compression resulting

from the increased competition; and (iii) the closing of the FOUR20 Transaction on October 26, 2022, as described under "Recent Developments" above.

Canadian medical cannabis net revenue was \$41.7 million in the nine months ended December 31, 2022, as compared to \$39.5 million in the nine months ended December 31, 2021. The year-over-year increase is primarily attributable to an increase in the average size of medical orders placed by our customers due largely to a shift in our customer mix, partially offset by a year-over-year decrease in the total number of medical orders which was primarily related to the increasing number of adult-use cannabis retail stores across Canada.

#### Rest-of-world cannabis

Rest-of-world cannabis revenue was \$30.2 million in the nine months ended December 31, 2022, as compared to \$65.4 million in the nine months ended December 31, 2021. The year-over-year decrease is attributable to:

- the divestiture of C<sup>3</sup>, which resulted in a decrease in revenue of \$33.0 million as compared to the nine months ended December 31, 2021; and
- a year-over-year decrease of \$2.2 million in other rest-of-world cannabis revenue, primarily attributable to: (i) a decline in revenue in our U.S. CBD business following our strategy shift initiated in the fourth quarter of fiscal 2022 to re-focus and refine our portfolio of product and brand offerings, and we recognized additional variable consideration which we expect to incur as a result; and (ii) a decrease in bulk cannabis sales relative to the nine months ended December 31, 2021, and a downward adjustment of \$0.9 million related to a customer Israel. These declines were partially offset by the year-over-year growth in our global medical cannabis business, particularly in Australia.

#### Storz & Bickel

Revenue from Storz & Bickel was \$49.4 million in the nine months ended December 31, 2022, as compared to \$63.8 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable to: (i) the slowdown in consumer spending in North America and Europe; (ii) temporary disruptions with certain distributors, primarily in the first half of the fiscal year; and (iii) the impact of changes in foreign exchange rates.

#### BioSteel

Revenue from BioSteel was \$64.2 million in the nine months ended December 31, 2022, as compared to \$31.1 million in the nine months ended December 31, 2021. The year-over-year increase is primarily attributable to: (i) continued growth in our distribution and retail channels, which resulted in increased sales velocities across North America; and (ii) strong international sales growth of ready-to-drink products and beverage mixes. All of BioSteel's major product lines contributed to the year-over-year revenue growth.

#### This Works

Revenue from This Works was \$20.7 million in the nine months ended December 31, 2022, as compared to \$26.3 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable to: (i) softer performance relative to the nine months ended December 31, 2022 in certain of our product lines, particularly our "Sleep" line; (ii) lower sales velocities through e-commerce channels; and (iii) the impact of changes in foreign exchange rates.

#### **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 nine months ended December 31, 2022 and 2021:

(in thousands of Canadian dollars except where indicated)	Nine months ended December 31,		\$ Change	% Change
	2022	2021		
Net revenue	\$ 329,191	\$ 408,555	\$ (79,364)	(19%)
Cost of goods sold	\$ 329,203	\$ 442,367	\$ (113,164)	(26%)
Gross margin	(12)	(33,812)	33,800	100%
Gross margin percentage	0%	(8%)	-	800 bps

Cost of goods sold was \$329.2 million in the nine months ended December 31, 2022, as compared to \$442.4 million in the nine months ended December 31, 2021. Our gross margin was \$nil in the nine months ended December 31, 2022, or 0% of net revenue, as

compared to a gross margin of \$(33.8) million and gross margin percentage of (8%) of net revenue in the nine months ended December 31, 2021. The year-over-year increase in the gross margin percentage was primarily attributable to:

- the inventory write-downs we recorded in the second quarter of fiscal 2022, primarily related to excess Canadian cannabis inventory resulting from underperformance relative to forecast as well as declines in expected near-term demand;
- the realized benefit of our cost savings program and strategic changes to our business that were initiated in the fourth quarter of fiscal 2022;
- charges totaling \$7.7 million recognized in the nine months ended December 31, 2021 relating to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022; and
- the year-over-year increase in revenue at BioSteel, which drove improved operating leverage on our North American cost structure and gross margin improvement relative to the nine months ended December 31, 2021.

These factors were partially offset by the following, which impacted our gross margin percentage in the nine months ended December 31, 2022:

- Restructuring charges totaling \$15.6 million relating to: (i) inventory write-downs and other associated charges resulting primarily from the strategic changes to our business that were initiated in the fourth quarter of fiscal 2022; and (ii) charges associated with certain contract manufacturing agreements that are not expected to occur past fiscal 2023. Comparatively, in the nine months ended December 31, 2021, we recorded restructuring charges totaling \$4.6 million relating to inventory write-downs resulting from strategic changes to our business, including the closure of our facility in Langley, British Columbia;
- A decrease in the amount of payroll subsidies received from the Canadian government, pursuant to a COVID-19 relief program, from \$20.8 million in the nine months ended December 31, 2021 to \$1.6 million in the nine months ended December 31, 2022;
- A shift in the business mix relative to the nine months ended December 31, 2021, resulting from a decrease in the proportionate revenue contribution from the higher-margin C<sup>3</sup> business relative to the nine months ended December 31, 2021, as a result of the completion of the divestiture of C<sup>3</sup> on January 31, 2022;
- In our Canadian adult-use cannabis business, the impacts on our gross margin percentage from the year-over-year decrease in net revenue and continued price compression; and
- Additional variable consideration recognized in respect of our U.S. CBD business, which we expect to incur in relation to the re-focusing of our product and brand portfolio.

We report gross margin and gross margin percentage in five segments: (i) Canada cannabis; (ii) rest-of-world cannabis; (iii) Storz & Bickel; (iv) BioSteel; and (v) This Works. Cost of sales associated with the remainder of our operations are included within "other". The following table presents segmented gross margin and gross margin percentage for the nine months ended December 31, 2022 and 2021:

	Nine months ended December 31,			
(in thousands of Canadian dollars except where indicated)	2022	2021	\$ Change	% Change
Canada cannabis segment				
Net revenue	\$ 151,336	\$ 205,879	\$ (54,543)	(26%)
Cost of goods sold	176,802	303,804	(127,002)	(42%)
Gross margin	(25,466)	(97,925)	72,459	74%
Gross margin percentage	(17%)	(48%)		3,100 bps
Rest-of-world cannabis segment				
Revenue	\$ 30,179	\$ 65,362	\$ (35,183)	(54%)
Cost of goods sold	33,855	41,117	(7,262)	(18%)
Gross margin	(3,676)	24,245	(27,921)	(115%)
Gross margin percentage	(12%)	37%		(4,900) bps
Storz & Bickel segment				
Revenue	\$ 49,351	\$ 63,786	\$ (14,435)	(23%)
Cost of goods sold	28,542	36,163	(7,621)	(21%)
Gross margin	20,809	27,623	(6,814)	(25%)
Gross margin percentage	42%	43%		(100) bps
BioSteel segment				
Revenue	\$ 64,173	\$ 31,147	\$ 33,026	106%
Cost of goods sold	64,977	33,508	31,469	94%
Gross margin	(804)	(2,361)	1,557	66%
Gross margin percentage	(1%)	(8%)		700 bps
This Works segment				
Revenue	\$ 20,677	\$ 26,308	\$ (5,631)	(21%)
Cost of goods sold	11,695	13,885	(2,190)	(16%)
Gross margin	8,982	12,423	(3,441)	(28%)
Gross margin percentage	43%	47%		(400) bps
Other				
Cost of goods sold	\$ 13,332	\$ 13,890	\$ (558)	(4%)

#### Canada cannabis

Gross margin for our Canada cannabis segment was \$(25.5) million in the nine months ended December 31, 2022, or (17%) of net revenue, as compared to \$(97.9) million in the nine months ended December 31, 2021, or (48%) of net revenue. The year-over-year increase in the gross margin percentage was primarily attributable to: (i) the previously-described inventory write-downs we recorded in the second quarter of fiscal 2022; (ii) the realized benefit of our cost savings program that we announced in April 2022; and (iii) charges totaling \$7.7 million recognized in the nine months ended December 31, 2021 relating to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

These factors were partially offset by: (i) the year-over-year decrease in net revenue, continued price compression, and the impact of the under-absorption of costs attributable to lower production volumes; and (ii) a decrease in the amount of payroll subsidies received from the Canadian government pursuant to a COVID-19 relief program, from \$20.8 million in the nine months ended December 31, 2021 to \$1.6 million in the nine months ended December 31, 2022.

### Rest-of-world cannabis

Gross margin for our rest-of-world cannabis segment was \$(3.7) million in the nine months ended December 31, 2022, or (12%) of net revenue, as compared to \$24.2 million in the nine months ended December 31, 2021, or 37% of net revenue. The year-over-year decrease in the gross margin percentage is primarily attributable to:

- the decrease in the proportionate revenue contribution from the higher-margin C<sup>3</sup> business relative to the nine months ended December 31, 2021, as a result of the completion of the divestiture of C<sup>3</sup> on January 31, 2022;
- additional variable consideration recognized in respect of our U.S. CBD business, which we expect to incur in relation to the re-focusing of our product and brand portfolio; and
- restructuring charges of \$7.3 million recorded in the nine months ended December 31, 2022 relating to inventory write-downs at our U.S. CBD business associated with: (i) the strategic changes to our business that were initiated in the fourth quarter of fiscal 2022; and (ii) amounts deemed excess based on current and projected demand. Comparatively, in the nine months ended December 31, 2021, we recorded restructuring charges of \$2.6 million relating to inventory write-downs resulting from strategic changes to our business.

These factors were partially offset by: (i) the growth in our Australian medical business; and (ii) the realized benefit of our cost savings program and the strategic changes to our business that were initiated in the fourth quarter of fiscal 2022, including the shift to a contract manufacturing model for certain product formats and the re-focusing of our U.S. CBD product and brand portfolio.

### Storz & Bickel

Gross margin for our Storz & Bickel segment was \$20.8 million in the nine months ended December 31, 2022, as compared to \$27.6 million in the nine months ended December 31, 2021. Our gross margin percentage was 42% in the nine months ended December 31, 2022, relatively consistent with our gross margin percentage of 43% in the nine months ended December 31, 2021.

### BioSteel

Gross margin for our BioSteel segment was \$(0.8) million in the nine months ended December 31, 2022, or (1%) of net revenue, as compared to \$(2.4) million in the nine months ended December 31, 2021, or (8%) of net revenue. The year-over-year increase in our gross margin percentage is primarily attributable to the increase in revenue, as described above, which drove improved leverage on our North American cost structure relative to the nine months ended December 31, 2021. These factors were partially offset by: (i) restructuring charges of \$5.5 million relating to charges related to certain contract manufacturing agreements that are not expected to occur past fiscal 2023; and (ii) inventory write-downs, primarily related to aging inventory.

### This Works

Gross margin for our This Works segment was \$9.0 million in the nine months ended December 31, 2022, or 43% of net revenue, as compared to \$12.4 million in the nine months ended December 31, 2021, or 47% of net revenue. The year-over-year decrease in our gross margin percentage is primarily attributable to restructuring charges of \$1.2 million recorded in the nine months ended December 31, 2021 relating to inventory write-downs associated with the strategic changes to our business that were initiated in the fourth quarter of fiscal 2022.



## Operating Expenses

The following table presents operating expenses for the nine months ended December 31, 2022 and 2021:

(in thousands of Canadian dollars)	Nine months ended December 31,		\$ Change	% Change
	2022	2021		
<b>Operating expenses</b>				
General and administrative	\$ 92,450	\$ 96,643	\$ (4,193)	(4%)
Sales and marketing	180,825	179,464	1,361	1%
Research and development	17,349	23,616	(6,267)	(27%)
Acquisition-related costs	32,146	9,788	22,358	228%
Depreciation and amortization	29,121	45,654	(16,533)	(36%)
Selling, general and administrative expenses	351,891	355,165	(3,274)	(1%)
Share-based compensation	21,725	31,480	(9,755)	(31%)
Share-based compensation related to acquisition milestones	-	4,376	(4,376)	(100%)
Share-based compensation expense	21,725	35,856	(14,131)	(39%)
Asset impairment and restructuring costs	1,794,212	128,198	1,666,014	1,300%
Total operating expenses	\$ 2,167,828	\$ 519,219	\$ 1,648,609	318%

### Selling, general and administrative expenses

Selling, general and administrative expenses were \$351.9 million in the nine months ended December 31, 2022, as compared to \$355.2 million in the nine months ended December 31, 2021.

General and administrative expense was \$92.5 million in the nine months ended December 31, 2022, as compared to \$96.6 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable to:

- the restructuring actions initiated in the fourth quarter of fiscal 2022, which included operational changes designed to align general and administrative costs with business objectives, and further streamline the organization to drive process-related efficiencies. We realized reductions relative to the nine months ended December 31, 2021, primarily in relation to: (i) compensation costs for finance, information technology, legal and other administrative functions; (ii) third-party costs associated with administrative functions; (iii) professional consulting fees; and (iv) facilities and insurance costs.
- the above cost reductions were partially offset by a year-over-year decrease in the amount of payroll subsidies received from the Canadian government pursuant to a COVID-19 relief program. We received \$2.9 million in the nine months ended December 31, 2022, as compared to \$33.9 million received in the nine months ended December 31, 2021.

Sales and marketing expense was \$180.8 million in the nine months ended December 31, 2022, relatively consistent with \$179.5 million in the nine months ended December 31, 2021.

Research and development expense was \$17.3 million in the nine months ended December 31, 2022, as compared to \$23.6 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable to cost reductions associated with the previously-noted restructuring actions that were initiated in the fourth quarter of fiscal 2022. We continued to realize reductions in compensation costs and concluded or curtailed certain research and development projects in-line with the rationalization of our initiatives to focus on opportunities outside of pharmaceutical drug development. We also realized a reduction in research and development costs associated with the completion of the divestiture of C<sup>3</sup> on January 31, 2022, which resulted in no costs being recorded in relation to C<sup>3</sup> in the third quarter of fiscal 2023.

Acquisition-related costs were \$32.1 million in the nine months ended December 31, 2022, as compared to \$9.8 million in the nine months ended December 31, 2021. In the nine months ended December 31, 2022, costs were incurred primarily in relation to the Reorganization and the divestiture of certain of our corporate-owned retail stores in Canada in connection with the OEGRC Transaction and the FOUR20 Transaction (each of which are described under "Recent Developments" above), the plan to acquire Jetty, and evaluating other potential acquisition opportunities. Comparatively, in the nine months ended December 31, 2021, costs were incurred primarily in relation to the plan to acquire Wana, the divestiture of C<sup>3</sup>, the acquisitions of Supreme Cannabis and AV Cannabis Inc., and evaluating other potential acquisition opportunities.

Depreciation and amortization expense was \$29.1 million in the nine months ended December 31, 2022, as compared to \$45.7 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable to:

- the previously-noted restructuring actions that were initiated in fiscal 2022;
- the divestiture of certain of our corporate-owned retail stores in Canada in connection with the OEGRC Transaction and the FOUR20 Transaction (as described under "Recent Developments" above);
- the decrease in amortization expense associated with the impairment of certain of our intellectual property intangible assets; and
- the completion of the divestiture of C<sup>3</sup> on January 31, 2022, which resulted in no depreciation and amortization expense being recorded in relation to C<sup>3</sup> in the nine months ended December 31, 2022.

#### Share-based compensation expense

Share-based compensation expense was \$21.7 million in the nine months ended December 31, 2022, as compared to \$31.5 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable to the impact of our previously-noted restructuring actions, which resulted in 6.1 million stock option forfeitures and 1.9 million RSU and PSU forfeitures in the nine months ended December 31, 2022. The decrease attributable to these forfeitures was partially offset by 4.7 million stock option grants and 3.1 million RSU and PSU grants in the nine months ended December 31, 2022.

Share-based compensation expense related to acquisition milestones was \$nil in the nine months ended December 31, 2022, as compared to \$4.4 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable to: (i) the completion of vesting, in prior quarters, of the share-based compensation associated with certain of our acquisitions; and (ii) as a result of the restructuring actions completed in the fourth quarter of fiscal 2022, the acceleration of share-based compensation expense related to unvested milestones associated with acquisitions completed in prior fiscal years.

#### Asset impairment and restructuring costs

Asset impairment and restructuring costs recorded in operating expenses were \$1.8 billion in the nine months ended December 31, 2022, as compared to \$128.2 million in the nine months ended December 31, 2021.

Asset impairment and restructuring costs recorded in the nine months ended December 31, 2022 were primarily related to:

- goodwill impairment losses of \$1.7 billion, substantially all of which was associated with our cannabis operations reporting unit in the global cannabis segment. Refer to "Impairment of Goodwill" in "Critical Accounting Policies and Estimates" section below;
- asset impairment charges totaling \$13.1 million relating to certain acquired brand intangible assets, primarily within our Canada cannabis segment;
- impairment losses associated with the divestiture of our Canadian retail operations in connection with the OEGRC Transaction and the FOUR20 Transaction, as described above under "Recent Developments", as we: (i) recorded write-downs of property, plant and equipment, operating license and brand intangible assets, right-of-use assets, and certain other assets due to the excess of their carrying values over their estimated fair value; and (ii) recognized contractual and other settlement obligations;
- incremental costs primarily associated with the restructuring actions completed in fiscal 2022, including the closure of certain of our Canadian production facilities, and operational changes initiated in the fourth quarter of fiscal 2022 to: (i) implement cultivation-related efficiencies and improvements in the Canadian adult-use cannabis business; and (ii) implement a flexible manufacturing platform, including contract manufacturing for certain product formats; and
- employee-related restructuring charges associated with actions completed in the third quarter of fiscal 2023 as part of our ongoing program to align general and administrative costs with business objectives, and further streamline the organization.

Comparatively, in the nine months ended December 31, 2021, we recorded charges primarily related to:

- operational changes resulting from the continuing strategic review of our business as a result of fiscal 2022 acquisition activities, which resulted in the closure of our Niagara-on-the-Lake, Ontario and Langley, British Columbia facilities in November 2021;
- adjustments related to changes in the estimated fair value of certain of our Canadian sites that were closed in December 2020, and the Canadian facilities that were closed in November 2021. Adjustments for certain of these facilities were made to reflect either their final or estimated selling prices; and
- incremental costs associated with the closure of these facilities.

## Other

The following table presents loss from equity method investments, other income (expense), net, and income tax (expense) recovery for the nine months ended December 31, 2022 and 2021:

(in thousands of Canadian dollars)	Nine months ended December 31,		\$ Change	% Change
	2022	2021		
Loss from equity method investments	\$ -	\$ (100)	\$ 100	100%
Other income (expense), net	(406,762)	810,769	(1,217,531)	(150%)
Income tax (expense) recovery	(11,587)	490	(12,077)	(2,465%)

### Loss from equity method investments

The loss from equity method investments was \$nil in the nine months ended December 31, 2022, as compared to \$0.1 million in the nine months ended December 31, 2021. The year-over-year decrease in the loss is primarily attributable to the impairment of our remaining investment in Agripharm Corp. in the first quarter of fiscal 2022. As a result of this impairment, there were no remaining equity method investment balances at December 31, 2022.

### Other income (expense), net

Other income (expense), net was an expense amount of \$406.8 million in the nine months ended December 31, 2022, as compared to an income amount of \$810.8 million in the nine months ended December 31, 2021. The year-over-year change of \$1.2 billion, from an income amount to an expense amount, is primarily attributable to:

- Decrease in non-cash income of \$551.8 million related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI. The decrease of \$26.3 million in the fair value of the warrant derivative liability (resulting in non-cash income) in the nine months ended December 31, 2022 is primarily attributable to a decrease of approximately 67% in our share price during the nine months ended December 31, 2022, further impacted by an increase in the risk-free interest rate and a shorter expected time to maturity of the Tranche B Warrants. Comparatively, the income amount recognized in the nine months ended December 31, 2021 of \$578.1 million, associated with a decrease in the fair value of the warrant derivative liability, was primarily attributable to a decrease of approximately 73% in our share price during that period, further impacted by a shorter expected time to maturity of the Tranche B Warrants.
- Decrease in non-cash income of \$450.0 million related to the non-cash fair value changes on the liability arising from the Acreage Arrangement, from \$497.0 million in the nine months ended December 31, 2021 to \$47.0 million in the nine months ended December 31, 2022. The income amount recognized in the nine months ended December 31, 2022, associated with a decrease in the liability arising from the Acreage Arrangement to \$nil during the first quarter of fiscal 2023, is primarily attributable to a decrease of approximately 61% in our share price during the first quarter of fiscal 2023, relative to a decrease of approximately 27% in Acreage's share price during that same period. As a result, the model at June 30, 2022 reflected a lower estimated value of the Canopy Growth common shares expected to be issued at the exchange ratio of 0.3048 upon a Triggering Event, relative to the estimated value of the Fixed Shares expected to be acquired at that time; in the first quarter of fiscal 2023, this resulted in a change from a liability amount to an asset amount of \$60.0 million recorded in other financial assets. Fair value changes associated with the Acreage call option asset in the nine months ended December 31, 2022 are described below. Comparatively, the income amount recognized in the nine months ended December 31, 2021, associated with a decrease in the liability arising from the Acreage Arrangement, was primarily attributable to a decrease of approximately 73% in our share price in the nine months ended December 31, 2021, relative to a decrease of approximately 59% in Acreage's share price during that same period.
- Change of \$113.7 million related to the non-cash fair value changes on the Notes, from an income amount of \$81.3 million in the nine months ended December 31, 2021 to an expense amount of \$32.4 million in the nine months ended December 31, 2022. The expense amount recognized in the nine months ended December 31, 2022 was primarily attributable to the impact of the acquisition and cancellation of approximately \$262.6 million of aggregate principal amount of the Notes pursuant to privately negotiated exchange agreements (the "Exchange Agreements") entered into on June 29, 2022 and June 30, 2022 (the "Exchange Transaction"), including changes in credit spreads resulting from the Exchange Transaction. These changes were partially offset by the decrease in our share price of approximately 61% up to the date of the Exchange Transaction, at which time we surrendered our right to settle the conversion of any Note with our common shares. Comparatively, the income amount recognized in the nine months ended December 31, 2021 was primarily attributable to the decrease in our share price of approximately 73% during that period.

- Increase in non-cash expense of \$132.8 million related to fair value changes on our other financial assets, from \$263.9 million in the nine months ended December 31, 2021 to \$396.8 million in the nine months ended December 31, 2022. The expense amount in the nine months ended December 31, 2022 is primarily attributable to fair value decreases relating to our investments in:
  - o The TerrAscend Exchangeable Shares, including the additional 24.6 million TerrAscend Exchangeable Shares received on December 9, 2022 as part of the TerrAscend Arrangement (as described under "Recent Developments" above), in the amount of \$207.0 million. This decrease is primarily attributable to: (i) a decrease of approximately 78% in TerrAscend's share price during the nine months ended December 31, 2022, impacting the 38.9 million TerrAscend Exchangeable Shares that were held by us throughout the entire period; and (ii) a decrease of approximately 43% in TerrAscend's share price from December 9, 2022 to December 31, 2022, impacting the additional TerrAscend Exchangeable Shares received as part of the TerrAscend Arrangement;
  - o The secured debentures issued by TerrAscend Canada and Arise Bioscience and the associated Prior Warrants, up to the closing of the TerrAscend Arrangement on December 9, 2022 (totaling \$58.7 million), which were driven largely by a decrease of approximately 62% in TerrAscend's share price from March 31, 2022 to December 9, 2022;
  - o The TerrAscend Option, in the amount of \$5.1 million, which was driven largely by a decrease of approximately 78% in TerrAscend's share price in the nine months ended December 31, 2022; and
  - o The New Warrants issued by TerrAscend as part of the TerrAscend Arrangement, in the amount of \$17.5 million, primarily attributable to a decrease of approximately 43% in TerrAscend's share price from December 9, 2022 to December 31, 2022.
  - o The Wana and Jetty financial instruments, in the amounts of \$135.4 million and \$9.8 million, respectively, attributable primarily to: (i) changes in expectations of the future cash flows to be generated by Wana; and (ii) an increase in discount rates used in the valuation of both the Wana and Jetty financial instruments, in-line with the increase in interest rates relative to the prior fiscal period.

These fair value decreases were partially offset by (i) a fair value increase related to the Acreage call option in the amount of \$37.0 million, primarily attributable to: (i) a re-assessment of certain of the assumptions made and scenario outcomes contemplated in the probability-weighted expected return model used to determine the value of the Acreage call option; and (ii) the factors described above in our discussion of fair value changes on the liability arising from the Acreage Arrangement. The factors resulting in a fair value increase related to the Acreage call option were partially offset by the share price changes for both Canopy Growth and Acreage during the third quarter of fiscal 2023, as described above under our analysis of our results for the third quarter of fiscal 2023, which resulted in a fair value decrease related to the Acreage call option during that period.

Comparatively, in the nine months ended December 31, 2021 the expense amount was primarily attributable to fair value decreases relating to our investments in the TerrAscend Exchangeable Shares (\$166.0 million), and the secured debentures issued by TerrAscend Canada and Arise Bioscience and associated Prior Warrants (totaling \$89.3 million), driven largely by: (i) a decrease of approximately 39% in TerrAscend's share price in the nine months ended December 31, 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.

- Increase in interest expense of \$13.0 million, from \$77.6 million in the nine months ended December 31, 2021 to \$90.7 million in the nine months ended December 31, 2022. The year-over-year increase is primarily attributable to: (i) the increase in interest rates relative to the prior year period, thus impacting the amount of interest payable associated with the variable interest rate debt owing under the Credit Agreement; and (ii) the strengthening of the U.S. dollar relative to the Canadian dollar, as compared to the prior year period.
- Increase in non-cash income of \$25.4 million related to fair value changes on acquisition related contingent consideration and other. In the nine months ended December 31, 2022, we recorded fair value changes related to the estimated deferred payments associated with our investment in Wana. These fair value changes were primarily associated with changes in expectations of future cash flows to be generated by Wana.
- Increase in interest income of \$8.9 million, from \$7.0 million in the nine months ended December 31, 2021 to \$15.9 million in the nine months ended December 31, 2022. The year-over-year increase is primarily attributable to the increase in interest rates relative to the comparative fiscal period, the impact of which was only partially offset by the year-over-year combined decrease in our cash and cash equivalents and short-term investments balances.
- Change of \$7.9 million, from a loss of \$1.7 million in the nine months ended December 31, 2021 to a gain of \$6.2 million in the nine months ended December 31, 2022, related to the disposal of consolidated entities. The year-over-year change is primarily attributable to the gain recognized in the third quarter of fiscal 2023 associated with the closing of the divestiture of

our Canadian retail operations in connection with the OEGRC Transaction and the FOUR20 Transaction, and as described above under "Recent Developments".

### Income tax (expense) recovery

Income tax expense in the nine months ended December 31, 2022 was \$11.6 million, compared to an income tax recovery of \$0.5 million in the nine months ended December 31, 2021. In the nine months ended December 31, 2022, the income tax expense consisted of deferred income tax expense of \$8.0 million (compared to an expense of \$0.4 million in the nine months ended December 31, 2021) and current income tax expense of \$3.6 million (compared to a recovery of \$0.9 million in the nine months ended December 31, 2021).

The increase of \$7.6 million in the deferred income tax expense is primarily a result of changes in the convertible senior notes, 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 change of \$4.5 million, from a current income tax recovery to a 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 (Loss) Income**

The net loss in the nine months ended December 31, 2022 was \$2.6 billion, as compared to net income of \$258.1 million in the nine months ended December 31, 2021. The year-over-year change from net income to a net loss is primarily attributable: (i) to the year-over-year increase in asset impairment and restructuring costs, which was largely related to the goodwill impairment losses of \$1.7 billion recorded in the first quarter of fiscal 2023; and (ii) the year-over-year change in other income (expense), net, of \$1.2 billion, from an income amount to an expense amount. These variances are described above.

### **Adjusted EBITDA (Non-GAAP Measure)**

The following table presents Adjusted EBITDA for the nine months ended December 31, 2022 and 2021:

(in thousands of Canadian dollars)	Nine months ended December 31,		\$ Change	% Change
	2022	2021		
Net (loss) income	\$ (2,586,189)	\$ 258,128	\$ (2,844,317)	(1,102%)
Income tax expense (recovery)	11,587	(490)	12,077	2,465%
Other (income) expense, net	406,762	(810,769)	1,217,531	150%
Loss on equity method investments	-	100	(100)	(100%)
Share-based compensation <sup>1</sup>	21,725	35,856	(14,131)	(39%)
Acquisition-related costs	32,146	9,788	22,358	228%
Depreciation and amortization <sup>1</sup>	63,746	83,929	(20,183)	(24%)
Asset impairment and restructuring costs	1,794,212	117,567	1,676,645	1,426%
Restructuring costs recorded in cost of goods sold	15,610	4,554	11,056	243%
Charges related to the flow-through of inventory step-up on business combinations	-	7,684	(7,684)	(100%)
Adjusted EBITDA	\$ (240,401)	\$ (293,653)	\$ 53,252	18%

<sup>1</sup> From Statements of Cash Flows.

The Adjusted EBITDA loss in the nine months ended December 31, 2022 was \$240.4 million, as compared to an Adjusted EBITDA loss of \$293.7 million in the nine months ended December 31, 2021. The year-over-year decrease in the Adjusted EBITDA loss is primarily attributable to the year-over-year improvement in our gross margin, and the year-over-year 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 December 31, 2022, we had cash and cash equivalents of \$598.1 million and short-term investments of \$191.1 million, which are predominantly

invested in liquid securities issued by the United States and Canadian governments. In evaluating our capital requirements 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 \$177.9 million from March 31, 2022 (and, together with short-term investments, decreased \$582.4 million from March 31, 2022), 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. In March 2021, we entered into 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. As described under “Recent Developments” above, pursuant to the balance sheet actions completed in connection with the Reorganization, we have entered into agreements with certain of our lenders to complete the Paydown, which will result in us tendering US\$187.5 million of the principal amount outstanding under the Credit Agreement. On November 10, 2022, \$126.3 million (US\$94.4 million) of principal was repaid pursuant to the Paydown. The second payment pursuant to the Paydown is required to be made no later than April 17, 2023. 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 nine months ended December 31, 2022, our purchases of and deposits on property, plant and equipment totaled \$6.2 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

(in thousands of Canadian dollars)	Nine months ended December 31,	
	2022	2021
Net cash (used in) provided by:		
Operating activities	\$ (417,809)	\$ (419,125)
Investing activities	\$ 342,125	(71,102)
Financing activities	\$ (145,921)	(46,338)
Effect of exchange rate changes on cash and cash equivalents	\$ 43,731	(2,942)
Net decrease in cash and cash equivalents	\$ (177,874)	(539,507)
Cash and cash equivalents, beginning of period	\$ 776,005	1,154,653
Cash and cash equivalents, end of period	\$ 598,131	\$ 615,146

### Operating activities

Cash used in operating activities totaled \$417.8 million in the nine months ended December 31, 2022, relatively consistent with cash used of \$419.1 million in the nine months ended December 31, 2021.

### Investing activities

The cash provided by investing activities totaled \$342.1 million in the nine months ended December 31, 2022, as compared to cash used of \$71.1 million in the nine months ended December 31, 2021.

In the nine months ended December 31, 2022, purchases of property, plant and equipment were \$6.2 million, primarily related to improvements made at certain of our Canadian cultivation and production facilities, and at our Storz & Bickel facilities. Comparatively, in the nine months ended December 31, 2021, we invested \$36.6 million in our production infrastructure in the United States and an expansion of our Storz & Bickel facilities. The year-over-year decrease is primarily attributable to: (i) the substantial completion of the infrastructure projects that were in progress in fiscal 2022; and (ii) optimizing our capital expenditures as part of the previously-noted restructuring actions, particularly those actions that were initiated in the fourth quarter of fiscal 2022.



In the nine months ended December 31, 2022, our strategic investments in other financial assets were \$67.2 million and related primarily to: (i) the upfront payment made as consideration for entering the Jetty Agreements (\$29.2 million); and (ii) the payment of the Option Premium in the amount of \$38.0 million (US\$28.5 million) to acquire an option to purchase the Acreage Debt from the Lenders, pursuant to the option agreement entered into with the Lenders in connection with the Reorganization; see "Recent Developments" above for further details. Comparatively, in the nine months ended December 31, 2021, our strategic investments in other financial assets were \$374.4 million and related primarily to the upfront payment made as consideration for entering into the Wana Agreements.

In the nine months ended December 31, 2022, we completed the Verona Acquisition, as described above under "Recent Developments". The net cash outflow associated with the Verona Acquisition was \$24.2 million. Comparatively, in the nine months ended December 31, 2021, the net cash outflow relating to acquisitions totaled \$14.9 million.

Net redemptions of short-term investments in the nine months ended December 31, 2022 were \$415.3 million, as compared to net redemptions of \$340.2 million in the nine months ended December 31, 2021. The year-over-year change reflects the redemption of our short-term investments, largely to fund operations and investing activities as described above.

Additional cash inflows during the nine months ended December 31, 2022 include proceeds of \$12.4 million from the sale of certain wholly-owned subsidiaries, and proceeds of \$10.9 million from the sale of property, plant and equipment. Comparatively, additional cash inflows during the nine months ended December 31, 2021 related to proceeds of \$10.3 million from the sale of certain wholly-owned subsidiaries, and proceeds of \$25.7 million from the sale of property, plant and equipment.

Finally, other investing activities resulted in a cash inflow of \$2.3 million in the nine months ended December 31, 2022, primarily related to the partial repayment of the principal on a loan associated with the sale of a wholly-owned subsidiary in fiscal 2022, partially offset by the cash outflow associated with the redemption of the first tranche of the BioSteel redeemable noncontrolling interest. Comparatively, other investing activities resulted in a cash outflow of \$16.8 million in the nine months ended December 31, 2021, primarily related to the payment of acquisition-related liabilities.

#### Financing activities

The cash used in financing activities in the nine months ended December 31, 2022 was \$145.9 million, as compared to cash used of \$46.3 million in the nine months ended December 31, 2021. In the nine months ended December 31, 2022, we made repayments of long-term debt in the amount of \$118.0 million. These repayments primarily related to the first payment made pursuant to the Paydown, which is described above in the context of the balance sheet actions completed in connection with the Reorganization (see "Recent Developments" above). Also, other financing activities resulted in a cash outflow of \$29.1 million, primarily related to fees paid in connection with the Exchange Transaction and the Paydown (both of which are described above). Comparatively, in the nine months ended December 31, 2021, we made repayments of long-term debt in the amount of \$50.2 million, primarily related to the term loan assumed upon the completion of the acquisition of Supreme Cannabis on June 22, 2021.

#### **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 December 31,		Nine months ended December 31,	
	2022	2021	2022	2021
Net cash used in operating activities	\$ (143,894)	\$ (167,380)	\$ (417,809)	\$ (419,125)
Purchases of and deposits on property, plant and equipment	(1,868)	(962)	(6,176)	(36,620)
Free cash flow <sup>1</sup>	<u>\$ (145,762)</u>	<u>\$ (168,342)</u>	<u>\$ (423,985)</u>	<u>\$ (455,745)</u>

<sup>1</sup>Free 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 third quarter of fiscal 2023 was an outflow of \$145.8 million, as compared to an outflow of \$168.3 million in the third quarter of fiscal 2022. The year-over-year decrease in the free cash outflow primarily reflects the decrease in cash used in operating activities, which is associated primarily with the year-over-year improvement in working capital spending.

Free cash flow in the nine months ended December 31, 2022 was an outflow of \$424.0 million, as compared with an outflow of \$455.7 million in the nine months ended December 31, 2021. The year-over-year decrease in the free cash outflow reflects the decrease in purchases of property, plant and equipment associated with: (i) the substantial completion of the infrastructure projects that were in progress in fiscal 2022; and (ii) optimizing our capital expenditures as part of the previously-noted restructuring actions, particularly those actions that were initiated in the fourth quarter of fiscal 2022.

## **Debt**

Since our formation, we have financed our cash requirements primarily through the issuance of common shares of the Company, including the \$5.1 billion investment by CBI in the third quarter of fiscal 2019, and debt. Total debt outstanding as of December 31, 2022 was \$1.2 billion, a decrease from \$1.5 billion as of March 31, 2022. The total principal amount owing, which excludes fair value adjustments related to the Notes, was \$1.2 billion at December 31, 2022, a decrease from \$1.5 billion at March 31, 2022. These decreases were due to: (i) the Exchange Transaction, which resulted in the acquisition and cancellation of \$262.6 million of aggregate principal amount of the Notes from a limited number of holders of the Notes including Greenstar (collectively, the "Noteholders"); and (ii) the repayment of \$126.3 million (US\$94.4 million) of the principal amount outstanding under the Credit Agreement as part of the Paydown, as described under "Recent Developments" above, partially offset by the impact of the strengthening of the U.S. dollar against the Canadian dollar on amounts borrowed on the Credit Facility (see below).

### Credit Facility

The Credit Agreement provides for the Credit Facility in the aggregate principal amount of US\$750.0 million. The Credit Agreement also provided the ability to obtain up to an additional US\$500.0 million of incremental senior secured debt pursuant to the Credit Agreement. As described under "Recent Developments" above, pursuant to the balance sheet actions completed in connection with the Reorganization, we have entered into agreements with certain of our lenders party to the Credit Agreement to complete the Paydown, which will result in us tendering US\$187.5 million of the principal amount outstanding under the Credit Agreement. On November 10, 2022, \$126.3 million (US\$94.4 million) of principal was repaid pursuant to the Paydown. The second payment pursuant to the Paydown is required to be made by no later than April 17, 2023. We also agreed to certain amendments to the Credit Agreement with our lenders which, among other things, eliminated the additional US\$500.0 million incremental term loan facility.

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%. 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. 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; however, as a result of the amendments to the Credit Agreement, such minimum liquidity covenant has been reduced to US\$100.0 million, which is to be reduced as payments are made in accordance with the Paydown.

### Unsecured Senior 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. In June 2022, in connection with the Exchange Transaction, we entered into the Exchange Agreements with the Noteholders and agreed to acquire and cancel approximately \$262.6 million of aggregate principal amount of the Notes from the Noteholders for an aggregate purchase price (excluding \$5.4 million paid in cash to the Noteholders for accrued and unpaid interest) of \$260.0 million which was paid in our common shares.

### 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 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.

### **Contractual Obligations and Commitments**

Other than changes to our Notes pursuant to the Exchange Transactions and certain agreements entered into in connection with the Reorganization, as described above under “Recent Developments”, 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.

### ***Impairment of goodwill***

#### First Quarter of Fiscal 2023

As a result of the continued decline in the price of our common shares in the first quarter of fiscal 2023, we determined there to be an indicator of impairment for the cannabis operations reporting unit in the global cannabis segment, which was a reportable segment in the first quarter of fiscal 2023. As a result, we performed a quantitative interim goodwill impairment assessment for the cannabis operations reporting unit as of June 30, 2022. We concluded that the carrying value of the cannabis operations reporting unit was higher than its estimated fair value, and a goodwill impairment loss totaling \$1.7 billion was recognized in the first quarter of fiscal 2023, representing the entirety of the goodwill assigned to the cannabis operations reporting unit.

The estimated fair value of the cannabis operations reporting unit was determined using the market valuation method, which was consistent with the methodology used for our annual impairment test conducted at March 31, 2022. The most significant assumptions used in applying this method were (i) the price of our common shares; and (ii) the estimated control premium associated with ownership of our common shares.

#### Second Quarter of Fiscal 2023

While we changed our reportable segments in the second quarter of fiscal 2023 (refer to “Segment Reporting” above), there were no changes to the composition of our reporting units to which goodwill remained assigned at September 30, 2022. In the second quarter of fiscal 2023, we determined there to be indicators of impairment for one of our other reporting units as slower growth rates resulted in updated long-term financial forecasts indicating lower forecasted revenue and cash flow generation. As a result, we performed a quantitative interim goodwill impairment test for the reporting unit as of September 30, 2022 and concluded that the

carrying value of the reporting unit was higher than its estimated fair value, as determined using the income valuation method. We recognized a goodwill impairment loss totaling \$2.3 million in the second quarter of fiscal 2023, representing the entirety of the goodwill assigned to the reporting unit.

### Third Quarter of Fiscal 2023

We do not believe that an event occurred or circumstances changed during the third quarter of fiscal 2023 that would, more likely than not, reduce the fair value of the remaining reporting units below their carrying value. Therefore, we concluded that the quantitative goodwill impairment assessment was not required for the remaining reporting units at December 31, 2022. The carrying value of goodwill associated with all other reporting units was \$142.1 million at December 31, 2022.

We are required to perform the next annual goodwill impairment analysis on March 31, 2023, or earlier should there be an event that occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

### **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 December 31, 2022, would affect the carrying value of net assets by approximately \$5.1 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 December 31, 2022, would affect the carrying value of net assets by approximately \$25.9 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 December 31, 2022, our cash and cash equivalents, and short-term investments consisted of \$0.3 billion in interest rate sensitive instruments (March 31, 2022 – \$0.9 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	
	December 31, 2022	March 31, 2022	December 31, 2022	March 31, 2022	December 31, 2022	March 31, 2022
Unsecured senior notes	\$ 337,380	\$ 600,000	\$ 325,555	\$ 563,958	\$ (1,552)	\$ (6,600)
Fixed interest rate debt	41,639	43,386	N/A	N/A	N/A	N/A
Variable interest rate debt	838,407	893,647	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 22 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 December 31, 2022, 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.

None.

### 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. Except as set forth below, there have been no material changes to the risk factors previously disclosed in Part I, Item 1A in our Annual Report.

#### ***Cannabis is a controlled substance in the United States and therefore subject to the Controlled Substances Act.***

We are indirectly involved in ancillary activities related to the cannabis industry in jurisdictions in the United States where local state law permits such activities and, by virtue of, among other transactions, the Acreage Amended Arrangement, the Floating Share Arrangement, the Wana Option, the Jetty Option, and our holding of securities in the capital of TerrAscend, we may be indirectly associated with the cultivation, processing or distribution of cannabis in the United States. In the United States, cannabis is regulated at both the federal and state levels. To our knowledge, there are to date a total of 38 states, and the District of Columbia, that have now legalized cannabis in some form, including California, Nevada, New York, New Jersey, Washington and Florida. Although several states allow the sale of cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act (the “CSA”) and, as such, cultivation, distribution, sale and possession of cannabis violates federal law in the United States. The inconsistency between federal and state laws and regulations may result in a loss of the value of our investments and alliances in these businesses.

While state regulation in certain U.S. states may take a permissive approach to medical and/or adult-use of cannabis, the CSA may still be enforced by U.S. federal law enforcement officials against individuals and companies operating in those states for activity that is legal under state law. If the United States Department of Justice opted to pursue a policy of aggressively enforcing U.S. federal law against financiers or equity owners of cannabis-related businesses, then Acreage, TerrAscend, Wana and Jetty, for instance, could face (i) seizure of their cash and other assets used to support or derived from their business activities; and/or (ii) the arrest of its employees, directors, officers, managers and/or investors, who could face charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis.

Based on the advice of our legal advisors, the transaction structure for the Reorganization was intended to (i) permit us to remain able to represent that we comply with U.S. federal criminal law, particularly direct or indirect violations of the CSA (collectively, “Applicable Federal Law”); and (ii) ensure that (a) we do not, directly or indirectly, violate Applicable Federal Law; (b) we will not directly violate U.S. federal law as we do not cultivate, distribute, sell, or possess cannabis in the United States; (c) we do not violate indirect federal law (such as aiding and abetting, conspiracy, or Racketeer Influenced and Corrupt Organizations (RICO) Act) because we do not control or profit from companies that cultivate, distribute, sell, or possess cannabis in the United States; and (d) we do not violate anti-money laundering laws because no funds will flow from entities that cultivate, distribute, sell, or possess cannabis in the United States to us. In particular, based on the advice of our legal advisors, this will not be impacted in the event that Canopy USA acquires Acreage, Wana or Jetty, exercises the Cultiv8 Option or converts the TerrAscend Exchangeable Shares into common shares of TerrAscend. While we believe, based on the advice of our legal advisors, that we currently comply, and will continue to comply (in the event that Canopy USA acquires Acreage, Wana or Jetty, exercises the Cultiv8 Option or converts the TerrAscend Exchangeable Shares into common shares of TerrAscend), with all applicable laws and regulations, there is a risk that our interpretation of laws, regulations, and guidelines, may differ from those of others, including those of shareholders, government authorities, securities regulators, and stock exchanges. However, in this regard, please see the disclosure under the heading “*If Canopy USA acquires Wana, Jetty or the Fixed Shares of Acreage without structural amendments to our interest in Canopy USA, the listing of our common shares on the Nasdaq may be jeopardized.*” In the event of an aggressive enforcement policy, the United States Department of Justice could allege that we and the Board, and potentially our shareholders, “aided and abetted” violations of U.S. federal law as a result of the Acreage Amended Arrangement, the Floating Share Arrangement, the Wana Option, the Jetty Option, or other transactions involving us. In these circumstances, we may lose our entire investment and directors, officers and/or our shareholders may be required to defend any criminal charges against them at their own expense and, if convicted, be sent to federal prison. Conversely, in the event Canopy USA acquires Acreage, Wana or Jetty, exercises the Cultiv8 Option or converts the TerrAscend Exchangeable Shares into common shares of TerrAscend prior to federal permissibility of cannabis in the U.S., Canopy

USA will not be in compliance with Applicable Federal Laws; however, based on the advice of our legal advisors, we do not believe this will have a material adverse effect on us if we continue to hold the Non-Voting Shares.

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings initiated by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on us, including our reputation and ability to conduct business, the listing of our securities on the TSX, the Nasdaq or other exchanges, our financial position, operating results, profitability or liquidity or the market price of our listed securities. Overall, an investor's contribution to and involvement in our activities may result in federal civil and/or criminal prosecution, including forfeiture of his or her entire investment

***We are subject to certain restrictions of the TSX and the Nasdaq, which may constrain our ability to expand our business in the United States.***

Our common shares are currently listed on the TSX and the Nasdaq, and accordingly, so long as we choose to continue to be listed on these exchanges, we must comply with the TSX and the Nasdaq requirements or guidelines when conducting business, especially when pursuing opportunities in the United States.

On October 16, 2017, the TSX provided clarity regarding the application of Sections 306 (Minimum Listing Requirements) and 325 (Management) and Part VII (Halting of Trading, Suspension and Delisting of Securities) of the TSX Company Manual (collectively, the "TSX Requirements") to issuers with business activities in the cannabis sector. In TSX Staff Notice 2017-0009 (the "TSX Staff Notice"), the TSX notes that issuers with ongoing business activities that violate U.S. federal law regarding cannabis are not in compliance with the TSX Requirements. The TSX reminded issuers that, among other things, should the TSX find that a listed issuer is engaging in activities contrary to the TSX Requirements, the TSX has the discretion to initiate a delisting review. Although we believe that we currently comply with all applicable laws and regulations, including the TSX Requirements, there is a risk that our interpretation may differ from the TSX and failure to comply with the TSX Requirements could result in a delisting of our common shares from the TSX or the denial of an application for certain approvals, such as to have additional securities listed on the TSX, which could have a material adverse effect on the trading price of our common shares and could have a material adverse effect on our business, financial condition and results of operations.

While the Nasdaq has not issued official rules specific to the cannabis or hemp industry, stock exchanges in the United States, including the Nasdaq, have historically refused to list certain cannabis-related businesses, including cannabis retailers, that operate primarily in the United States. Failure to comply with any requirements imposed by the Nasdaq could result in the delisting of our common shares from the Nasdaq or denial of any application to have additional securities listed on the Nasdaq, which could have a material adverse effect on the trading price of our common shares. In this regard, please see the disclosure under the heading "*If Canopy USA acquires Wana, Jetty or the Fixed Shares of Acreage without structural amendments to our interest in Canopy USA, the listing of our common shares on the Nasdaq may be jeopardized.*"

***Federal law in the United States may impose restrictions on our ability to bank with certain institutions, repatriate funds to Canada or pay dividends to shareholders.***

The U.S. federal prohibitions on the sale of cannabis may result in us or Canopy USA being restricted from accessing the U.S. banking system, and we may be unable to deposit funds in federally insured and licensed banking institutions. Banking restrictions could be imposed due to institutions not accepting payments and deposits. We are at risk that any of our bank accounts could be closed at any time. Such risks increase our costs and our ability to handle any revenue received. In addition, activities in the U.S., and any proceeds derived thereof, may be considered proceeds of crime due to the fact that cannabis remains federally illegal in the U.S. This may restrict our ability to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada.

***We may be subject to heightened scrutiny by regulatory authorities.***

Any future investments, joint ventures or operations in the United States, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, we may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on our ability to invest in the United States or any other jurisdiction, in addition to those described herein.

***If Canopy USA acquires Wana, Jetty or the Fixed Shares of Acreage without structural amendments to our interest in Canopy USA, the listing of our common shares on the Nasdaq may be jeopardized.***

Our listings on the TSX and the Nasdaq prohibit us from investing in, or acquiring, state regulated, but federally illegal, businesses in the United States cannabis market until a change in United States federal law occurs or we delist our common shares from the TSX and the Nasdaq and list on an alternative exchange that does not prohibit investments in United States cannabis businesses. While we believe that we currently comply with all applicable laws and regulations, as well as the applicable cannabis related policies of the TSX and the Nasdaq, our interpretation may differ from those of the stock exchanges now or in the future, and therefore, the TSX or the Nasdaq could allege that we violate the exchanges cannabis-related policies.

Canopy Growth consolidates the financial results of Canopy USA and is expected to consolidate the financial statements of Acreage, Wana and Jetty once those acquisitions have been completed by Canopy USA. On December 7, 2022, we received a letter from Nasdaq Regulation requesting certain information and stating, among other things, its position that companies that consolidate “the assets and revenues generated from activities in violation under federal law cannot continue to list on the Nasdaq.” We expect to continue our dialogue with Nasdaq Regulation regarding its position. Representatives of the Nasdaq have expressed that the exchange was comfortable with the formation of Canopy USA, the transfer of our U.S. cannabis investments and the holding of Non-Voting Shares. Representatives of the Nasdaq have also indicated that Nasdaq Rule 5205(c) requires the Nasdaq to determine compliance with the listing standards based on a company’s financial statements. The Company disagrees with the Nasdaq’s application of Nasdaq Rule 5205(c) since Nasdaq Rule 5205(c) merely refers to a company’s initial listing and continued listing qualifications expressly enumerated in the Nasdaq Rules and does not address the matter of the legality of the revenues reported within a company’s financial statements. Accordingly, the Company intends to continue its dialogue with Nasdaq Regulation as it believes that the “qualifications” referenced in Nasdaq Rule 5205(c) cannot refer to a standard that does not exist within the Nasdaq Rules nor, intuitively, can accounting treatment form the basis for a conclusion with respect to compliance with laws.

The Company is hopeful that another exchange will seek to determine the Company’s compliance with its listing requirements on the basis of applicable laws. In the event that neither the Nasdaq nor another exchange is comfortable with financial consolidation of Canopy USA and the Nasdaq initiates a delisting process, the Company intends to vigorously appeal such a decision.

There is significant judgment in applying the guidance with respect to consolidation of a variable interest entity under U.S. GAAP, particularly given the highly-structured, nuanced and novel nature of Canopy Growth’s interest in Canopy USA. No precedent has been identified by the Company with respect to the accounting treatment under U.S. GAAP. Canopy USA was structured to ensure that Canopy Growth does not currently have the ability to direct or manage the operations of Canopy USA. The Protection Agreement provides for stringent negative covenants in favor of Canopy Growth that limit a wide variety of corporate and operational decisions of Canopy USA without the consent of Canopy Growth. In the aggregate, given the disproportionality of economics to stated power over the operations and strategy of Canopy USA, the limited exposure to the economics of Canopy USA for shareholders other than Canopy Growth, the negative covenants contained in the Protection Agreement and the fact that the third-party investors in Canopy USA had pre-existing business relationships with Canopy Growth, based on the current structure of our interest in Canopy USA, consolidation of Canopy USA by Canopy Growth was deemed to most appropriately result in compliance with the requirements of U.S. GAAP despite Canopy Growth’s inability to direct or manage the operations of Canopy USA. In addition, we believe that consolidating the financial statements of Canopy USA under U.S. GAAP provides investors of the Company with a more fulsome, accurate and detailed understanding of the financial position and profit and loss for the Company overall despite Canopy Growth’s inability to direct or manage the operations of Canopy USA. However, in the event that financial consolidation of Canopy USA is not acceptable to either the Nasdaq or another exchange and the Company is unsuccessful in an appeal with respect to a delisting on the Nasdaq, the Company intends to amend the structure of its interest in Canopy USA and the terms of the Protection Agreement and Canopy USA’s Limited Liability Company Agreement such that we would not be required to consolidate the financial results of Canopy USA into our financial statements. Such changes may include: (1) reducing Canopy Growth’s economic interest in Canopy USA on an as-converted basis to no greater than 90%, (2) reducing the number of managers on Canopy USA’s board of managers from four to three, including, reducing Canopy Growth’s nomination right to a single manager, (3) modifying the terms of the Protection Agreement and Canopy USA’s Limited Liability Company Agreement in order to eliminate certain negative covenants and (4) modifying the terms of the agreements with third-party investors in Canopy USA to, among other things, eliminate their right to guaranteed returns. Accordingly, the Company does not believe there is any circumstance in which the Amendment Proposal will result in a delisting from the Nasdaq unless there is a concurrent listing on another exchange. Nonetheless, there can be no assurance that we will be able to successfully amend the structure of our interest in Canopy USA, as well as the terms of the Protection Agreement and Canopy USA’s Limited Liability Company Agreement such that we would not be required to consolidate the financial results of Canopy USA into our financial statements. In addition, there can be no assurance that the SEC will agree with the Company’s proposed accounting treatment of Canopy USA. Moreover, there can be no assurance that we will remain listed on the Nasdaq or any other exchange on which our common shares are currently listed on, which would result in an increased interest rate pursuant to the Credit Agreement and could have a material adverse effect on the trading price of our common shares, as well as our

business, financial condition and results of operations. In the event of a delisting from a stock exchange, there is no assurance that we will be able to satisfy the conditions required to list on an alternative stock exchange.

***The anticipated benefits of the strategy involving Canopy USA may not be realized.***

Achieving the benefits anticipated through Canopy USA depends in part on the ability of Canopy USA to effectively capitalize on its scale, to realize the anticipated capital and operating synergies, to profitably sequence the growth prospects and to maximize the potential of its growth opportunities. The ability to realize these benefits from the acquisitions of Acreage, Wana and Jetty by Canopy USA will depend, in part, on successfully consolidating certain functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as on Canopy USA's ability to realize the anticipated growth opportunities and synergies. The integration of Acreage, Wana and Jetty by Canopy USA will require the dedication of substantial effort, time and resources on the part of Canopy USA's management which may divert management's focus and resources from other strategic opportunities available to Canopy USA and from operational matters during this process. In addition, the integration process could result in disruption of existing relationships with suppliers, employees, customers and other constituencies of each company. There can be no assurance that Canopy USA's management will be able to integrate the operations of each of the businesses successfully or achieve any of the synergies or other benefits that are anticipated.

Operational and strategic decisions with respect to the integration of Acreage, Wana and Jetty have not yet been made and may present challenges. It is possible that the integration process could result in the loss of key employees, the disruption of the respective ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the ability of management to maintain relationships with clients, suppliers, employees or to achieve the anticipated benefits. The performance of Canopy USA could be adversely affected if Canopy USA cannot retain key employees. As a result of these factors, it is possible that certain benefits expected from the formation of Canopy USA may not be realized. Any inability of Canopy USA's management to successfully integrate the operations could have a material adverse effect on our business, financial condition and results of operations.

***Canopy USA may divert the attention of our management, impact our ability to attract or retain key personnel or impact third party business relationships.***

The attention of our management may be diverted from the day-to-day operations of Canopy Growth in connection with the transactions that may be entered into between us and Canopy USA. These disruptions could be exacerbated by delays in completing certain transactions and could result in lost opportunities or negative impacts on performance, which could have a material and adverse effect on our current and future business, operations, financial condition and results of operations or prospects. As a result of the uncertainty, certain of our officers and employees may experience uncertainty about their future roles, which may adversely affect our ability to attract or retain key management and personnel.

In addition, third parties with which we currently have business relationships, including banks, industry partners, customers and suppliers, may experience uncertainty associated with our U.S. strategy, including with respect to maintaining current or future relationships with us. While we believe, based on the advice of our legal advisors, that we currently comply with all applicable laws and regulations and that we will remain in compliance in the event that Canopy USA acquires Acreage, Wana or Jetty, exercises the Cultiv8 Option or converts the TerrAscend Exchangeable Shares into common shares of TerrAscend, there is a risk that our interpretation of laws, regulations, and guidelines, may differ from those of others, including those of our banks, industry partners, customers and suppliers. Such uncertainty could have a material and adverse effect on our current and future business, operations, results of operations, financial condition and prospects.

***We have not received audited financial statements with respect to Jetty.***

The current financial information regarding Jetty that management has reviewed was prepared from Jetty's internal management accounts. These internal management accounts and other information provided by Jetty has not been audited, reviewed, compiled, examined or subject to any procedures by an independent public accountant, and Canopy Growth has not independently verified the management accounts or the related financial information provided by Jetty. In addition, actual results for such periods may not be indicative of future results.

While the Company understands that Jetty is working to produce audited financial statements, the Company has not received such audited financial statements to date. These audited financial statements may include financial results that are different than or less positive than the unaudited financial information for Jetty that has been provided to the Company.



***Acreage's financial statements express doubt about its ability to continue as a going concern.***

Acreage's publicly available audited financial statements as of and for three years ended December 31, 2021 and its publicly available financial statements as of and for the nine months ended September 30, 2022 ("Acreage's September 30, 2022 Financial Statements") express doubt about Acreage's ability to continue as a going concern. In particular, Acreage's September 30, 2022 Financial Statements state: "[Acreage] had an accumulated deficit as of September 30, 2022, as well as a net loss and negative cash flow from operating activities for the nine months ended September 30, 2022. These factors raise substantial doubt about [Acreage]'s ability to continue as a going concern for at least one year from [November 9, 2022, which is the date Acreage filed its quarterly report on Form 10-Q with the SEC and issued its financial statements]." In the event that Acreage is unable to continue as a going concern, the Acreage Amended Arrangement and the Floating Share Arrangement may not be completed. In the event that the Amended Acreage Arrangement and the Floating Share Arrangement are completed and Acreage is unable to continue as a going concern, this would have a negative impact on Canopy USA's business, financial results and operations and have an adverse impact on the Company's United States strategy, and, ultimately, the Company's financial results and operations.

***The Exchangeable Shares have different rights from the common shares and there may never be a trading market for the Exchangeable Shares.***

If the Amendment Proposal is approved, shareholders will have the option to convert their common shares into Exchangeable Shares. There are important differences between the rights of the common shares and the Exchangeable Shares. While each Exchangeable Share is convertible into a common share, the Exchangeable Shares will not carry voting rights, rights to receive dividends or other rights upon dissolution. For example, holders of Exchangeable Shares will not be able to exercise voting rights at meetings of shareholders and will not receive distributions if dividends are declared by our Board. The differences between the rights of holders of the Exchangeable Shares and common shares are significant and may materially and adversely affect the market value of your investment.

Presently, there are no plans to list the Exchangeable Shares on a securities exchange or in the over-the-counter market, and there is not expected to be a market for trading of the Exchangeable Shares. Thus, persons holding Exchangeable Shares will likely have no ability to sell their Exchangeable Shares and will likely have to exchange them for common shares in order to have any liquidity.

**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.**

On February 9, 2023, the Company announced a series of comprehensive steps to align its Canadian cannabis operations and resources in response to unfavorable market realities. These actions were approved on February 8, 2023, and include:

- Transitioning to an asset-light model by: (i) exiting cannabis flower cultivation in the Company's Smiths Falls, Ontario facility; (ii) ceasing the sourcing of cannabis flower from the Company's Mirabel, Quebec facility; and (iii) consolidating cultivation at the Company's existing facilities in Kincardine, Ontario and Kelowna, British Columbia;
- Moving to an adaptive third-party sourcing model for all cannabis beverages, edibles, vapes, and extracts which will enable the Company to select and bring to market new product formats without the required investment in research and development and production footprint;
- As a result of the aforementioned changes, the Company intends to consolidate flower, pre-rolled joints, softgel, and oil manufacturing in the Company's current beverage production facility in Smiths Falls, Ontario and reduce headcount across the business; and
- The Company intends to close the 1 Hershey Drive facility in Smiths Falls, Ontario and the Company is in active discussions with respect to restructuring the joint-venture entity which holds the cultivation facility in Mirabel, Quebec.

As a result of these actions, the Company expects to incur pre-tax charges of approximately \$425 - \$525 million, consisting of approximately \$400 - \$485 million of non-cash asset impairments relating to the impacted production sites in the fourth quarter of the Company's fiscal year ending March 31, 2023. The remaining charges of up to \$25 - \$40 million are cash charges primarily attributable to employee severance, contract and existing obligation terminations, outside services and other related cash shutdown costs, which are expected to be substantially recorded in the fourth quarter of the Company's fiscal year ending March 31, 2023 and the first half of the Company's fiscal year ending March 31, 2024.

The charges the Company expects to incur in connection with these actions are preliminary estimates and are subject to a number of assumptions and risks, and actual results may differ materially. The Company may also incur other material charges not currently contemplated due to events that may occur as a result of, or in connection with, these actions.

## Item 6. Exhibits.

Exhibit Number	Description
3.1	<a href="#"><u>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).</u></a>
3.2	<a href="#"><u>Bylaws of Canopy Growth Corporation (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021, filed with the SEC on November 8, 2021).</u></a>
10.1	<a href="#"><u>Consent Agreement dated October 24, 2022 by and between CBG Holdings LLC, Greenstar Canada Investment Limited Partnership and Canopy Growth Corporation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on October 26, 2022).</u></a>
10.2	<a href="#"><u>Voting Support Agreement dated October 24, 2022 by and between CBG Holdings LLC, Greenstar Canada Investment Limited Partnership and Canopy Growth Corporation (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on October 26, 2022).</u></a>
10.3	<a href="#"><u>Floating Share Arrangement Agreement dated October 24, 2022 by and among Canopy Growth Corporation, Canopy USA, LLC and Acreage Holdings, Inc. (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on October 26, 2022).</u></a>
10.4+	<a href="#"><u>Amendment No. 1 to Credit Agreement, dated as of October 24, 2022, between Canopy Growth Corporation, 11065220 Canada Inc., the lenders party thereto and Wilmington Trust, National Association (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, filed with the SEC on October 26, 2022).</u></a>
10.5	<a href="#"><u>Letter Agreement, dated October 24, 2022, by and among 11065220 Canada Inc., AFC Gamma Inc., Viridescent Realty Trust, Inc. and AFC Institutional Fund LLC (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K, filed with the SEC on October 26, 2022).</u></a>
10.6*+	<a href="#"><u>Protection Agreement, dated October 24, 2022, by and among Canopy USA, LLC, 11065220 Canada Inc. and Canopy Growth Corporation</u></a>
10.7*+	<a href="#"><u>Limited Liability Company Agreement of Canopy USA, LLC</u></a>
31.1*	<a href="#"><u>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.</u></a>
31.2*	<a href="#"><u>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.</u></a>
32.1**	<a href="#"><u>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.</u></a>
32.2**	<a href="#"><u>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.</u></a>
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)

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\* Filed herewith.

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

+ Portions of this exhibit are redacted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

## 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: February 9, 2023

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

Date: February 9, 2023

By: /s/ Judy Hong  
Judy Hong  
Chief Financial Officer  
(Principal Financial Officer)

**\*\*\* Certain information in this document has been excluded pursuant to Regulation S-K, item 601(b)(10). Such excluded information is not material and is information that the company treats as private or confidential. Such omitted information is indicated by brackets “[\*\*\*]” in this exhibit. \*\*\***

**EXECUTION VERSION**

**Exhibit 10.6**

## **PROTECTION AGREEMENT**

**CANOPY USA, LLC**

- and -

**11065220 CANADA INC.**

- and -

**CANOPY GROWTH CORPORATION**

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OCTOBER 24, 2022

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\*\*\* Certain information in this document has been excluded pursuant to Regulation S-K, item 601(b)(10). Such excluded information is not material and is information that the company treats as private or confidential. Such omitted information is indicated by brackets “[\*\*\*]” in this exhibit. \*\*\*

EXECUTION VERSION

Exhibit 10.6

**PROTECTION AGREEMENT**

**THIS AGREEMENT** made effective the 24<sup>th</sup> day of October, 2022.

**AMONG:**

**11065220 Canada Inc.**, a corporation existing under the federal laws of Canada  
 (“**Canopy Sub**”)

- and -

**Canopy USA, LLC**, a limited liability company existing under the laws of the State of Delaware  
 (the “**Company**”)

- and -

**Canopy Growth Corporation**, a corporation existing under the federal laws of Canada  
 (“**Canopy**”)

(collectively, the “**Parties**” or individually, the “**Party**” as the context requires)

**WHEREAS** Canopy Sub currently owns class B shares of the Company, which are convertible, without any action by or on behalf of Canopy Sub, into exchangeable shares of the Company (“**Exchangeable Shares**”);

**AND WHEREAS** the Exchangeable Shares are non-voting, non-participating shares of the Company;

**AND WHEREAS** Canopy Sub currently owns class B units (“**New LP I Exchangeable Units**”) of Canopy USA I Limited Partnership (“**New LP I**”), which are convertible into class A units of New LP I (“**New LP I Class A Units**”);

**AND WHEREAS** the New LP I Exchangeable Units are non-voting, non-participating shares of New LP I;

**AND WHEREAS** Canopy currently owns class B units (“**New LP II Exchangeable Units**”) of Canopy USA II Limited Partnership (“**New LP II**”), which are convertible into class A units of New LP II (“**New LP II Class A Units**”);

**AND WHEREAS** the New LP II Exchangeable Units are non-voting, non-participating shares of New LP II;

**AND WHEREAS** Canopy currently owns class B units (“**New LP III Exchangeable Units**”) of Canopy USA III Limited Partnership (“**New LP III**”), which are convertible into class A units of New LP III (“**New LP III Class A Units**”);

**AND WHEREAS** the New LP III Exchangeable Units are non-voting, non-participating shares of New LP III;

**AND WHEREAS** the Company is the general partner of New LP I, New LP II and New LP III;

**AND WHEREAS** Canopy Sub and Canopy are seeking assurances from the Company that it will not intentionally erode the value of the Exchangeable Shares, the New LP I Exchangeable Units, the New LP II Exchangeable Units or the New LP III Exchangeable Units during the period (the “**Interim Period**”) from the date hereof until the latest of such time as (i) all of the Exchangeable Shares that are to be received

by Canopy Sub following the issuance of class A shares of the Company (“**Class A Shares**”) are, at the sole discretion of Canopy Sub, converted into Class A Shares; (ii) all of the New LP I Exchangeable Units held by Canopy Sub are, at the sole discretion of Canopy Sub, converted into New LP I Class A Units; (iii) all of the New LP II Exchangeable Units held by Canopy are, at the sole discretion of Canopy, converted into New LP II Class A Units; and (iv) all of the New LP III Exchangeable Units held by Canopy are, at the sole discretion of Canopy, converted into New LP III Class A Units;

**AND WHEREAS** the Parties have entered into this Agreement to address the concerns raised by Canopy Sub and Canopy;

**NOW THEREFORE** in consideration of the foregoing premises, which are an integral part hereof, and in consideration of the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

## **1. DEFINITIONS.**

In addition to the terms defined elsewhere in this Agreement, for purposes of this Agreement:

- (a) “**Acreage**” means Acreage Holdings, Inc., a corporation existing under the laws of the Province of British Columbia;
- (b) “**Acreage Acquisition**” has the meaning ascribed thereto in Section 2(o);
- (c) “**Affiliate**” means, with respect to the Person to which it refers, (i) a Person that directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with, such Person, (ii) any officer, director or shareholder of such Person, (iii) any parent, sibling, descendant or spouse of such Person or of any of the Persons referred to in clauses (i) and (ii), and (iv) any corporation, limited liability company, general or limited partnership, trust, association or other business or investment entity that directly or indirectly, through one or more intermediaries controls, is controlled by or is under common control with any of the foregoing individuals. For purposes of this definition, the term “control” of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by contract or otherwise;
- (d) “**Approved Business Plan**” means a Business Plan that is approved by Canopy Sub;
- (e) “**Authorization**” means, with respect to any Person, any order, permit, approval, consent, waiver, licence or similar authorization of any Governmental Body having jurisdiction over the Person necessary to carry on its business as now being conducted;
- (f) “**Business Day**” means any day that is not a Saturday, Sunday or any other day on which banks are required or authorized by Law to be closed in New York, New York or Toronto, Ontario;
- (g) “**Business Plan**” means for the subsequent 12-month period, broken-down by month: (i) [\*\*\*]; (ii) a [\*\*\*], that includes: (A) [\*\*\*]; (B) [\*\*\*]; (C) [\*\*\*]; (D) [\*\*\*]; and (E) [\*\*\*]; and (iii) such other matters as the Company may reasonably consider to be necessary to illustrate the results intended to be achieved by the Company during such 12-month period;
- (h) “**CAM**” means Net Sales less (i) COGS; and (ii) Marketing Expenditures;
- (i) “**Cannabis**” means (i) all living or dead material, plants, seeds, plant parts or plant cells from any cannabis species or subspecies other than Hemp, including wet and dry material, trichomes, oil and extracts from cannabis other than Hemp (including cannabinoid or terpene extracts from any cannabis plant other than Hemp), and (ii) biologically or synthetically synthesized analogs of cannabinoids extracted, using micro-organisms, from any cannabis plant other than Hemp;



- (j) **“Canopy”** has the meaning ascribed thereto in the preamble to this Agreement;
- (k) **“Canopy Shares”** means common shares in the capital of Canopy;
- (l) **“Canopy Sub”** has the meaning ascribed thereto in the preamble to this Agreement;
- (m) **“Class A Shares”** has the meaning ascribed thereto in the recitals to this Agreement;
- (n) **“CBG”** means CBG Holdings LLC, a limited liability company existing under the laws of the State of Delaware;
- (o) **“COGS”** means the cost of goods sold as determined in accordance with U.S.GAAP;
- (p) **“Company”** has the meaning ascribed thereto in the preamble to this Agreement;
- (q) **“Company Board”** means the board of managers of the Company as constituted from time to time;
- (r) **“Company Employees”** means the employees of the Company (if any) and its Subsidiaries;
- (s) **“Conditional Options”** means the Jetty Options, the Wana Options and the Cultiv8 Option;
- (t) **“Contract”** means any oral or written contract, obligation, understanding, commitment, lease, license, instrument, purchase order, bid or other agreement;
- (u) **“Copyrights”** means any and all works of authorship, copyrightable subject matter, copyrights, mask works, and database rights, together with all website content, source code, computer programs, digital content, forms, manuals, reports, guidelines, labels, documents, advertising materials, promotional materials, and marketing materials, all translations, derivative works, adaptations, compilations and combinations of the foregoing, and all applications, registrations and renewals in connection therewith;
- (v) **“Cultiv8 Option”** means the option to acquire 19.99% of the Membership Interests of Cultiv8 Interests LLC pursuant to an option agreement dated December 22, 2021 between Canopy Growth USA, LLC and Ad Astra Holdings LLC;
- (w) **“Debt”** means any (i) obligations relating to indebtedness for borrowed money; (ii) obligations evidenced by bonds, notes, debentures or similar instruments; (iii) obligations in respect of capitalized leases (calculated in accordance with U.S. GAAP); (iv) obligations for the deferred purchase price of property or services; (v) obligations in the nature of guarantees of obligations of the type described in clauses (i) through (iv) above of any other Person; and (vi) all accrued interest in respect of any of the foregoing and any applicable prepayment, redemption, breakage, make-whole or other premiums, fees or penalties;
- (x) **“Domain Names”** means any and all Internet addresses and domain names, together with all applications, registrations and renewals in connection therewith;
- (y) **“EBITDA”** means, in respect of any fiscal period, the consolidated net income (loss) of the Company in such fiscal period plus without duplication and to the extent deducted in determining consolidated net income (loss) for such period, the sum of (i) interest expense for such period, (ii) income tax expense for such period, and (iii) all amounts attributable to depreciation and amortization expense for such period, all elements as determined in accordance with U.S. GAAP;
- (z) **“Elevate Debt”** means the Debt owing pursuant to [\*\*\*];
- (aa) **“Exchangeable Shares”** has the meaning ascribed thereto in the recitals to this Agreement;
- (bb) **“Fair Market Value”** means, (i) if the Canopy Shares or the Parent Shares, as applicable, are listed on only one stock exchange, the volume weighted average trading price per Canopy Share or the

Parent Share, as applicable, on such stock exchange during the immediately preceding five Trading Days; or (ii) if the Canopy Shares or the Parent Shares, as applicable, are listed on more than one stock exchange, the price as determined in accordance with clause (i) above for the primary stock exchange on which the greatest volume of trading of the Canopy Shares or the Parent Shares, as applicable, occurred during the immediately preceding five Trading Days;

- (cc) **“Governmental Body”** means (i) any international, multinational, national, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, commissioner, board, bureau, ministry, agency or instrumentality, domestic or foreign; (ii) any subdivision or authority of any of the above; (iii) any quasi- governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing; or (iv) any stock exchange;
- (dd) **“Greenstar”** means Greenstar Canada Investment Limited Partnership, a partnership existing under the laws of the Province of British Columbia;
- (ee) **“Gross Sales”** means gross sales or revenue as determined in accordance with U.S. GAAP;
- (ff) **“Hemp”** has the meaning set forth in Section 297A of the Agricultural Marketing Act of 1946 (7 U.S.C. § 1621 et seq.), as amended by Public Law No. 115-334, and as may be further amended from time to time;
- (gg) **“Intellectual Property”** means all intellectual property, intellectual property rights and all proprietary rights of any type in any jurisdiction throughout the world, whether registered or unregistered, whether published or not published, including the following and all rights of the following types, together with all rights, title and interests otherwise pertaining to or deriving from: (i) Patents; (ii) Trademarks; (iii) Copyrights; (iv) Proprietary Information; (v) Domain Names; (vi) Social Media Identifiers; (vii) all design rights, economic rights, moral rights, publicity rights, privacy rights and shop rights; (viii) all Software; (ix) all intellectual property licenses and sublicenses; (x) all rights to claim priority to, file an application for, and obtain a grant, renewal and extension in connection with any of the foregoing; (xi) all applications, registrations and renewals in connection with any of the foregoing; (xii) all rights to assert, defend and recover title in connection with any of the foregoing; (xiii) all rights to sue and recover for any past, present and future infringement, misappropriation, violation, damages, lost profits, royalties, payments and proceeds in connection with any of the foregoing; (xiv) all other intellectual property or proprietary rights; and (xv) all copies and tangible embodiments of any of the foregoing;
- (hh) **“Interim Period”** has the meaning ascribed thereto in the recitals to this Agreement;
- (ii) **“Jetty Options”** means the options to acquire Lemurian, Inc. pursuant to two option agreements dated May 17, 2022 between Canopy and/or Canopy Oak, LLC and the other parties named therein;
- (jj) **“Law”** means any foreign or domestic federal, state or local law, statute, code, ordinance, regulation, rule, directive, consent agreement, constitution or treaty of any Governmental Body, including common law, other than the U.S. Federal Cannabis Laws;
- (kk) **“Liability”** means any liability, whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due;
- (ll) **“Lien”** means any lien, mortgage, pledge, encumbrance, charge, security interest, adverse claim, liability, interest, charge, preference, priority, proxy, transfer restriction (other than restrictions under the Securities Act and state securities laws), encroachment, lien for Taxes, order, community property interest, equitable interest, option, warrant, right of first refusal, easement, profit, license, servitude, right of way, covenant or zoning restriction;

- (mm) **“Manager Appointees”** has the meaning ascribed thereto in Section 2(g) of this Agreement;
- (nn) **“Mandatory Requirements”** means, with respect to a Business Plan, a Business Plan that (i) [\*\*\*]; (ii) [\*\*\*]; and (iii) [\*\*\*];
- (oo) **“Marketing Expenditures”** means all expenditures incurred in connection with marketing, advertising, promotions, trade-shows, sponsorship and endorsements;
- (pp) **“Net Sales”** means Gross Sales less discounts, buy-downs, bona fide returns and refunds and exclusive of the amount of any tax or fee imposed by any Governmental Body directly on Gross Sales, including any excise Taxes and/or Taxes collected from customers if such Tax is added to the selling price actually remitted to such Governmental Body;
- (qq) **“New LP I”** has the meaning ascribed thereto in the recitals to this Agreement;
- (rr) **“New LP I Class A Units”** has the meaning ascribed thereto in the recitals to this Agreement;
- (ss) **“New LP I Exchangeable Units”** has the meaning ascribed thereto in the recitals to this Agreement;
- (tt) **“New LP II”** has the meaning ascribed thereto in the recitals to this Agreement;
- (uu) **“New LP II Class A Units”** has the meaning ascribed thereto in the recitals to this Agreement;
- (vv) **“New LP II Exchangeable Units”** has the meaning ascribed thereto in the recitals to this Agreement;
- (ww) **“New LP III”** has the meaning ascribed thereto in the recitals to this Agreement;
- (xx) **“New LP III Class A Units”** has the meaning ascribed thereto in the recitals to this Agreement;
- (yy) **“New LP III Exchangeable Units”** has the meaning ascribed thereto in the recitals to this Agreement;
- (zz) **“Operating Cash Flow”** means cash flows from operating activities as calculated in accordance with U.S. GAAP;
- (aaa) **“Ordinary Course of Business”** means the ordinary course of business consistent with past custom and practice (including with respect to quantity and frequency);
- (bbb) **“Organizational Documents”** means (i) any certificate or articles of incorporation, bylaws, certificate or articles of formation, operating agreement or partnership agreement; (ii) any documents comparable to those described in clause (i) as may be applicable pursuant to any Law; and (iii) any amendment or modification to any of the foregoing;
- (ccc) **“Parties”** or **“Party”** has the meaning ascribed thereto in the preamble to this Agreement;
- (ddd) **“Parent Shares”** means, in the event that Canopy is acquired, the shares of such acquirer, provided that such acquirer shares shall be listed on the Toronto Stock Exchange, the TSX Venture Exchange, the Canadian Securities Exchange, the NEO Exchange Inc., the New York Stock Exchange, the Nasdaq Global Select Market or the London Stock Exchange;
- (eee) **“Patents”** means any and all patents and patent applications, including all reissuances, continuations, continuations-in-part, divisions, provisionals, non-provisionals, extensions, re-examinations, inter partes review applications, post grant review applications, covered business method applications, applications claiming or providing priority thereto, applications based on any inventions, and all certificates and patents issued therefrom;

- (fff) **“Permitted Debt”** has the meaning ascribed thereto in Section 2(b)(xiii);
- (ggg) **“Permitted Lien”** means any: (i) purchase-money security interest or capital lease up to the maximum aggregate amount of the Permitted Debt at any time incurred by the applicable entities in connection with the purchase or leasing of capital equipment; (ii) Lien securing Debt up to the maximum aggregate amount of the Permitted Debt at any time at the applicable entities; and (iii) Lien consented to in writing by Canopy Sub or, in respect of New LP II or New LP III, Canopy.
- (hhh) **“Person”** means any individual, corporation, partnership, limited liability company, firm, joint venture, association, joint-stock company, estate, trust, unincorporated organization, Governmental Body or other entity, of whatever nature;
- (iii) **“Proprietary Information”** means any and all trade secrets, know-how, confidential or proprietary information, any information that derives economic value from not being generally known, inventions, ideas, discoveries, research, development, improvements, processes, methods, formulas, compositions, substances, models, materials, parameters, procedures, techniques, therapies, treatments, technologies, devices, systems, modules, studies, protocols, budgets, tests, test and study results, diagnoses, analyses, data, designs, drawings, specifications, customer and supplier lists, pricing and cost information, and technical, clinical, operational, financial and business information;
- (jjj) **“Regulatory Approval”** means any consent, waiver, permit, exemption, review, order, decision or approval of, or any registration and filing with, any Governmental Body, or the expiry, waiver or termination of any waiting period imposed by Law or a Governmental Body, and with respect to such consent, waiver, permit, exemption, review, order, decision or approval of, or any registration and filing with, any Governmental Body, it shall not have been withdrawn, terminated, lapsed, expired or is otherwise no longer effective;
- (kkk) **“Representatives”** means a Party’s directors, officers, employees and advisors;
- (lll) **“Repurchase Right”** means the Company’s right, but not the obligation, at any time, to purchase any Class A Shares issued at a purchase price (the **“Repurchase Price”**) which shall be payable in either cash, Canopy Shares or Parent Shares, as determined in the sole discretion of the Company; provided that [\*\*\*];
- (mmm) **“Repurchase Price”** has the meaning ascribed thereto in Section 1(lll);
- (nnn) **“Required Manager Criteria”** means an individual who (i) is independent (as defined in Rule 5605 (a)(2) of the Nasdaq Stock Market LLC Rules) of Canopy and the Company; (ii) meets the qualification requirements to serve as a manager under applicable Laws and the rules of any stock exchange on which the Canopy Shares are then listed; (iii) is not subject to any of the “bad actor” disqualifying events described in Rule 506(d)(1)(i)-(viii) under the Securities Act; (iv) is not subject to any (A) criminal convictions, court injunction, or restraining orders; (B) order of a state or federal regulator; (C) SEC disciplinary order; (D) SEC cease-and-desist order; (E) SEC stop order; (F) suspension or expulsion from membership in a self-regulatory organization; or (G) U.S. Postal Service false representation orders; (v) [\*\*\*]; and (vi) [\*\*\*];
- (ooo) **“Required Officer Criteria”** means an individual who (i) meets the qualification requirements to serve as an officer under the rules of any stock exchange on which the Canopy Shares are then listed; (ii) is not subject to any of the “bad actor” disqualifying events described in Rule 506(d)(1)(i)-(viii) under the Securities Act; (iii) is not subject to any (A) criminal conviction, court injunction, or restraining order; (B) order of a state or federal regulator; (C) SEC disciplinary order; (D) SEC cease-and-desist order; (E) SEC stop order; (F) suspension or expulsion from membership in a self-regulatory organization; or (G) U.S. Postal Service false representation order; and (iv) [\*\*\*];

- (ppp) “**SEC**” means the United States Securities and Exchange Commission;
- (qqq) “**Securities Act**” means the Securities Act of 1933, as amended, and any applicable rules and regulations thereunder, and any successor to such statute, rules or regulations;
- (rrr) “**Social Media Identifiers**” means all social media accounts, corporate identifiers, website addresses, pages, profiles, handles, feeds, registrations, and presences, together with all content and data thereof and all account information, user names and passwords necessary to access, transfer, use and update any of the foregoing;
- (sss) “**Software**” means all (i) software, computer programs, applications, systems, code, data, databases, and information technology, including firmware, middleware, drivers, system monitoring software, algorithms, models, methodologies, program interfaces, source code, object code, html code, and executable code; (ii) Internet and intranet websites, databases and compilations, including data and collections of data, whether machine-readable or otherwise; (iii) development and design tools, utilities, and libraries; (iv) technology supporting websites, digital contents, user interfaces, and the contents and audiovisual displays of websites; (v) all versions, updates, corrections, enhancements, and modifications thereto; and (vi) media, documentation and other works of authorship, including forms, user manuals, developer notes, comments, support, maintenance and training materials, relating to or embodying any of the foregoing or on which any of the foregoing is recorded;
- (ttt) “**Subsidiary**” means, with respect to any Person, any corporation, limited liability company, partnership, association, or other business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof; or (ii) if a limited liability company, partnership, association, or other business entity (other than a corporation), a majority of partnership or other similar ownership interest thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more Subsidiaries of that Person or a combination thereof and for this purpose, a Person or Persons owns a majority ownership interest in such a business entity (other than a corporation) if such Person or Persons shall be allocated a majority of such business entity’s gains or losses or shall be controlled by or control any manager, management board, managing director or general partner of such business entity (other than a corporation). For greater certainty, a Subsidiary of the Company shall include New LP I, New LP II and New LP III. The term “Subsidiary” shall include all Subsidiaries of such Subsidiary;
- (uuu) “**Tax**” or “**Taxes**” means any federal, state, local and foreign net income, alternative or add-on minimum, estimated, gross income, gross receipts, sales, use, ad valorem, value added, transfer, franchise, capital profits, lease, service, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, abandoned property or escheat, environmental or windfall profit tax, customs duty or other tax, governmental fee or other like assessment or charge (and any liability incurred or borne by virtue of the application of Treasury Regulation Section 1.1502-6 (or any similar or corresponding provision of state, local or foreign Law), as a transferee or successor, by contract or otherwise), together with all interest, penalties, additions to tax and additional amounts with respect thereto, whether disputed or not;
- (vvv) “**Tax Return**” means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof;
- (www) “**TerrAscend**” means TerrAscend Corp., a corporation existing under the laws of the Province of Ontario;

- (xxx) **“TerrAscend Exchangeable Shares”** means the exchangeable shares in the capital of TerrAscend owned legally or beneficially, either directly or indirectly, by the Company or any of its Subsidiaries;
- (yyy) **“TerrAscend Option”** means the option held, legally or beneficially, either directly or indirectly, by the Company or any of its Subsidiaries, to acquire 1,072,450 common shares of TerrAscend for an aggregate exercise price of \$1.00 pursuant to an option agreement dated January 13, 2021;
- (zzz) **“Trademark License Agreement”** means the trademark license agreement dated as of the date hereof between the Company and Canopy;
- (aaaa) **“Trademarks”** means any and all trademarks, service marks, certification marks, collective marks, logos, symbols, slogans, trade dress, trade names, brand names, corporate or business names, and all other source or business identifiers, together with all translations, adaptations, derivations and combinations of the foregoing, all goodwill of the business associated with each of the foregoing, all common law rights thereto, and all applications, registrations and renewals in connection therewith;
- (bbbb) **“Trading Day”** means, with respect to a stock exchange, a day on which such exchange is open for the transaction of business;
- (cccc) **“U.S. Federal Cannabis Laws”** means any U.S. federal law, civil, criminal or otherwise, that prohibit or penalize, the advertising, cultivation, harvesting, production, distribution, sale and possession of Cannabis and/or related substances or products containing or relating to the same, and related activities, including the prohibition on drug trafficking under the Controlled Substances Act (21 U.S.C. § 801, et seq.), the conspiracy statute under 18 U.S.C. § 846, the bar against aiding and abetting the conduct of an offense under 18 U.S.C. § 2, the bar against misprision of a felony (concealing another’s felonious conduct) under 18 U.S.C. § 3(c), the bar against being an accessory after the fact to criminal conduct under 18 U.S.C. § 3, and federal money laundering statutes under 18 U.S.C. §§ 1956, 1957 and 1960;
- (dddd) **“U.S. GAAP”** means generally accepted accounting principles in effect from time to time in the United States as set forth in pronouncements of the Financial Accounting Standards Board (and its predecessors) and the American Institute of Certified Public Accountants; and
- (eeee) **“Wana Options”** means the options to acquire all of the membership interests in Mountain High Products, LLC, The Cima Group, LLC and Wana Wellness, LLC pursuant to the three option agreements dated October 14, 2021 between Canopy and the other parties named therein.

## **2. CONDUCT OF BUSINESS OF THE COMPANY.**

- (a) *Conduct.* The Company covenants and agrees that, during the Interim Period, except: (i) with the prior written consent of Canopy Sub; (ii) as expressly required or permitted by this Agreement; or (iii) as required by applicable Laws, the Company shall, and shall cause each of its Subsidiaries to, conduct its business in the Ordinary Course of Business and in accordance with its Organizational Documents, the Trademark License Agreement, all applicable Laws, and, until the date that CBG and Greenstar have exchanged their respective Canopy Shares held for exchangeable shares in the capital of Canopy, all U.S. Federal Cannabis Laws, and the Company shall maintain and preserve its and its Subsidiaries’ business organizations, properties, assets, rights, employees, goodwill and business relationships with customers, suppliers, partners and other Persons with which the Company or any of its Subsidiaries has material business relations.
- (b) *Restrictions.* Without limiting the generality of Section 2(a), the Company covenants and agrees that, during the Interim Period, except: (i) with the prior written consent of Canopy Sub or Canopy, in respect of New LP II or New LP III; (ii) as expressly required or permitted by this Agreement;

or (iii) as required by applicable Laws, the Company shall not, and shall not permit any of its Subsidiaries to, directly or indirectly:

- (i) amend its Organizational Documents or, in the case of any Subsidiary which is not a corporation, its similar organizational documents;
- (ii) change the size of the Company Board from four members;
- (iii) declare, set aside or pay any dividend or other distribution of any kind or nature (whether in cash, stock or property or any combination thereof) in respect of any securities, other than dividends between the Company and wholly-owned Subsidiaries;
- (iv) split, combine or reclassify any securities of the Company or any of its Subsidiaries;
- (v) redeem, repurchase, or otherwise acquire, or offer to redeem, repurchase or otherwise acquire, any securities of the Company or any of its Subsidiaries;
- (vi) issue additional securities of the Company or any of its Subsidiaries to any Person other than [\*\*\*];
- (vii) create any new Subsidiaries, other than [\*\*\*];
- (viii) amend the terms of any of the securities of the Company or any Subsidiary;
- (ix) reorganize, amalgamate or merge the Company or any Subsidiary with a third-party;
- (x) undertake any voluntary dissolution, liquidation or winding-up of the Company or any Subsidiary or any other distribution of assets of the Company or any Subsidiary for the purpose of winding-up its affairs;
- (xi) adopt a plan of liquidation or resolution providing for the liquidation or dissolution of the Company or any of its Subsidiaries;
- (xii) enter into any Contract for Debt;
- (xiii) incur Debt other than (A) [\*\*\*]; (B) [\*\*\*]; (C) [\*\*\*]; and (D) [\*\*\*](the “**Permitted Debt**”); [\*\*\*];
- (xiv) pledge or otherwise encumber, or authorize the pledge or other encumbrance of any securities of the Company or any of its Subsidiaries, or any options, warrants, restricted share units or similar rights exercisable or exchangeable for or convertible into securities of the Company or any of its Subsidiaries, or other rights that are linked to the price or the value of any securities of the Company or any of its Subsidiaries;
- (xv) create, issue, incur, assume or permit to exist any lease, Lien or other encumbrance upon or against any property, asset or undertaking of the Company or any of its Subsidiaries, other than Permitted Liens;
- (xvi) enter into any Contract containing any provision restricting, impeding or preventing Canopy Sub from converting the Exchangeable Shares into Class A Shares;
- (xvii) enter into any Contract containing any provision restricting, impeding or preventing Canopy Sub from converting the New LP I Exchangeable Units into New LP I Class A Units;
- (xviii) enter into any Contract containing any provision restricting, impeding or preventing Canopy from converting the New LP II Exchangeable Units or the New LP III

Exchangeable Units, respectively, into New LP II Class A Units or New LP III Class A Units, as applicable;

- (xix) nominate or appoint any individual that does not serve on the Company Board as of the date hereof if such individual does not meet the Required Manager Criteria;
- (xx) appoint any individual, other than an individual currently serving as an executive officer of the Company, to serve as an executive officer of the Company or any of the Subsidiaries, including, without limitation, the chief executive officer, chief financial officer and executive chairman or any executive officer in an equivalent position if such individual does not meet the Required Officer Criteria;
- (xxi) enter into any Contract that provides for a payment to any current, former or future Company Employee or any current, former or future manager of the Company in the event that either (A) Canopy Sub converts the Exchangeable Shares into Class A Shares; (B) Canopy Sub converts the New LP I Exchangeable Units into New LP I Class A Units; (C) Canopy converts the New LP II Exchangeable Units into New LP II Class A Units; (D) Canopy converts the New LP III Exchangeable Units into New LP III Class A Units; or (E) Canopy Sub or an Affiliate of Canopy Sub acquires the Company;
- (xxii) [\*\*\*];
- (xxiii) enter into any deferred compensation or other similar agreement (or amend any such existing agreement) with any current, former or future Company Employee or any current, former or future manager of the Company or any of its Subsidiaries;
- (xxiv) approve or take any action to accelerate the vesting of any compensation securities;
- (xxv) make any loan to any officer, manager, Company Employee or consultant of the Company or any of its Subsidiaries;
- (xxvi) enter into any interested party transaction, unless such transaction is on arm's-length, fair market value terms;
- (xxvii) [\*\*\*];
- (xxviii) enter into any agreement or arrangement that limits or otherwise restricts in any material respect the Company or any successor thereto or any Subsidiary, or that would, after the Interim Period, limit or restrict in any material respect the Company or any of its current or future Affiliates from competing in any manner;
- (xxix) knowingly take any action or fail to take any action which action or failure to act would result in the loss, expiration or surrender of, or the loss of any material benefit under, or could reasonably be expected to cause any Governmental Body to institute proceedings for the suspension, revocation or limitation of rights under, any material Authorizations necessary to conduct its businesses as now conducted, or fail to prosecute any pending applications to any Governmental Bodies for material Authorizations;
- (xxx) abandon or fail to diligently pursue any renewal application for any Authorizations necessary to conduct the business of the Company or any of its Subsidiaries as now conducted or as proposed to be conducted;
- (xxxi) grant or commit to grant a licence or otherwise transfer abandon, or permit to become abandoned any material Intellectual Property or exclusive rights in or in respect thereof;
- (xxxii) operate outside of the United States;



- (xxxiii) take any action, or refrain from taking any action, or permitting any action to be taken or not taken, which could reasonably be expected to prevent, materially delay or otherwise impede the ability for (A) Canopy Sub to convert the Exchangeable Shares into Class A Shares or the New LP I Exchangeable Units into New LP I Class A Units or (B) Canopy to convert the New LP II Exchangeable Units into New LP II Class A Units or the New LP III Exchangeable Units into New LP III Class A Units; or
- (xxxiv) authorize, agree, resolve or otherwise commit, whether or not in writing, to do any of the foregoing.
- (c) *Obligations.* Without limiting the generality of 2(a), the Company covenants and agrees that, during the Interim Period, except: (i) with the prior written consent of Canopy Sub; (ii) as expressly required or permitted by this Agreement; or (iii) as required by applicable Law, the Company shall, and shall cause its Subsidiaries to, directly or indirectly:
- (i) do or cause to be done all things necessary to preserve and maintain the existence of the Company and its Subsidiaries;
  - (ii) take all actions necessary or desirable to maintain the Company's and its Subsidiaries' good standing and qualification to conduct business in its jurisdiction of formation and in any other jurisdiction in which it is so qualified, including by not limited to filing all applicable annual reports, paying all applicable franchise or similar Taxes, and maintaining all applicable franchises, permits and qualifications;
  - (iii) prepare and file when due all Tax Returns required to be filed by the Company and its Subsidiaries (except for any Tax Return for which an extension has been granted, in which case, such Tax Return shall be filed on or prior to the extended deadline), and pay, or cause to be paid, all Taxes (including estimated Taxes) due on such Tax Return (or due with respect to Tax Returns for which an extension has been granted) or which are otherwise required to be paid;
  - (iv) take all reasonable steps and actions that are within its power and control to obtain and maintain all third party or other consents, waivers, permits, exemptions, orders, approvals, agreements, amendments or confirmations that are required in order to maintain the Company's and its Subsidiaries' material Contracts in full force and effect during the Interim Period and in order to permit (A) Canopy Sub to convert the Exchangeable Shares into Class A Shares and the New LP I Exchangeable Units into New LP I Class A Units; or (B) Canopy to convert the New LP II Exchangeable Units into New LP II Class A Units or the New LP III Exchangeable Units into New LP III Class A Units;
  - (v) take all reasonable steps and actions that are within its power and control to obtain and maintain all third party or other consents, waivers, permits, exemptions, orders, approvals, agreements, amendments or confirmations that are required in order to maintain the Company's and its Subsidiaries' material Contracts in full force and effect following the conversion of the Exchangeable Shares into Class A Shares by Canopy Sub, the New LP I Exchangeable Units into New LP I Class A Units; the New LP II Exchangeable Units into New LP II Class A Units and the New LP III Exchangeable Units into New LP III Class A Units;
  - (vi) oppose, lift or rescind any injunction, restraining or other order, decree or ruling seeking to restrain, enjoin or otherwise prohibit or delay or otherwise adversely affect the ability for (A) Canopy Sub to convert the Exchangeable Shares into Class A Shares or the New LP I Exchangeable Units into New LP I Class A Units; or (B) Canopy to convert the New LP II Exchangeable Units into New LP II Class A Units or the New LP III Exchangeable Units into New LP III Class A Units;

- (vii) defend, or cause to be defended, any proceedings to which it is a party or brought against it or its managers or officers seeking to restrain, enjoin or otherwise prohibit or delay or otherwise adversely affect the ability for (A) Canopy Sub to convert the Exchangeable Shares into Class A Shares or the New LP I Exchangeable Units into New LP I Class A Units; or (B) Canopy to convert the New LP II Exchangeable Units into New LP II Class A Units or the New LP III Exchangeable Units into New LP III Class A Units; and
  - (viii) maintain, or cause to be maintained, public liability and casualty insurance, all in such form, coverages and amounts as are consistent with industry practices.
- (d) *Notices.* The Company covenants and agrees that during the Interim Period it shall:
  - (i) notify Canopy Sub and Canopy at least five Business Days prior to entering into any Contract with a value of [\*\*\*] or more per year;
  - (ii) provide Canopy Sub and Canopy, by the [\*\*\*], with a reporting package consisting of: (i) [\*\*\*], including: (x) [\*\*\*]; (y) [\*\*\*]; and (z) [\*\*\*]; (ii) [\*\*\*]; (iii) [\*\*\*]; and (iv) [\*\*\*];
  - (iii) immediately notify Canopy Sub and Canopy of the occurrence, or failure to occur, of any event or state of facts which occurrence or failure would, or would be reasonably likely to result in the failure to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by the Company under this Agreement;
  - (iv) promptly notify Canopy Sub and Canopy of any notice or other communication from any Person during the Interim Period alleging that the consent (or waiver, permit, exemption, order, approval, agreement, amendment or confirmation) of such Person is required for (A) Canopy Sub to convert the Exchangeable Shares into Class A Shares or the New LP I Exchangeable Units into New LP I Class A Units; or (B) Canopy to convert the New LP II Exchangeable Units into New LP II Class A Units or the New LP III Exchangeable Units into New LP III Class A Units;
  - (v) promptly notify Canopy Sub and Canopy of any notice or other communication from any Person during the Interim Period to the effect that such Person is terminating or otherwise materially adversely modifying its relationship with the Company or any of its Subsidiaries;
  - (vi) promptly notify Canopy Sub and Canopy of any notice or other communication from any Governmental Body during the Interim Period (and the Company shall contemporaneously provide a copy of any such written notice or communication to Canopy Sub and Canopy);
  - (vii) promptly notify Canopy Sub and Canopy of any notice or other communication from any Governmental Body during the Interim Period regarding the revocation or threatened revocation of any material Authorization or Regulatory Approval;
  - (viii) promptly notify Canopy Sub and Canopy of any filing, actions, suits, claims, investigations or proceedings commenced or, to its knowledge, threatened against, relating to or involving or otherwise affecting the Company or any of its Subsidiaries; and
  - (ix) notify Canopy Sub and Canopy in writing of any material change in insurance coverages within 30 days of binding or cancellation.
- (e) *Updates.* [\*\*\*].
- (f) *Annual Business Plan.* Not later than 60 days before the commencement of every calendar year, the Company shall prepare and submit to Canopy Sub and Canopy a proposed Business Plan for the next calendar year that contains the Mandatory Requirements. Canopy Sub shall use commercially reasonable efforts to approve each Business Plan [\*\*\*]. On an annual basis, on or

before July 31<sup>st</sup>, the Company shall prepare and submit to Canopy Sub and Canopy a mid-year update to the Approved Business Plan, including a comparison of actual results in reasonable detail to estimates set forth in the applicable Approved Business Plan. [\*\*\*]. The Company shall promptly notify Canopy Sub and Canopy of any reasonably anticipated overruns in excess of the expenditures authorized in an Approved Business Plan (including contingency expenditures) by [\*\*\*]. The Company shall not incur expenditures (on a consolidated basis) in any quarter in excess of [\*\*\*].

- (g) *Manager Rights.* For so long as the Company has four members on the Company Board, Canopy Sub shall have the right, but not the obligation, to appoint two Persons to serve as managers on the Company Board (the “**Manager Appointees**”). The Company shall take all actions required in order to cause the Manager Appointees to be appointed as managers of the Company. If any Manager Appointee ceases to hold office as a manager of the Company for any reason, Canopy Sub shall be entitled, but not obligated, to appoint an individual to replace him or her and the Company shall promptly take all reasonable steps as may be necessary to appoint such individual to the Company Board to replace the Manager Appointee who has ceased to hold office. The Company covenants and agrees with Canopy Sub that, upon any Manager Appointee’s appointment to the Company Board, the Company shall provide such Manager Appointee with an indemnity on terms at least as favourable to such Manager Appointee as those provided to all other managers of the Company Board and the Company shall ensure that such Manager Appointee has the benefit of any manager or officer insurance policy in effect for the Company, such benefits to be at least as favourable as those available to all other members of the Company Board.
- (h) *Access.* In order to ensure compliance with the terms of this Agreement and the transactions contemplated hereby, the Company shall give Canopy Sub, Canopy and their respective Representatives (i) upon reasonable notice, reasonable access during normal business hours to its and its Subsidiaries’ (w) [\*\*\*]; (x) [\*\*\*]; (y) [\*\*\*]; and (z) [\*\*\*], so long as the access does not unduly interfere with the ordinary course of business of the Company; and (ii) [\*\*\*].
- (i) *Audit.* During the Interim Period, in order to ensure compliance with the terms of this Agreement and the transactions contemplated hereby, the Company shall permit, and cause each of its Subsidiaries to permit, Canopy Sub, Canopy and their respective Representatives to enter upon, inspect and audit each of their respective properties, assets, books and records from time to time, at reasonable times during normal business hours and upon reasonable notice; provided that any such inspection shall be at the sole expense of Canopy Sub or Canopy.
- (j) *Investigations.* During the Interim Period, in order to ensure compliance with the terms of this Agreement and the transactions contemplated hereby, the Company shall provide, and cause each of its Subsidiaries to provide, reasonable access upon reasonable notice during normal business hours, to the Company’s and its Subsidiaries’ executive management so that Canopy Sub and Canopy may conduct reasonable investigations relating to the information provided by the Company pursuant to this Agreement as well as to the internal controls and operations of the Company and its Subsidiaries.
- (k) *Public Announcements.* The Company shall not issue any press release or make any other public statement or disclosure in connection with this Agreement or the transactions contemplated hereby.
- (l) *Government Filings.* [\*\*\*]. As soon as reasonably practicable after a request from Canopy Sub or Canopy, the Company shall use commercially reasonable efforts to (i) [\*\*\*], (ii) obtain all required Authorization, (iii) [\*\*\*] and (iv) maintain the Authorization, in each case, so as to enable (A) Canopy Sub to convert the Exchangeable Shares into Class A Shares and the New LP I Exchangeable Units into New LP I Class A Units; and (B) Canopy to convert the New LP II Exchangeable Units into New LP II Class A Units and the New LP III Exchangeable Units into New LP III Class A Units.

(m) *Exercise of Conditional Options.*

- (i) The Company shall take all necessary actions to ensure that its Subsidiaries shall not exercise the Conditional Options until the date that CBG and Greenstar have exchanged their respective Canopy Shares held for exchangeable shares in the capital of Canopy. In the event that the Company exercises a Conditional Option on a date that is more than 30 days following the filing by Canopy of articles of amendment to create a new class of exchangeable shares in the capital of Canopy, the Company hereby covenants and agrees that it shall not, and it shall take all necessary actions to ensure that its Subsidiaries shall not, cause Canopy to issue any Canopy Shares or other securities as consideration to satisfy the exercise price or any deferred payments payable in connection with such Conditional Option.
- (ii) In the event that a Subsidiary of the Company elects, in accordance with the terms of a Conditional Option, to satisfy the applicable payments in connection with such Conditional Option in Canopy Shares, Canopy Sub shall take all requisite action to cause Canopy to issue the Canopy Shares to satisfy such payment and in exchange for doing so, the Company shall issue to Canopy Sub such number of either Exchangeable Shares or Class A Shares, to be determined based on the type of security of the Company held by Canopy Sub at the applicable time of issuance, in each case, equal to the quotient obtained by dividing the aggregate amount of such payment by the fair market value of the Class A Shares at the applicable time and as determined by the Parties, acting reasonably.
- (n) *TerrAscend Conversion.* The Company shall not, and shall not permit any of its Subsidiaries to, directly or indirectly convert the TerrAscend Exchangeable Shares into common shares of TerrAscend or exercise the TerrAscend Option to acquire common shares of TerrAscend prior to the later of: (i) the date that CBG and Greenstar have exchanged their respective Canopy Shares held for exchangeable shares in the capital of Canopy; and (ii) January 1, 2023.
- (o) *Acreage Acquisition.* [\*\*\*], the Company shall issue to Canopy Sub such number of Exchangeable Shares with an aggregate value equal to the Fair Market Value of the Canopy Shares to be issued in connection with the Acreage Acquisition.

**3. REPRESENTATIONS AND WARRANTIES.**

- (a) The Company represents and warrants to Canopy Sub as follows and acknowledges that Canopy Sub is relying on such representations and warranties in entering into this Agreement:
  - (i) *Formation and Organization of the Company.* The Company is duly organized, validly existing and in good standing as a limited liability company under the laws of its jurisdiction of formation with the power to own or lease its property.
  - (ii) *Qualification.* The Company has the requisite power and capacity to enter into this Agreement and to perform its obligations hereunder.
  - (iii) *Due Authorization.* All requisite acts and proceedings have been done and taken by the Company to authorize the execution and delivery of this Agreement and the performance of the Company's obligations hereunder
  - (iv) *Validity of Agreement.* The execution and delivery of this Agreement and the performance of the Company's obligations hereunder do not conflict with or cause a default under any indenture, mortgage, deed of trust, loan agreement or any other agreement or instrument to which the Company is a party or by which the Company or any of its property or assets is bound and do not conflict with nor result in any violation of any of the provisions of the Company's articles, by-laws or other organizational or governing documents or any resolution of the Company's members or managers or any laws of the Company's

jurisdiction of formation or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its property or assets.

- (v) *Enforceability of Agreement.* This Agreement constitutes and will constitute a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency, liquidation, reorganization, moratorium or similar laws affecting the rights of the creditors generally and except as limited by the application of equitable principles when equitable remedies are sought, and the qualification that the enforceability of rights of indemnity, contribution and waiver and the ability to sever unenforceable terms may be limited by applicable laws.
- (b) Canopy Sub represents and warrants to the Company as follows and acknowledges that the Company is relying on such representations and warranties in entering into this Agreement:
- (i) *Incorporation and Organization of Canopy Sub.* Canopy Sub is duly organized, validly existing and in good standing as a corporation under the laws of its jurisdiction of formation with the corporate power to own or lease its property.
  - (ii) *Qualification.* Canopy Sub has the requisite corporate power and capacity to enter into this Agreement and to perform its obligations hereunder.
  - (iii) *Due Authorization.* All requisite corporate acts and proceedings have been done and taken by Canopy Sub to authorize the execution and delivery of this Agreement and the performance of Canopy Sub's obligations hereunder.
  - (iv) *Validity of Agreement.* The execution and delivery of this Agreement and the performance of Canopy Sub's obligations hereunder do not conflict with or cause a default under any indenture, mortgage, deed of trust, loan agreement or any other agreement or instrument to which Canopy Sub is a party or by which Canopy Sub or any of its property or assets is bound and do not conflict with nor result in any violation of any of the provisions of Canopy Sub's articles, by-laws or other constituting documents or any resolution of Canopy Sub's shareholders or directors or any laws of Canopy Sub's jurisdiction of incorporation or any order, rule or regulation of any court or governmental agency or body having jurisdiction over Canopy Sub or any of its property or assets.
  - (v) *Enforceability of Agreement.* This Agreement constitutes a legal, valid and binding obligation of Canopy Sub enforceable in accordance with its respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency, liquidation, reorganization, moratorium or similar laws affecting the rights of the creditors generally and except as limited by the application of equitable principles when equitable remedies are sought, and the qualification that the enforceability of rights of indemnity, contribution and waiver and the ability to sever unenforceable terms may be limited by applicable laws.
- (c) Canopy represents and warrants to the Company as follows and acknowledges that the Company is relying on such representations and warranties in entering into this Agreement:
- (i) *Incorporation and Organization of Canopy.* Canopy is duly organized, validly existing and in good standing as a corporation under the laws of its jurisdiction of formation with the corporate power to own or lease its property.
  - (ii) *Qualification.* Canopy has the requisite corporate power and capacity to enter into this Agreement and to perform its obligations hereunder.

- (iii) *Due Authorization.* All requisite corporate acts and proceedings have been done and taken by Canopy to authorize the execution and delivery of this Agreement and the performance of Canopy's obligations hereunder.
- (iv) *Validity of Agreement.* The execution and delivery of this Agreement and the performance of Canopy's obligations hereunder do not conflict with or cause a default under any indenture, mortgage, deed of trust, loan agreement or any other agreement or instrument to which Canopy is a party or by which Canopy or any of its property or assets is bound and do not conflict with nor result in any violation of any of the provisions of Canopy's articles, by-laws or other constating documents or any resolution of Canopy's shareholders or directors or any laws of Canopy's jurisdiction of incorporation or any order, rule or regulation of any court or governmental agency or body having jurisdiction over Canopy or any of its property or assets.
- (v) *Enforceability of Agreement.* This Agreement constitutes a legal, valid and binding obligation of Canopy enforceable in accordance with its respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency, liquidation, reorganization, moratorium or similar laws affecting the rights of the creditors generally and except as limited by the application of equitable principles when equitable remedies are sought, and the qualification that the enforceability of rights of indemnity, contribution and waiver and the ability to sever unenforceable terms may be limited by applicable laws.

#### 4. MISCELLANEOUS.

- (a) *Successors and Assigns.* The rights under this Agreement may be assigned (and only with all related obligations) in whole or in part by Canopy Sub; provided that (i) any assignment of this Agreement to a third-party shall require Canopy Sub to transfer all of the Exchangeable Shares and the New LP I Exchangeable Units then held by Canopy Sub to such third-party; (ii) any assignment of the Exchangeable Shares to a third-party shall require Canopy Sub to transfer all of the New LP I Exchangeable Units then held by Canopy Sub and all of its rights under this Agreement to such third-party; (iii) any assignment of the New LP I Exchangeable Units to a third-party shall require Canopy Sub to transfer all of the Exchangeable Shares then held by Canopy Sub and all of its rights under this Agreement to such third-party; (iv) any assignment of this Agreement by Canopy Sub to a third-party shall require Canopy to transfer all of the New LP II Exchangeable Units and New LP III Exchangeable Units then held by Canopy to such third-party; (v) any assignment of the New LP II Exchangeable Units by Canopy to a third-party shall require Canopy to transfer all of the New LP III Exchangeable Units then held by Canopy and all of its rights under this Agreement to such third-party; and (vi) any assignment of the New LP III Exchangeable Units by Canopy to a third-party shall require Canopy to transfer all of the New LP II Exchangeable Units then held by Canopy and all of its rights under this Agreement to such third-party; provided that notwithstanding the foregoing, nothing herein shall prevent Canopy and Canopy Sub (and Canopy and Canopy Sub shall not be prohibited) from granting liens or otherwise pledging its rights hereunder in favor of the lenders under Canopy's or Canopy Sub's Contracts for Debt (or be interpreted to prohibit the exercise of remedies in connection with such Liens or pledges). Any assignment by the Company may be made only with the prior written consent of Canopy Sub and Canopy. The terms and conditions of this Agreement inure to the benefit of and are binding upon the respective successors and permitted assignees of the Parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the Parties or their respective successors and permitted assignees any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided herein. Any transfer or attempted transfer of any rights under this Agreement in violation of this Section 4(a) shall be null and void, no such transfer shall be recorded on the Company's books or records, and the purported transferee in any such transfer shall not be treated (and the purported transferor shall continue to be treated) as if the purported transfer never occurred.

- (b) *Governing Law.* This Agreement and any claim, controversy or dispute arising out of or related to this Agreement or any of the transactions contemplated hereby, the relationship of the Parties and/or the interpretation and enforcement of the rights and duties of the Parties, whether arising in contract, tort, equity or otherwise, shall be governed by and construed, enforced and governed in accordance with the domestic Laws of the State of Delaware (including in respect of the statute of limitations or other limitations period applicable to any such claim, controversy or dispute), without giving effect to any choice or conflict of Law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the Laws of any jurisdiction other than the State of Delaware.
  - (c) *Counterparts.* This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument and shall become effective when one or more such counterparts has been signed by each of the Parties and delivered to the other Parties. Counterparts may be delivered via electronic mail (including portable document format (PDF) or any electronic signature complying with the U.S. federal ESIGN Act of 2000, e.g., [www.docusign.com](http://www.docusign.com)).
  - (d) *Titles and Subtitles.* The titles and subtitles used in this Agreement are for convenience only and are not to be considered in construing or interpreting this Agreement.
  - (e) *Notices.* Except as otherwise provided in this Agreement or required by Law, any notice, demand or other communication required or permitted to be given pursuant to this Agreement shall have been sufficiently given for all purposes if, upon the earlier of actual receipt, or:
    - (i) personal delivery to the Party to be notified;
    - (ii) when sent, if sent by electronic mail during normal business hours of the recipient, and if not sent during normal business hours, then on the recipient's next Business Day;
    - (iii) five days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or
    - (iv) one Business Day after deposit with a nationally recognized overnight courier, freight prepaid, specifying next Business Day delivery, with written verification of receipt.
- All communications shall be sent to the respective Parties at their address as set forth on the signature page or to such address as subsequently modified by written notice given in accordance with this Section.
- (f) *Amendments and Waivers.* Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance, and either retroactively or prospectively) only with the written consent of the Parties. No waivers of or exceptions to any term, condition, or provision of this Agreement, in any one or more instances, shall be deemed to be or construed as a further or continuing waiver of any such term, condition, or provision.
  - (g) *Further Assurances.* In case at any time after the date hereof any further action is necessary to carry out the purposes of this Agreement, each of the Parties will take such further action (including the execution and delivery of such further instruments and documents) as any other Party reasonably may request, all at the sole cost and expense of the requesting Party.
  - (h) *No Third-Party Beneficiaries.* This Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.
  - (i) *Publicity.* The Company shall treat and hold as confidential all of the terms and conditions of the transactions contemplated by this Agreement; provided, however, that the Company may disclose

such information to the Company's legal counsel, accountants, financial planners and/or other advisors on an as-needed basis so long as any such Person is bound by a confidentiality obligation with respect thereto. Canopy may disclose such information as necessary for Canopy to comply with applicable Law and the rules and regulations of any stock exchange upon which the Canopy Shares are traded. The Company shall not issue any press release, filing, public announcement or other public disclosure relating to the subject matter of this Agreement without the prior written approval of Canopy Sub and Canopy.

- (j) *Severability.* Any term or provision of this Agreement that is held invalid or unenforceable by a court of competent jurisdiction or other competent Governmental Body in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. Upon such a determination, the Parties shall negotiate in good faith to replace invalid or unenforceable provisions with valid provisions, the economic effect of which comes as close as possible to that of the invalid or unenforceable provisions.
- (k) *Entire Agreement.* This Agreement constitutes the full and entire understanding and agreement among the Parties with respect to the subject matter hereof, and any other written or oral agreement relating to the subject matter hereof existing among the Parties is expressly canceled.
- (l) *Injunctive Relief.* The Parties hereby agree that, in the event of breach of this Agreement (including the documents attached hereto or referred to herein), damages would be difficult, if not impossible, to ascertain, that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that, in addition to and without limiting any other remedy or right it may have, Canopy Sub and Canopy shall be entitled to an injunction or other equitable relief in any court of competent jurisdiction, without any necessity of proving damages or any requirement for the posting of a bond or other security, enjoining any such breach, and enforcing specifically the terms and provisions hereof. The Parties hereby waive any and all defenses they may have on the ground of lack of jurisdiction or competence of the court to grant such an injunction or other equitable relief.
- (m) *Costs and Expenses.* Except as otherwise expressly provided in this Agreement, each Party will bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.
- (n) *Construction.* The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any Law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. References in this Agreement to any gender include references to all genders, and references to the singular include references to the plural and vice versa. The words "include", "includes" and "including" when used in this Agreement shall be deemed to be followed by the phrase "without limitation" or "but not limited to". Unless the context otherwise requires, references in this Agreement to Sections, Schedules and Exhibits shall be deemed references to Sections of, and Schedules and Exhibits to, this Agreement. Unless the context otherwise requires, the words "hereof", "hereby" and "herein" and words of similar meaning when used in this Agreement refer to this Agreement in its entirety and not to any particular Article, Section or provision of this Agreement. When calculating the period of time before which, within which or following which any act is to be done or any step taken pursuant to this Agreement, the date that is the reference date in calculating such period shall not be calculated as the first day of such period of time. If the last day of such period is a non-Business Day, the



period in question shall end on the next succeeding Business Day. All monetary figures or references to "\$" in this Agreement shall be U.S. dollars unless otherwise specified.

- (o) *Waiver of Jury Trial.* EACH OF THE PARTIES WAIVES THEIR RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OR RELATED TO THIS AGREEMENT (INCLUDING THE DOCUMENTS ATTACHED HERETO OR REFERRED TO HEREIN), OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY OF THE PARTIES AGAINST ANY OTHER PARTY OR ANY CURRENT OR FUTURE AFFILIATE OF ANY OTHER SUCH PARTY, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS OR OTHERWISE. THE PARTIES AGREE THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR ANY PROVISION HEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT.
- (p) *Exclusive Venue.* THE PARTIES AGREE THAT ALL DISPUTES, LEGAL ACTIONS, SUITS AND PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT (INCLUDING THE DOCUMENTS ATTACHED HERETO OR REFERRED TO HEREIN), OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, MUST BE BROUGHT EXCLUSIVELY IN A FEDERAL DISTRICT COURT LOCATED IN THE DISTRICT OF DELAWARE OR THE DELAWARE CHANCERY COURT IN NEW CASTLE COUNTY, DELAWARE (COLLECTIVELY THE "DESIGNATED COURTS"). EACH PARTY HEREBY CONSENTS AND SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE DESIGNATED COURTS. NO LEGAL ACTION, SUIT OR PROCEEDING WITH RESPECT TO THIS AGREEMENT MAY BE BROUGHT IN ANY OTHER FORUM. EACH PARTY HEREBY IRREVOCABLY WAIVES ALL CLAIMS OF IMMUNITY FROM JURISDICTION AND ANY OBJECTION WHICH SUCH PARTY MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING IN ANY DESIGNATED COURT, INCLUDING ANY RIGHT TO OBJECT ON THE BASIS THAT ANY DISPUTE, ACTION, SUIT OR PROCEEDING BROUGHT IN THE DESIGNATED COURTS HAS BEEN BROUGHT IN AN IMPROPER OR INCONVENIENT FORUM OR VENUE. EACH OF THE PARTIES ALSO AGREES THAT DELIVERY OF ANY PROCESS, SUMMONS, NOTICE OR OTHER DOCUMENT TO A PARTY HEREOF IN COMPLIANCE WITH SECTION 4(e) OF THIS AGREEMENT SHALL BE EFFECTIVE SERVICE OF PROCESS FOR ANY ACTION, SUIT OR PROCEEDING IN A DESIGNATED COURT WITH RESPECT TO ANY MATTERS TO WHICH THE PARTIES HAVE SUBMITTED TO JURISDICTION AS SET FORTH ABOVE.
- (q) *Acknowledgement.* Each of the Parties acknowledges and agrees on its own behalf and on behalf of any of its Affiliates, that the transactions contemplated by this Agreement do not violate public policy and agrees to waive on such Party's own behalf and on behalf of any of such Party's Affiliates illegality as a defense to contractual claims arising out of this Agreement or in any other document, instrument, or agreement entered into in connection the transactions contemplated hereby or thereby.
- (r) *Control of the Business.* Notwithstanding anything in this Agreement to the contrary, Canopy Sub and Canopy shall not have, nor shall be deemed to have control, or the right to direct, the Company or its operations during the Interim Period.

- (s) *Delays or Omissions.* No delay or omission to exercise any right, power, or remedy accruing to any Party under this Agreement, upon any breach or default of any other Party under this Agreement, shall impair any such right, power, or remedy of such nonbreaching or nondefaulting Party, nor shall it be construed to be a waiver of or acquiescence to any such breach or default, or to any similar breach or default thereafter occurring, nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. All remedies, whether under this Agreement or by law or otherwise afforded to any Party, shall be cumulative and not alternative.

**[SIGNATURE PAGE FOLLOWS]**

**IN WITNESS WHEREOF** the Parties have executed this Agreement as of the date first written above.

**CANOPY USA, LLC**

Address:

By: /s/ David Klein 35715 US Hwy 40, Ste D102  
Name: David Klein Evergreen, CO  
Title: Manager 80439

Attention: Legal

Email: [contracts@canopycannabis.com](mailto:contracts@canopycannabis.com)

**11065220 CANADA INC.**

Address:

By: /s/ Donald Henderson 1 Hershey Drive  
Name: Donald Henderson Smiths Falls, Ontario  
Title: Authorized Signatory K7A 0A8

Attention: Christelle Gedeon

Email: [christelle.gedeon@canopygrowth.com](mailto:christelle.gedeon@canopygrowth.com)

**CANOPY GROWTH CORPORATION** Address:

By: /s/ Christelle Gedeon 1 Hershey Drive  
Name: Christelle Gedeon Smiths Falls, Ontario  
Title: Chief Legal Officer K7A 0A8

Attention: Christelle Gedeon

Email: [christelle.gedeon@canopygrowth.com](mailto:christelle.gedeon@canopygrowth.com)

**\*\*\* Certain information in this document has been excluded pursuant to Regulation S-K, item 601(b)(10). Such excluded information is not material and is information that the company treats as private or confidential. Such omitted information is indicated by brackets “[\*\*\*]” in this exhibit. \*\*\***

**EXECUTION VERSION**

**Exhibit 10.7**

**LIMITED LIABILITY COMPANY AGREEMENT**

Canopy USA, LLC

(A Delaware Limited Liability Company)

Effective as of September 1, 2022

THE LIMITED LIABILITY COMPANY INTERESTS REPRESENTED BY THIS LIMITED LIABILITY COMPANY AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE STATE SECURITIES LAWS OF ANY STATE. WITHOUT SUCH REGISTRATION, SUCH MEMBERSHIP INTERESTS MAY NOT BE SOLD, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED AT ANY TIME WHATSOEVER, EXCEPT UPON DELIVERY TO THE COMPANY OF AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED FOR SUCH TRANSFER AND/OR SUBMISSION TO THE COMPANY OF SUCH OTHER EVIDENCE AS MAY BE SATISFACTORY TO THE COMPANY TO THE EFFECT THAT ANY SUCH TRANSFER WILL NOT BE IN VIOLATION OF THE SECURITIES ACT OF 1933, AS AMENDED, AND/OR APPLICABLE STATE SECURITIES LAWS AND/OR ANY RULE OR REGULATION PROMULGATED THEREUNDER.

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## LIMITED LIABILITY COMPANY AGREEMENT

This Limited Liability Company Agreement of Canopy USA, LLC, a Delaware limited liability company (the “**Company**”), is entered into as of September 1, 2022 by and among the Company, the Member executing this Agreement as of the date hereof (collectively, the “**Initial Member**”), and each other Person who after the date hereof becomes a Member of the Company and becomes a party to this Agreement by executing a Joinder Agreement.

### RECITALS

1. WHEREAS, the Company has been formed as a limited liability company in accordance with the Delaware Act (defined below); and
2. WHEREAS, the Member (defined below) agrees that the membership in and management of the Company shall be governed by the terms set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

### ARTICLE I DEFINITIONS

**Section 1.01 Definitions.** Capitalized terms used herein and not otherwise defined shall have the meanings set forth in this Section 1.01:

“**Affected Manager**” has the meaning set forth in Section 7.12.

“**Affected Member**” has the meaning set forth in Section 4.14.

“**Affiliate**” means, with respect to any Person, any other Person who, directly or indirectly (including through one or more intermediaries), controls, is controlled by, or is under common control with, such Person. For purposes of this definition, “control,” when used with respect to any specified Person, shall mean the power, direct or indirect, to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities or partnership or other ownership interests, by contract or otherwise; *provided, however*, that a Person that, directly or indirectly, owns or controls 25% or more of any voting securities, partnership, or other interests that provide the ability to cause the direction of the management and policies of such Person shall be deemed to control such other Person; and the terms “controlling” and “controlled” shall have correlative meanings.

“**Agreement**” means this Limited Liability Company Agreement, as executed and as it may be amended, modified, supplemented, or restated from time to time, as provided herein.

“**Announcement**” has the meaning set forth in Section 12.02.

“**Applicable Law**” means all applicable provisions of (a) constitutions, treaties, statutes, laws (including the common law), rules, regulations, decrees, ordinances, codes, proclamations, declarations, or orders of any Governmental Authority; (b) any consents or approvals of any Governmental Authority; and (c) any orders, decisions, advisory, or interpretative opinions, injunctions, judgments, awards, decrees of, or agreements with, any Governmental Authority.

**“Board”** has the meaning set forth in Section 7.01.

**“Business Day”** means a day other than a Saturday, Sunday, or other day on which commercial banks in the City of New York are authorized or required to close.

**“Cannabis”** shall mean any of the following:

(i) any plant or seed, whether live or dead, from any species or subspecies of genus Cannabis, including Cannabis sativa, Cannabis indica and Cannabis ruderalis, Marijuana and any part, whether live or dead, of the plant or seed thereof, including any stalk, branch, root, leaf, flower, or trichome;

(ii) any material obtained, extracted, isolated, or purified from the plant or seed or the parts contemplated by clause (i) of this definition, including any oil, cannabinoid, terpene, genetic material or any combination thereof;

(iii) any organism engineered to biosynthetically produce the material contemplated by clause (ii) of this definition, including any micro-organism engineered for such purpose;

(iv) any biologically or chemically synthesized version of the material contemplated by clause (ii) of this definition or any analog thereof, including any product made by any organism contemplated by clause (iii) of this definition; and

(v) any other meaning ascribed to the term “cannabis” under United States or Canadian Cannabis Codes;

**“Cannabis Act”** means an act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and other Acts, S.C. 2018, c. 16, as amended from time to time.

**“Cannabis Code”** means any laws or regulations promulgated or enacted by state or local jurisdiction in which the Company or its Subsidiaries have operations pertaining to cannabis cultivation, dispensing, sale, storage, manufacturing, distribution, transporting, testing or other commercial cannabis activities within its respective jurisdiction including the Cannabis Act, Cannabis Regulations, the Controlled Drugs and Substances Act (Canada) and the Controlled Substances Act (United States), but excluding requirements in the organizational documents of any person.

**“Cannabis Regulations”** means Cannabis regulations under the Cannabis Act, as amended from time to time, and all other regulations made from time to time under any other applicable legislation in any applicable jurisdiction with respect to Cannabis Activities.

**“Cannabis Regulatory Body”** means all applicable state and local licensing authorities with authority under a Cannabis Code, as the case may be.

**“Canopy”** means Canopy Growth Corporation.

**“Canopy Sub”** means 11065220 Canada Inc.

**“Capital Contribution”** means, for any Member, the total amount of cash and cash equivalents and the value of any property contributed to the Company by such Member.

**“Certificate of Formation”** has the meaning set forth in the Recitals.

**“Change of Control”** means: (a) the sale of all or substantially all of the consolidated assets of the Company and the Company Subsidiaries; (b) a sale resulting in no less than a majority of the Voting Shares being held by a Person other than a Member who was a Member immediately prior to the sale; or (c) a merger, consolidation, recapitalization, or reorganization of the Company with or into a Person that results in the inability of the Members to designate or elect a majority of the Managers (or the board of directors (or its equivalent) of the resulting entity or its parent company).

**“Code”** means the Internal Revenue Code of 1986.

**“Company”** has the meaning set forth in the Preamble.

**“Company Subsidiary”** means a Subsidiary of the Company.

**“Confidential Information”** has the meaning set forth in Section 12.02.

**“Covered Person”** has the meaning set forth in Section 11.01(a).

**“Delaware Act”** means the Delaware Limited Liability Company Act, Title 6, Chapter 18, §§ 18-101, *et seq.*

**“Distribution”** means a distribution made by the Company to a Member, whether in cash, property, or securities of the Company and whether by liquidating distribution or otherwise; *provided*, that none of the following shall be a Distribution: (a) any redemption or repurchase by the Company or any Member of any Shares; (b) any recapitalization or exchange of securities of the Company; or (c) any subdivision (by a split of Shares or otherwise) or any combination (by a reverse split of Shares or otherwise) of any outstanding Shares. **“Distribute”** when used as a verb shall have a correlative meaning.

**“Distribution Ceiling”** means, as at any time that a Distribution is declared by the Board, the maximum amount of a Distribution such that following the Distribution the Company remains solvent (as determined by the Board).

**“Distribution Ceiling Pro Rata Amount”** means the maximum amount of a Distribution that any Share may receive pursuant to the Distribution Ceiling, assuming the conversion of the Exchangeable Shares pursuant to Section 3.04(d). For the avoidance of doubt, while no Distribution shall actually be paid to any Member holding Exchangeable Shares, the Board shall determine the Distribution Ceiling Pro Rata Amount as if any and all Exchangeable Shares issued and outstanding at the time of determination had been converted into Class A Shares.

**“Electronic Transmission”** means any form of communication not directly involving the physical transmission of paper, including the use of, or participation in, one or more electronic networks or databases (including one or more distributed electronic networks or databases), that creates a record that may be retained, retrieved, and reviewed by a recipient thereof and that may be directly reproduced in paper form by such a recipient through an automated process.

**Fair Market Value** means the fair market value of a Share as determined by an appraiser appointed by the Company in its sole discretion, assuming that the Company was offered for sale in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price per Share is not affected by undue stimulus at such time or any control or voting rights premium, all on the basis of the long-term value of the Company as opposed to being determined by short-term market conditions. Implicit in this definition is the

consummation of a sale as of the date the day prior to an automatic divestiture pursuant to Section 4.14 and the passing of title from the seller to the buyer whereby: (i) the buyer and seller are typically motivated; (ii) both parties are well informed or well advised and acting in what they consider their own best interests; (iii) a reasonable time is allowed for exposure in the open market; (iv) payment is made in cash; and (v) the price per Share represents the normal consideration for the Company, on a per Share basis, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale, but taking into account the assumption by the buyer of any financing to the extent that it may be assumed by the buyer.

**“GAAP”** means United States generally accepted accounting principles in effect from time to time.

**“Governmental Authority”** means any federal, state, local, or foreign government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations, or orders of such organization or authority have the force of law), or any arbitrator, court, or tribunal of competent jurisdiction.

**“Initial Member”** has the meaning set forth in the Preamble.

**“Joinder Agreement”** means the joinder agreement in form and substance attached hereto as Exhibit A.

**“Lien”** means any mortgage, pledge, security interest, option, right of first offer, encumbrance, or other restriction or limitation of any nature whatsoever.

**“Liquidator”** has the meaning set forth in Section 10.03(a).

**“Losses”** has the meaning set forth in Section 11.03(a).

**“Manager”** has the meaning set forth in Section 7.01.

**“Managers Schedule”** has the meaning set forth in Section 7.03(d).

**“Member”** means (a) each Initial Member; and (b) each Person who is hereafter admitted as a Member by holding Shares (i.e., a shareholder) in accordance with the terms of this Agreement and the Delaware Act, in each case so long as such Person is shown on the Company’s books and records as the owner of one or more Shares. The Members shall constitute the “members” (as that term is defined in the Delaware Act) of the Company.

**“Members Schedule”** has the meaning set forth in Section 3.01.

**“Membership Interest”** means an interest in the Company owned by a Member, including such Member’s right (based on the type, class, or series of Share or Shares held by such Member), as applicable, to (a) such Member’s Distributive share of the assets of the Company; (b) vote on, consent to, or otherwise participate in any decision of the Members as provided in this Agreement; and (c) any and all other benefits to which such Member may be entitled as provided in this Agreement or the Delaware Act.

**“Officers”** has the meaning set forth in Section 7.07.

**“Permitted Transfer”** has the meaning set forth in Section 10.01. **“Permitted Transferee”** means a recipient of a Permitted Transfer.

**“Person”** means an individual, corporation, partnership, joint venture, limited liability company, Governmental Authority, unincorporated organization, trust, association, or other entity.

**“Protection Agreement”** means that certain Protection Agreement to be entered into by and between the Company, Canopy Sub, and Canopy and to be attached hereto as Exhibit C upon execution.

**“Removal Event”** has the meaning set forth in Section 7.12.

**“Representative”** means, with respect to any Person, any and all directors, managers, officers, employees, consultants, financial advisors, counsel, accountants, and other agents of such Person.

**“Secretary of State”** has the meaning set forth in Section 2.01(a).

**“Securities Act”** means the Securities Act of 1933.

**“Share”** means a measure representing a fractional part of the Membership Interests of the Members and shall include all types, classes, and series of Shares, including the Class A Shares, the Class B Shares and the Exchangeable Shares; *provided*, that any type, class, or series of Shares shall have the privileges, preference, duties, liabilities, obligations, and rights set forth in this Agreement with respect to such type, class, or series of Shares and the Membership Interests represented by such type, class, or series of Share shall be determined in accordance with such privileges, preference, duties, liabilities, obligations, and rights.

**“Share Purchase Agreement”** means the Company’s standard form of Share Purchase Agreement, attached hereto as Exhibit B and the substantially similar final version entered into by the Company and any Person pursuant to which such Person acquires Shares in the Company.

**“State and/or Local Cannabis Regulations”** means any criminal, civil or administrative statute, regulation, ordinance, decree, court order or other proclamation having the force of law, enacted, adopted or issued by any state Government Authority or local Government Authority in the United States pertaining to the criminalization, decriminalization, regulation, or licensing of medical and/or recreational Cannabis sales, consumption, cultivation, distribution, or storage.

**“State and/or Local Cannabis License”** means any license required by a state or municipality in order to operate a Cannabis business or to own or lease property used by a Cannabis business within that state or municipality’s jurisdiction.

**“Subsidiary”** means, with respect to any Person, any other Person of which a majority of the outstanding shares or other equity interests having the power to vote for directors or comparable managers are owned, directly or indirectly, by the first Person.

**“Transfer”** means to, directly or indirectly, sell, transfer, assign, pledge, encumber, hypothecate, or similarly dispose of, either voluntarily or involuntarily, by operation of law or otherwise, or to enter into any contract, option, or other arrangement or understanding with respect to the sale, transfer, assignment, pledge, encumbrance, hypothecation, or similar disposition of, any Shares owned by a Person or any interest (including a beneficial interest) in any Shares owned by a Person. **“Transfer”** when used as a noun shall have a correlative meaning. **“Transferor”** and **“Transferee”** mean a Person who makes or receives a Transfer, respectively.

**“Underlying Company Subject Matter”** has the meaning set forth in Section 7.13.

“**Voting Members**” has the meaning set forth in Section 4.07(b).

“**Voting Shares**” has the meaning set forth in Section 4.07(a).

“**Wana Investor**” means, collectively, Nancy Whiteman and her Affiliates, and their respective Permitted Transferees.

“**WW**” means, collectively, Mountain High Products, LLC, Wana Wellness, LLC and The Cima Group, LLC.

**Section 1.02 Interpretation.** For purposes of this Agreement, (a) the words “include,” “includes,” and “including” shall be deemed to be followed by the words “without limitation”; (b) the word “or” is not exclusive; and (c) the words “herein,” “hereof,” “hereby,” “hereto,” and “hereunder” refer to this Agreement as a whole. The definitions given for any defined terms in this Agreement shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine, and gender-neutral forms. Unless the context otherwise requires, references herein: (i) to Articles, Sections, and Exhibits mean the Articles and Sections of, and Exhibits attached to, this Agreement; (ii) to an agreement, instrument, or other document means such agreement, instrument, or other document as amended, supplemented, and modified from time to time to the extent permitted by the provisions thereof; and (iii) to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted. The Exhibits referred to herein shall be construed with, and as an integral part of, this Agreement to the same extent as if they were set forth verbatim herein.

## **ARTICLE II ORGANIZATION**

### **Section 2.01 Formation.**

(a) The Company was formed on September 1, 2022, pursuant to the provisions of the Delaware Act, upon the filing of the Certificate of Formation with the Secretary of State of the State of Delaware (the “**Secretary of State**”).

(b) This Agreement shall constitute the “limited liability company agreement” (as that term is used in the Delaware Act) of the Company. The rights, powers, duties, obligations, and liabilities of the Members shall be determined pursuant to the Delaware Act and this Agreement. To the extent that the rights, powers, duties, obligations, and liabilities of any Member are different by reason of any provision of this Agreement than they would be under the Delaware Act in the absence of such provision, this Agreement shall, to the extent permitted by the Delaware Act, control.

**Section 2.02 Purpose.** The business of the Company will be to carry on any lawful business or activity, and to have and exercise all of the powers, rights and privileges which a limited liability company organized pursuant to the Delaware Act may have and exercise.

**Section 2.03 Name.** The name of the Company shall be Canopy USA, LLC.

**Section 2.04 Principal Place of Business.** The principal place of business of the Company will be established and maintained at 35715 Hwy 40, Ste D102, Evergreen, Colorado 80439, or at such other or additional place or places as the Board may determine from time to time.

**Section 2.05 Registered Office and Registered Agent.** The registered agent of the Company for the service of process and the registered office of the Company in the State of Delaware will be that person and location reflected in the Certificate. The Board may, from time to time, change the registered agent or office through appropriate filings with the Secretary of State. In the event the registered agent ceases to act for any reason or the registered office should change, the Board will promptly designate a replacement registered agent or file a notice of change of address, as the case may be, in the manner provided by law.

**Section 2.06 Term.** The term of the Company shall be perpetual unless the Company is dissolved and terminated in accordance with the provisions of ARTICLE X and the Delaware Act.

### **ARTICLE III SHARES**

**Section 3.01 Shares Generally.** The Membership Interests of the Members shall be represented by issued and outstanding Shares, which may be divided into one or more types, classes, or series. Each type, class, or series of Shares shall have the privileges, preference, duties, liabilities, obligations, and rights, including voting rights, if any, set forth in this Agreement with respect to such type, class, or series. The Board shall maintain a schedule of all Members, their respective mailing addresses, and the amount and type, class, or series of Shares held by them (the “**Members Schedule**”), and shall be updated by the Board from time to time upon the issuance or Transfer of any Shares to any new or existing Member in accordance with this Agreement. A copy of the Members Schedule as of the execution of this Agreement is attached hereto as Schedule A. So long as any pledge or hypothecation of any Exchangeable Shares is in effect, the Company shall not elect for the Exchangeable Shares to be considered securities governed by Article 8 of the Uniform Commercial Code (as in effect in any relevant jurisdiction) without the prior written consent of all pledgees of such Exchangeable Shares.

**Section 3.02 Authorization and Issuance of Class A Shares.** The Company is hereby authorized to issue an unlimited number of Shares designated as Class A Shares (“**Class A Shares**”).

(a) Voting Rights. The holders of Class A Shares shall be entitled to receive notice of and to attend all meetings of the Members of the Company and to one vote in respect of each Class A Share held at all such meetings.

(b) Distributions. The holders of Class A Shares shall be entitled to receive such distributions (if any) as the Board may in their discretion declare. The holders of Class A Shares and the holders of Class B Shares shall be entitled to share equally, Share for Share, in any distribution declared by the Board.

(c) Dissolution. In the event of the dissolution, liquidation or winding-up of the Company, whether voluntary or involuntary, or any other distribution of assets of the Corporation among its Members for the purpose of winding-up its affairs, the holders of Class A Shares and the holders of Class B Shares shall be entitled to share equally, Share for Share, in any distribution of the assets and property of the Corporation.

(d) Subdivision or Consolidation. No subdivision or consolidation of the Class A Shares may be carried out unless, at the same time, the Exchangeable Shares are subdivided or consolidated in a manner so as to preserve the relative rights of the holders of each class of securities.

**Section 3.03 Authorization and Issuance of Class B Shares.** The Company is hereby authorized to issue an unlimited number of Shares designated as Class B Shares (“**Class B Shares**”).

(a) Voting Rights. The holders of Class B Shares shall be entitled to receive notice of and to attend all meetings of the Members and to one vote in respect of each Class B Share held at all such meetings.

(b) Distributions. The holders of Class B Shares shall be entitled to receive such distributions (if any) as the Board may in their discretion declare. The holders of Class A Shares and the holders of Class B Shares shall be entitled to share equally, Share for Share, in any distribution declared by the Board.

(c) Dissolution. In the event of the dissolution, liquidation or winding-up of the Company, whether voluntary or involuntary, or any other distribution of assets of the Corporation among its Members for the purpose of winding-up its affairs, the holders of Class A Shares and the holders of Class B Shares shall be entitled to share equally, Share for Share, in any distribution of the assets and property of the Corporation.

(d) Automatic Conversion. [\*\*\*] (the “**Conversion Event**”). Upon the occurrence of the Conversion Event, the Corporation shall deliver notice in writing to each holder of Class B Shares accompanied by [\*\*\*] as the Corporation may determine. [\*\*\*].

(e) Authorized Capital. [\*\*\*].

**Section 3.04 Authorization and Issuance of Exchangeable Shares.** The Company is hereby authorized to issue an unlimited number of Shares designated as Exchangeable Shares (“**Exchangeable Shares**”).

(a) Voting Rights. The holders of Exchangeable Shares shall not be entitled to receive notice of, attend, or vote at meetings of the Members; provided that the holders of Exchangeable Shares shall, however, be entitled to receive notice of meetings the Members called for the purpose of authorizing the dissolution of the Company or the sale of its undertaking or assets, or a substantial part thereof, but holders of Exchangeable Shares shall not be entitled to vote at such meetings of the Members.

(b) Distributions. The holders of the Exchangeable Shares shall not be entitled to receive any distributions.

(c) Dissolution. In the event of the dissolution, liquidation or winding-up of the Company, whether voluntary or involuntary, or any other distribution of assets of the Company among its Members for the purpose of winding-up its affairs, the holders of the Exchangeable Shares shall not be entitled to receive any amount, property or assets of the Company.



(d) Exchange Right. Each issued and outstanding Exchangeable Share may at any time at the option of the holder, be exchanged for one Class A Share. The conversion right may be exercised at any time and from time to time by notice in writing delivered to the Company accompanied by the certificate or certificates representing the Exchangeable Shares or, if uncertificated, such other evidence of ownership as the Company may require, in respect of which the holder wishes to exercise the right of conversion. The notice must be signed by the registered holder of the Exchangeable Shares in respect of which the right of conversion is being exercised or by his, her or its duly authorized attorney and must specify the number of Exchangeable Shares which the holder wishes to have converted. Upon receipt of the conversion notice and share certificate(s) or other evidence of ownership satisfactory to the Corporation, the Company will issue a share certificate or other evidence of ownership representing Class A Shares on the basis set out above to the registered holder of the Exchangeable Shares. If fewer than all of the Exchangeable Shares represented by a certificate accompanying the notice are to be exchanged, the holder is entitled to receive a new certificate or, if uncertificated, such other evidence of ownership as the Corporation may determine, representing the shares comprised in the original certificate which are not to be converted. Exchangeable Shares converted into Class A Shares hereunder will automatically be cancelled.

(e) Subdivision or Consolidation. No subdivision or consolidation of the Exchangeable Shares may be carried out unless, at the same time, the Class A Shares are subdivided or consolidated in a manner so as to preserve the relative rights of the holders of each class of securities.

### **Section 3.05 Certification of Shares.**

(a) The Board in its sole discretion may, but shall not be required to, issue certificates to the Members representing the Shares held by such Members.

(b) In the event that the Board shall issue certificates representing Shares in accordance with Section 3.05(a), then in addition to any other legend required by Applicable Law, all certificates representing issued and outstanding Shares shall bear a legend substantially in the following form:

THE UNITS REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A LIMITED LIABILITY COMPANY AGREEMENT AMONG THE COMPANY AND ITS MEMBERS, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL EXECUTIVE OFFICE OF THE COMPANY. NO TRANSFER, SALE, ASSIGNMENT, PLEDGE, HYPOTHECATION, OR OTHER DISPOSITION OF THE SHARES REPRESENTED BY THIS CERTIFICATE MAY BE MADE EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF SUCH LIMITED LIABILITY COMPANY AGREEMENT.

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY OTHER APPLICABLE SECURITIES LAWS AND MAY NOT BE TRANSFERRED, SOLD, ASSIGNED, PLEDGED, HYPOTHECATED, OR OTHERWISE DISPOSED EXCEPT (A) PURSUANT TO A REGISTRATION STATEMENT EFFECTIVE UNDER SUCH ACT AND LAWS OR (B) PURSUANT TO AN EXEMPTION FROM REGISTRATION THEREUNDER.

## **ARTICLE IV MEMBERS**

### **Section 4.01 Admission of New Members.**

(a) New Members may be admitted from time to time in connection with (i) an issuance of Shares by the Company in accordance with the provisions of this Agreement, and (ii) a Transfer of Shares, subject to compliance with the provisions of ARTICLE VIII.

(b) In order for any Person not already a Member of the Company to be admitted as a Member, whether pursuant to an issuance or Transfer of Shares (including a Permitted Transfer), such Person shall have executed and delivered to the Company a written undertaking substantially in the form of the Joinder Agreement. Upon the amendment of the Members Schedule by the Board and the satisfaction of any other applicable conditions as may reasonably be deemed necessary or appropriate by the Board, including, if applicable, the receipt by the Company of payment for the issuance of the applicable Shares and the delivery of any certificate representing the Transferred Shares, duly endorsed to the Transferee to which the Transferred Shares are to be Transferred, such Person shall be admitted as a Member and deemed listed as such on the books and records of the Company and thereupon shall be issued his, her, their, or its Shares.

**Section 4.02 Representations and Warranties of Members.** By execution and delivery of this Agreement or a Joinder Agreement, as applicable, each of the Members, whether admitted as of the date hereof or pursuant to Section 4.01, represents and warrants to the Company and acknowledges that:

(a) The Shares have not been registered under the Securities Act or the securities laws of any other jurisdiction, are issued in reliance upon federal and state exemptions for transactions not involving a public offering, and cannot be disposed of unless (i) they are subsequently registered or exempted from registration under the Securities Act and (ii) the provisions of this Agreement have been complied with;

(b) Such Member (i) is an “accredited investor” within the meaning of Rule 501 promulgated under the Securities Act, and (ii) agrees to furnish any additional information requested by the Company to assure compliance with applicable U.S. federal and state securities laws in connection with the purchase and sale of the Shares;

(c) Such Member’s Shares are being acquired for such Member’s own account solely for investment and not with a view to resale or distribution thereof;

(d) Such Member has been advised to obtain independent counsel to advise such Member individually in connection with the drafting, preparation, negotiation, and/or review of this Agreement and, if applicable, the Joinder Agreement. Such Member has conducted such Member’s own independent review and analysis of the business, operations, assets, liabilities, results of operations, financial condition, and prospects of the Company and the Company Subsidiaries and such Member acknowledges having been provided adequate access to the personnel, properties, premises, and records of the Company and the Company Subsidiaries for such purpose;

(e) The determination of such Member to acquire Shares has been made by such Member independent of any other Member and independent of any statements or opinions as to the

advisability of such purchase or as to the business, operations, assets, liabilities, results of operations, financial condition, and prospects of the Company and the Company Subsidiaries that may have been made or given by any other Member or the Company or by any of their Affiliates or Representatives;

(f) Such Member has such knowledge and experience in financial and business matters and is capable of evaluating the merits and risks of an investment in the Company and making an informed decision with respect thereto;

(g) Such Member is able to bear the economic and financial risk of an investment in the Company for an indefinite period of time;

(h) The execution, delivery, and performance of this Agreement or the Joinder Agreement by such Member (i) if it is an entity, have been duly authorized by all requisite entity action on the part of such Member and do not require such Member to obtain any consent or approval that has not been duly obtained; and (ii) do not contravene in any material respect or result in a default under (A) any provision of any law or regulation applicable to such Member; (B) if such Member is an entity, its governing documents; or (C) any agreement or instrument to which such Member is a party or by which such Member is bound;

(i) This Agreement is valid, binding, and enforceable against such Member in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws of general applicability relating to or affecting creditors' rights or general equity principles (regardless of whether considered at law or in equity);

(j) The Member has reviewed the Protection Agreement and acknowledges and agrees to the restrictions of the Company set forth in the Protection Agreement; and

(k) Neither the Member, nor, to the knowledge of the Member, any member, stockholder, other equityholder, officer, director, manager, or agent of the Member, has been deemed, by an unappealable determination by a Governmental Authority or court of competent jurisdiction that was opining specifically on the topic of Cannabis businesses and/or any State and/or Local Cannabis License, to be unfit to have an ownership or economic interest in a Cannabis business if such unfitness could be adverse to the issuance or maintenance of any State and/or Local Cannabis Licenses.

None of the foregoing shall replace, diminish, or otherwise adversely affect any Member's representations and warranties made by such Member in any Share Purchase Agreement.

**Section 4.03 No Personal Liability.** Except as otherwise provided in the Delaware Act, by Applicable Law, or expressly in this Agreement, no Member will be obligated personally for any debt, obligation, or liability of the Company or of any Company Subsidiaries or other Members, whether arising in contract, tort, or otherwise, solely by reason of being a Member.

**Section 4.04 No Withdrawal.** Except as set forth in Section 4.14-4.16 below, so long as a Member continues to hold any Shares, such Member shall not have the ability to withdraw or resign as a Member prior to the dissolution and winding up of the Company and any such withdrawal or resignation or attempted withdrawal or resignation by a Member prior to the dissolution or winding up of the Company shall be null and void. As soon as any Person who is a Member ceases to hold any Shares, such Person shall no longer be a Member.

**Section 4.05 Death.** The death of any Member shall not cause the dissolution of the Company. In such event the Company and its business shall be continued by the remaining Member or Members and the Shares owned by the deceased Member shall automatically be Transferred to such Member's executors, administrators, testamentary trustees, legatees, distributees, or beneficiaries, as applicable, as Permitted Transferees; *provided*, that within a reasonable time after such Transfer, the applicable Permitted Transferees shall sign a written undertaking substantially in the form of the Joinder Agreement and take any other action required under Section 4.01(b) as a condition to their admission as a Member.

**Section 4.06 Voting.**

(a) Except as otherwise provided by this Agreement (including Section 4.01, Section 4.02, Section 4.03, Section 7.02, and Section 12.11) or as otherwise required by the Delaware Act or Applicable Law:

(i) each Member shall be entitled to one vote per Class A Share and one vote per Class B Share on all matters upon which the Members have the right to vote under this Agreement; and

(ii) the Exchangeable Shares shall not confer any voting rights.

**Section 4.07 Meetings.**

(a) As used herein, the term "**Voting Shares**" shall mean both Class A Shares and Class B Shares:

(b) Meetings of the Members may be called by (i) the Board or (ii) by a Member or group of Members holding more than 50% of the relevant Voting Shares. Only Members who hold the relevant Voting Shares ("**Voting Members**") shall have the right to attend meetings of the Members; *provided*, however, that Members holding Exchangeable Shares ("**Exchange Members**") shall have the right to attend meetings of the Members called for the purpose of authorizing the dissolution, liquidation or Change of Control of the Company (any such occurrence, a "**Major Event**").

(c) Written notice stating the place, date, and time of the meeting and, in the case of a meeting of the Members not regularly scheduled, describing the purposes for which the meeting is called, shall be delivered not fewer than ten (10) days and not more than thirty (30) days before the date of the meeting to each Voting Member, by or at the direction of the Board or the Member(s) calling the meeting, as the case may be. The Voting Members may hold meetings at the Company's principal office or at such other place as the Board or the Member(s) calling the meeting may designate in the notice for such meeting.

(d) Any Voting Member may participate in a meeting of the Voting Members by means of conference telephone or other communications equipment by means of which all Persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

(e) On any matter that is to be voted on by Voting Members, a Voting Member may vote in person or by proxy, and such proxy may be granted in writing, by means of Electronic Transmission, or as otherwise permitted by Applicable Law. Every proxy shall be revocable in the

discretion of the Voting Member executing it unless otherwise provided in such proxy; *provided*, that such right to revocation shall not invalidate or otherwise affect actions taken under such proxy prior to such revocation.

(f) The business to be conducted at such meeting need not be limited to the purpose described in the notice and can include business to be conducted by Voting Members; *provided*, that the appropriate Voting Members shall have been notified of the meeting in accordance with Section 4.07(c); and *provided, further*, that, notwithstanding anything herein to the contrary, such other business to be conducted shall not pertain to a Major Event. Attendance of a Member at any meeting shall constitute a waiver of notice of such meeting, except where a Member attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

**Section 4.08 Quorum; Required Vote.** A quorum of any meeting of the Voting Members shall require the presence in person or by proxy of Members holding a majority of the applicable Voting Shares held by all Members. Subject to Section 4.09, no action at any meeting may be taken by the Members unless the applicable quorum is present. Subject to Section 4.09, no action may be taken by the Members at any meeting at which a quorum is present without the affirmative vote of Members holding a majority of the applicable Voting Shares held by all Members.

**Section 4.09 Action Without Meeting.** Notwithstanding the provisions of Section 4.07 and Section 4.08, any matter that is to be voted on, consented to, or approved by Voting Members may be taken without a meeting, without prior notice, and without a vote if consented to, in writing or by Electronic Transmission, by a Member or Members holding not less than the minimum number of Shares that would be necessary to authorize or take such action at a meeting at which each Member entitled to vote on the action were present and voted; provided, however, that if such written consent pertains to a Major Event, such written consent shall be simultaneously provided to each Exchange Member. A record shall be maintained by the Board of each such action taken by written consent of a Member or Members. The Company shall, within three (3) Business Days following the taking of any such action without a meeting by less than unanimous written consent, provide notice, together with a copy of the action taken, to those Members who were entitled to vote on such matter but have not consented thereto in writing.

**Section 4.10 Power of Members.**

(a) The Members shall have the power to exercise any and all rights or powers granted to Members pursuant to the express terms of this Agreement and the Delaware Act. Except as otherwise specifically provided by this Agreement or required by the Delaware Act, no Member, in his, her, their, or its capacity as a Member, shall have the power to act for or on behalf of, or to bind, the Company.

(b) For so long as the Wana Investor retains the right to designate an individual to the Board pursuant to Section 7.02(b)(ii), and for so long as WW is a Company Subsidiary (and operates as a standalone company), the Company shall be required to obtain the consent of the Wana Investor prior to WW appointing any new chief executive officer or, in the event there is no chief executive officer, the highest ranking executive at WW, and the Company shall not permit WW to make any such appointment without the prior approval of the Wana Investor.

**Section 4.11 Other Activities of Members; Business Opportunities.** Each Member and such Member's Affiliates may, subject to performing any of their obligations set out in this Agreement or in any other agreement to which such Member or Affiliate is a party with the Company or any Company

Subsidiary, engage in any other activities, ventures, or businesses, regardless of whether those activities, ventures, or businesses are similar to or competitive with the business of the Company or any Company Subsidiary; *provided* that such Member or Affiliate does not engage in such activity, venture, or business as a result of or using Confidential Information. None of the Members or any of their Affiliates shall be obligated to account to the Company or to any other Member for any profits or income earned or derived from such other activities, ventures, or businesses. None of the Members or any of their Affiliates shall be obligated to inform the Company or the other Members of any investment or business opportunity of any type or description.

**Section 4.12 No Interest in Company Property.** No real or personal property of the Company shall be deemed to be owned by any Member individually, but shall be owned by, and title shall be vested solely in, the Company. Without limiting the foregoing, each Member hereby irrevocably waives during the term of the Company any right that such Member may have to maintain any action for partition with respect to the property of the Company.

**Section 4.13 Protection Agreement.** Each Member hereby agrees they shall not take any action or fail to take an action, and shall cause the Company not to take any action or fail to take an action, of which the result is a contravention or breach of any term of the Protection Agreement without the consent of Canopy Sub, Canopy or any of their permitted assigns, as applicable.

**Section 4.14 Automatic Divestiture of a Member.** If, during anytime while the Company or any Company Subsidiary holds a local or state license pursuant to a Cannabis Code, any of the following occur to a Member or to a member or shareholder of an entity that is a Member of the Company, subject to Section 4.15 below, all interests of that Member (the “**Affected Member**”) in the Company will automatically and immediately terminate, and the Affected Member will cease to be a Member:

(a) the Affected Member or any entity that it owns or controls incurs a revocation of any Cannabis business license, and it is determined by the Board that such revocation has a material adverse effect upon the issuance or continued good standing of any of the Company’s State and/or Local Cannabis Licenses;

(b) a Cannabis Regulatory Body or local licensing authority issues a recommendation or advises Company’s counsel that stating that the Affected Member is unfit to have an ownership or economic interest in a Cannabis business;

(c) a Cannabis Regulatory Body or local licensing authority issues a recommendation against the issuance to the Company of a State and/or Local Cannabis License or revokes a State and/or Local Cannabis License, which recommendation cites the participation of the Affected Member as a material factor in the decision, or a Cannabis Regulatory Body or local licensing authority conditions the issuance of a State and/or Local Cannabis License on the Company removing the Affected Member in the Company;

(d) a Cannabis Regulatory Body or local licensing authority advises the Company or any Subsidiary in writing, or it is otherwise determined by court order, that a decision on the Company’s or any Subsidiary’s State and/or Local Cannabis License is being delayed beyond one (1) year following the filing of the Company’s or any Subsidiary’s application for a State and/or Local Cannabis License, and the Company or any Subsidiary is advised before or after said date that the sole reason for such delay is the participation of or concerns about the Affected Member;

(e) the Affected Member demonstrates a repeated failure to attend meetings with a Cannabis Regulatory Body or any local licensing authority as may be required for the Company or any Subsidiary business to be conducted. As used herein, repeated failure to attend shall be demonstrated by failure to attend any meeting without good cause, or any two (2) meeting with any licensing authority;

(f) the Affected Member fails to provide information to the Cannabis Regulatory Body which is requested by or required by a Cannabis Regulatory Body; or

(g) if the Affected Member is a partnership or other business entity and not a natural person, a member of the Affected Member is disqualified from obtaining an ownership interest in a licensed Cannabis business by final written determination of a Cannabis Regulator Body, unless such member is divested from the Affected Member in a timely manner.

**Section 4.15 Right to Transfer In the Event of Automatic Divestiture of a Member.** In addition to the rights provided to an Affected Member in Section 4.16(a) below, prior to the automatic divestiture described above for a period of twenty-one (21) days after a Member becomes an Affected Member such Affected Member shall have the right to Transfer its Shares to an individual or entity that would not, upon such Transfer, be an Affected Member. Any such proposed Transfer that is not to a Permitted Transferee of the Affected Member shall be subject to the approval of the Board, acting in their sole discretion.

#### **Section 4.16 Settling of Accounts Following Automatic Divestiture of a Member.**

(a) The Company shall continue in existence notwithstanding the automatic termination of any Member pursuant to Section 4.14 above. Notwithstanding any provision of this Agreement to the contrary, if the Affected Member is a corporate entity and the occurrence of any of the events enumerated in Section 4.14 above is due to a member, shareholder or manager of the Affected Member, the Affected Member shall have an option to redeem its Shares within 90 days of such divestiture (assuming the Affected Member did not Transfer the Shares pursuant to Section 4.15) and shall be restored to its ownership position before the divestiture events occur if the Board, a court of law, or a Cannabis Regulatory Body provides a written assurance or order that Affected Member has removed the member, shareholder or manager that caused any of the events enumerated in Section 4.14 above, pursuant to the terms of the Affected Member's governing documents.

(b) Provided that there is no Transfer of the Affected Members Shares pursuant to Section 4.15 and the Affected Member's Shares are cancelled pursuant to Section 4.14, the Company shall be liable for the terminated ownership interest of the Affected Member as follows: the Company shall deliver a note (the "**Payoff Note**") to the Affected Member for 100% of the Fair Market Value of such Shares. The Payoff Note shall be payable over a three (3) year period and shall bear interest at a rate equal to the prime rate published in the Wall Street Journal on the date of payment plus two percent (2.0%) per annum or shall be discounted (using the same rate) to present value if an earlier payoff is required under the Cannabis Code. The terms of the Payoff Note shall include equal monthly payments and shall be reasonable and customary for a transaction of this type. The Company may sell the Affected Member's Shares, in accordance with the terms of this Agreement, to finance the Payoff Note or for any other lawful reason.

## **ARTICLE V CAPITAL CONTRIBUTIONS**

**Section 5.01 Capital Contributions.** Each Initial Member owning Shares has made the Capital Contribution set forth on the Members Schedule and is deemed to own the number and class of Shares, in each case in the amounts set forth opposite such Initial Member's name on the Members Schedule as in effect on the date hereof.

### **Section 5.02 Additional Capital Contributions.**

(a) No Member shall be required to make any additional Capital Contributions to the Company. Any future Capital Contributions made by any Member shall only be made with the approval of the Board, and in connection with an issuance of Shares made in compliance with this Agreement.

(b) No Member shall be required to lend any funds to the Company and no Member shall have any personal liability for the payment or repayment of any Capital Contribution by or to any other Member.

## **ARTICLE VI DISTRIBUTIONS**

**Section 6.01 General.** Subject to Section 6.02, Section 6.03, and Section 6.04, the Board shall have sole discretion regarding the amounts and timing of Distributions to Voting Members, including to decide to forego payment of Distributions in order to provide for the retention and establishment of reserves of, or payment to third parties of, such funds as it deems necessary with respect to the reasonable business needs of the Company (which needs may include the payment or the making of provision for the payment when due of the Company's obligations, including present and anticipated debts and obligations, capital needs and expenses and reasonable reserves for contingencies).

**Section 6.02 Priority of Distributions.** Subject to the priority of Distributions pursuant to Section 10.03(c), if applicable, all Distributions determined to be made by the Board shall be made to the Members pro rata in proportion to their holdings of Class A Shares and Class B Shares, treated as a single class. The Company shall not make any distributions to holders of Exchangeable Shares for those Exchangeable Shares. The Board may classify any Distributions as a "dividend" or a "return of capital".

### **Section 6.03 Distributions.**

(a) The Board is hereby authorized, in its sole discretion, to make Distributions to the Members in the form of cash or in the form of securities or other property held by the Company. In any such non-cash Distribution, the securities or other property so Distributed will be Distributed among the Members in the same proportion and priority as cash equal to the Fair Market Value of such securities or other property would be Distributed among the Members pursuant to Section 6.02.

(b) Any Distribution of securities shall be subject to such conditions and restrictions as the Board determines are required or advisable to ensure compliance with Applicable Law. In furtherance of the foregoing, the Board may require that the Members execute and deliver such documents as the Board may deem necessary or appropriate to ensure compliance with all



Applicable Laws that apply to such Distribution and any further transfer of the Distributed securities, and may appropriately legend the certificates that represent such securities to reflect any restriction on transfer with respect to such Applicable Law.

#### **Section 6.04 Limitation on Distributions.**

(a) Notwithstanding any provision to the contrary contained in this Agreement, the Company shall not make any Distribution if such Distribution would violate the Protection Agreement, § 18-607 of the Delaware Act or other Applicable Law.

(b) The Distributions for each Class A Share and Class B Share shall not be greater than the Distribution Ceiling Pro Rata Amount and the Board shall not make any Distributions to any Share that goes beyond the Distribution Ceiling Pro Rata Amount.

### **ARTICLE VII MANAGEMENT**

**Section 7.01 Establishment and Authority of the Board.** A board of managers of the Company (the “**Board**”) is hereby established and shall be comprised of natural Persons (each such Person, a “**Manager**”) who shall be appointed in accordance with the provisions of Section 7.02 and Section 7.03. The business and affairs of the Company shall be managed, operated, and controlled by or under the direction of the Board, and the Board shall have, and is hereby granted, the full and complete power, authority, and discretion for, on behalf of, and in the name of the Company, to take such actions as it may in its sole discretion deem necessary or advisable to carry out any and all of the objectives and purposes of the Company, to exercise any rights and powers granted to the Company under this Agreement, and to exercise all power and authority vested in managers under the Delaware Act, in each case subject only to the terms of this Agreement. From time to time a Manager may be referred to as a “director” and the Board may be referred to as a “board of directors”.

#### **Section 7.02 Board Composition.**

(a) The Company and the Voting Members shall take such actions as may be required to ensure that, at all times following the issuance of a Class A Share, the number of managers constituting the Board is between two (2) and four (4), as determined by the Board from time to time, and that at least a majority of the Managers are United State residents. Prior to the issuance of a Class A Share, the number of managers constituting the Board shall be one (1). The initial Manager shall be David Klein.

(b) Following the issuance of one or more Class A Shares, the Board shall be comprised (and the Company and the Members shall take all such necessary actions, including voting all of such Member’s Shares, so that the Board is comprised) as follows:

(i) Canopy Sub may designate two individuals to the Board;

(ii) until the later of (A) the twenty-four month anniversary of the date of the first issuance of any Class A Shares to the Wana Investor and (B) such time as the Wana Investor, directly or indirectly, owns less than 10% of the total issued and outstanding Class A Shares, the Wana Investor may designate one individual to the Board;

(iii) so long as VCo Ventures LLC, directly or indirectly, owns 4.4% of the total issued and outstanding Class A Shares at any such time, VCo Ventures LLC may designate one individual to the Board; and

(iv) subject to the terms and conditions of the Protection Agreement, any remaining Board seats shall be elected by a majority of the Voting Members.

### **Section 7.03 Removal; Resignation.**

(a) Subject to the terms and conditions of the Protection Agreement, the Members entitled to designate a Manager pursuant to Section 7.02 may remove such Manager at any time with or without cause, effective upon written notice to the other Members.

(b) Subject to the terms and conditions of the Protection Agreement, in the event that a vacancy is created on the Board at any time due to the death, disability, retirement, resignation, or removal of a Manager, the Voting Members that were initially entitled to designate such Manager pursuant to Section 7.02 shall have the exclusive right to designate an individual to fill such vacancy and the Company (so long as such Voting Member continues to be entitled to designate an individual to the Board pursuant to Section 7.02(b)) and each Member hereby agrees to take such actions as may be required to ensure the election or appointment of any such designee to fill such vacancy on the Board.

(c) A Manager may resign at any time from the Board by delivering such Manager's written resignation to the Board. Any such resignation shall be effective upon receipt thereof unless it is specified to be effective at some other time or upon the occurrence of some other event. The Board's acceptance of a resignation shall not be necessary to make it effective.

(d) The Board shall maintain a schedule of all Managers with their respective mailing addresses (the "**Managers Schedule**"), and shall update the Managers Schedule upon the appointment, removal, or replacement of any Manager in accordance with Section 7.02 or this Section 7.03.

(e) Notwithstanding the foregoing provisions of this Section 7.03 and Section 7.02 and subject to the terms and conditions of the Protection Agreement, the Company may, from time to time, grant the right to appoint one or more managers to the Board (subject to certain terms and conditions) ("**Nomination Rights**"), in which case the holders of the Class A Shares, as a class, shall not have the right to remove managers appointed pursuant to Nomination Rights or to appoint managers to vacant positions on the Board to the extent doing so would conflict with outstanding Nomination Rights. The Company shall also be entitled to grant the right to appoint one or more non-voting observers to the Board, whose access to Board proceedings and materials shall be limited to the extent the Company may determine is appropriate from time to time.

(f) Notwithstanding the foregoing, [\*\*\*].

(g) Subject to Section 7.13, a Manager who becomes an Affected Manager shall be automatically removed as a Manager.

### **Section 7.04 Meetings.**

(a) The Board shall meet at such time and at such place as the Board may designate. Meetings of the Board may be held either in person or by means of telephone or video conference or other communications device that permits all Managers participating in the meeting to hear each other, at the offices of the Company, or such other place (either within or outside the State of Delaware) as may be determined from time to time by the Board. Written notice of each regular meeting of the Board shall be given to each Manager at least forty-eight (48) hours prior to each such meeting. All Board meetings where a strategic decision of the Company will be made shall be held physically in the United States, or, if held by means of telephone or video conference, at least a majority of the Managers casting a vote at such meeting shall be physically present in the United States.

(b) Special meetings of the Board shall be held on the call of any two (2) Managers upon at least three (3) days' written notice (if the meeting is to be held in person) or one (1) day written notice (if the meeting is to be held by telephone communications or video conference) to the Managers, or upon such shorter notice as may be approved by all the Managers. Any Manager may waive such notice as to himself or herself.

(c) Attendance of a Manager at any meeting shall constitute a waiver of notice of such meeting, except where a Manager attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board need be specified in the notice or waiver of notice of such meeting.

#### **Section 7.05 Quorum; Manner of Acting.**

(a) A majority of the Managers serving on the Board present in person or by proxy shall constitute a quorum for the transaction of business of the Board. At all times when the Board is conducting business at a meeting of the Board, a quorum of the Board must be present at such meeting. If a quorum shall not be present at any meeting of the Board, then the Managers present at the meeting may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

(b) Any Manager may participate in a meeting of the Board by means of telephone or video conference or other communications device that permits all Managers participating in the meeting to hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting. A Manager may vote or be present at a meeting either in person or by proxy, and such proxy may be granted in writing, by means of Electronic Transmission, or as otherwise permitted by Applicable Law.

(c) Each Manager shall have one vote on all matters submitted to the Board or any committee thereof. Except as specifically provided otherwise in this Agreement, with respect to any matter before the Board, the affirmative act of a majority of the Managers in attendance at any meeting of the Board at which a quorum is present shall be the act of the Board, provided, however, that any senior management or executive compensation plan matters of the Company or any Company Subsidiary requiring approval of the Managers shall require the unanimous approval of the Managers.

**Section 7.06 Action By Written Consent.** Notwithstanding the provisions of Section 7.04 and Section 7.05, any action required or permitted to be taken by the Board may be taken without a meeting if

a consent in writing, setting forth the action to be taken, is signed unanimously by all the Managers. Any such consent shall have the same force and effect as a vote at a meeting of the Board where a quorum was present and may be stated as such in any document or instrument filed with the Secretary of State. A majority of the Managers shall be physically present in the United States when signing any such written consent.

**Section 7.07 Officers.** Subject to the terms and conditions of the Protection Agreement, the Board may appoint individuals as officers of the Company (the “**Officers**”) as it deems necessary or desirable to carry on the business of the Company and the Board may delegate to such Officers such power and authority as the Board deems advisable. No Officer need be a Member or Manager. Any individual may hold two or more offices of the Company. Each Officer shall hold office until such Officer’s successor is designated by the Board or until such Officer’s earlier death, resignation, or removal. Any Officer may resign at any time upon written notice to the Board. Any Officer may be removed by the Board (acting by majority vote of all Managers other than the Officer being considered for removal, if a Manager) with or without cause at any time. A vacancy in any office occurring because of death, resignation, removal, or otherwise, may, but need not, be filled by the Board.

**Section 7.08 Compensation and Reimbursement of Managers.** This Agreement does not, and is not intended to, confer upon any Manager any rights with respect to employment by the Company, and nothing herein shall be construed to have created any employment agreement with any Manager. Any Manager may be compensated for his, her, or their service as a Manager as determined by the Board. Each Manager shall be reimbursed for such Manager’s ordinary, necessary, and direct out-of-pocket expenses incurred in the performance of his, her, or their duties as a Manager.

**Section 7.09 Other Activities of Managers; Business Opportunities.** Nothing contained in this Agreement shall prevent any Manager from engaging in any other activities, ventures, or businesses, regardless of whether those activities, ventures, or businesses are similar to or competitive with the business of the Company or any Company Subsidiary; *provided* that such Manager does not engage in such activity, venture, or business as a result of or using Confidential Information. None of the Managers shall be obligated to account to the Company or to the Members for any profits or income earned or derived from such other activities, ventures, or businesses. None of the Managers shall be obligated to inform the Company or the Members of any business opportunity of any type or description.

**Section 7.10 No Personal Liability.** Except as otherwise provided in the Delaware Act, by Applicable Law, or expressly in this Agreement, no Manager will be obligated personally for any debt, obligation, or liability of the Company or the Company Subsidiaries, whether arising in contract, tort, or otherwise, solely by reason of being a Manager.

**Section 7.11 Protection Agreement.** No Manager shall take any action or fail to take an action, or shall cause the Company to take any action or fail to take an action, of which the result is a contravention or breach of any term of the Protection Agreement.

**Section 7.12 Automatic Removal of a Manager.** If, during anytime while the Company or any Company Subsidiary holds a local or state license pursuant to a Cannabis Code, any of the following occur to a Manager or to a member or shareholder of an entity that is a Manager of the Company, subject to Section 7.13 below, such Manager (the “**Affected Manager**”) shall be automatically and immediately removed from such position, and each Member agrees to take all necessary actions to remove the Affected Manager from such position, and the Affected Manager will cease to be a Manager (each, a “**Removal Event**”):

(a) the Affected Manager or any entity that it owns or controls incurs a revocation of any Cannabis business license, and it is determined by the Board that such revocation has a material adverse effect upon the issuance or continued good standing of any of the Company's State and/or Local Cannabis Licenses;

(b) a Cannabis Regulatory Body or local licensing authority issues a recommendation or advises Company's counsel that the Affected Manager is unfit to have a management interest or role in a Cannabis business;

(c) a Cannabis Regulatory Body or local licensing authority issues a recommendation against the issuance to the Company of a State and/or Local Cannabis License or revokes a State and/or Local Cannabis License, which recommendation cites the participation of the Affected Manager as a material factor in the decision, or a Cannabis Regulatory Body or local licensing authority conditions the issuance of a State and/or Local Cannabis License on the Company removing the Affected Manager as a Manager of the Company;

(d) a Cannabis Regulatory Body or local licensing authority advises the Company or any Subsidiary in writing, or it is otherwise determined by court order, that a decision on the Company's or any Subsidiary's State and/or Local Cannabis License is being delayed beyond one (1) year following the filing of the Company's or any Subsidiary's application for a State and/or Local Cannabis License, and the Company or any Subsidiary is advised before or after said date that the sole reason for such delay is the participation of or concerns about the Affected Manager;

(e) the Affected Manager demonstrates a repeated failure to attend meetings with a Cannabis Regulatory Body or any local licensing authority as may be required for the Company or any Subsidiary business to be conducted. As used herein, repeated failure to attend shall be demonstrated by failure to attend any meeting without good cause, or any two (2) meeting with any licensing authority;

(f) the Affected Manager fails to provide information to the Cannabis Regulatory Body which is requested by or required by a Cannabis Regulatory Body; or

(g) if the Affected Manager is a partnership or other business entity and not a natural person, a member of the Affected Manager is disqualified from obtaining an ownership interest in a licensed Cannabis business by final written determination of a Cannabis Regulatory Body, unless such member is divested from the Affected Manager in a timely manner.

**Section 7.13 Right to Withdraw or Recuse In the Event of Automatic Removal.** Prior to the automatic removal described above, if the Removal Event is the result of a specific Company transaction or other action (such as a license acquisition that requires the approval of a Cannabis Regulatory Body) or the Affected Manager's involvement with a specific and distinct part of the Company or a Company Subsidiary (such as operation of a subset of the Company's licenses) (in any case, "**Underlying Company Subject Matter**"), then, the Affected Manager may withdraw or recuse themselves from such Underlying Company Subject Matter if the recusal or withdrawal is permitted by the applicable Cannabis Regulatory Body and has the same effect on the Company as it relates to the Underlying Company Subject Matter as if the Affected Manager being removed as manager. Whether a Removal Event has occurred and, if so, whether the Affected Manager may withdraw or recuse themselves from the Underlying Company Subject Matter instead of being removed shall be determined by a majority of the Managers who are not Affected Managers; provided, that before such Managers permit a recusal or withdrawal, they must first receive

advice of Company's counsel that recusal or withdrawal will have the same effect on the Underlying Company Subject Matter as removal would. Such withdrawal or removal shall be set forth in a written resolution of the Board. In the event a Removal Event occurs but does not affect the Underlying Company Subject Matter (which shall be determined by the acceptance or approval by the relevant Cannabis Regulatory Body of either (i) the Affected Manager acting as a Manager or (ii) the Underlying Company Matter irrespective of the involvement of the Affected Manager), then the majority of the Managers who are not Affected Managers may waive the removal of the Affected Manager.

#### **Section 7.14 Conflicts of Interest.**

(a) If a Manager may have a conflict of interest with respect to any decision to be made by the Board, such Manager shall inform the Board of such conflict. Unless such conflict is waived by all of the disinterested members of the Board (excluding such Manager), such Manager shall recuse itself from discussions and voting on such matter before the Board.

(b) A Manager shall recuse itself from any matter that all of the disinterested members of the Board (excluding such Manager) reasonably determines in good faith would give rise to a conflict of interest under Delaware law on the part of such Manager.

### **ARTICLE VIII**

#### **Transfer**

#### **Section 8.01 General Restrictions on Transfer.**

(a) Each Member agrees that such Member will not, directly or indirectly, voluntarily or involuntarily Transfer (as hereinafter defined) any of its Shares unless consented to in writing by the Board, provided, however, that, (i) any Member may Transfer its Shares to another Member and (ii) a Member may transfer Exchangeable Shares to an Affiliate of such Member (each, a **"Permitted Transfer"**). Any Member making a Permitted Transfer must notify the Company in writing in advance of such Permitted Transfer.

(b) Any Transfer or attempted Transfer of any Shares in violation of this Agreement or the Protection Agreement shall be null and void, no such Transfer shall be recorded on the Company's books, and the purported Transferee in any such Transfer shall not be treated (and the purported Transferor shall continue to be treated) as the owner of such Shares for all purposes of this Agreement.

(c) Each Member acknowledges and agrees that they are subject to the Repurchase Right pursuant to Article 7 of the Share Purchase Agreement and the covenants and agreements related to the Repurchase Right contained in Article 7 of the Share Purchase Agreement.

(d) For the avoidance of doubt, any Transfer of Shares permitted by Section 8.01, and purporting to be a sale, transfer, assignment, or other disposal of the entire ownership interest represented by such Shares, inclusive of all the rights and benefits applicable to such Shares as described in the definition of the term "Shares" shall be deemed a sale, transfer, assignment, or other disposal of such Shares in its entirety as intended by the parties to such Transfer, and shall not be deemed a sale, transfer, assignment, or other disposal of any less than all of the rights and benefits described in the definition of the term "Shares".

**ARTICLE IX**  
**ACCOUNTING; REPORTING; TAX MATTERS**

**Section 9.01 Information to the Members.** No Member shall be entitled to, and the Company shall not be obligated to provide to any member, any financial statements, inspection right or Company budget to any Member.

**Section 9.02 Tax Returns.** At the expense of the Company, the Board (or any Officer that it may designate pursuant to Section 7.07) shall endeavor to cause the preparation and timely filing (including extensions) of all tax returns required to be filed by the Company pursuant to the Code as well as all other required tax returns in each jurisdiction in which the Company and the Company Subsidiaries own property or do business.

**Section 9.03 Tax Election.** The Members acknowledge that the Company shall elect to be taxed as a corporation. No Member nor the Company shall take any action to the contrary of such election.

**ARTICLE X**  
**DISSOLUTION AND LIQUIDATION**

**Section 10.01 Events of Dissolution.** The Company shall be dissolved and its affairs wound up only upon the occurrence of any of the following events:

- (a) the determination of the Board to dissolve the Company;
- (b) an election to dissolve the Company made by holders of 50% of the Voting Shares;
- (c) the sale, exchange, involuntary conversion, or other disposition or transfer of all or substantially all the assets of the Company; or
- (d) the entry of a decree of judicial dissolution under § 18-802 of the Delaware Act.

**Section 10.02 Effectiveness of Dissolution.** Dissolution of the Company shall be effective on the day on which the event described in Section 10.01 occurs, but the Company shall not terminate until the winding up of the Company has been completed, the assets of the Company have been Distributed as provided in Section 10.03, and the Certificate of Formation shall have been cancelled as provided in Section 10.04.

**Section 10.03 Liquidation.** If the Company is dissolved pursuant to Section 10.01, the Company shall be liquidated and its business and affairs wound up in accordance with the Delaware Act and the following provisions:

- (a) Liquidator. The Board, or, if the Board is unable to do so, a Person selected by holders of 50% of the Voting Shares, shall act as liquidator to wind up the Company (the “**Liquidator**”). The Liquidator shall have full power and authority to sell, assign, and encumber any or all of the Company’s assets and to wind up and liquidate the affairs of the Company in an orderly and business-like manner.
- (b) Accounting. As promptly as possible after dissolution and again after final liquidation, the Liquidator shall cause a proper accounting to be made by a recognized firm of

certified public accountants of the Company's assets, liabilities, and operations through the last day of the calendar month in which the dissolution occurs or the final liquidation is completed, as applicable.

(c) Distribution of Proceeds. The Liquidator shall liquidate the assets of the Company and Distribute the proceeds of such liquidation in the following order of priority, unless otherwise required by mandatory provisions of Applicable Law:

(i) *First*, to the payment of all of the Company's debts and liabilities to its creditors (including Members, if applicable) and the expenses of liquidation (including sales commissions incident to any sales of assets of the Company);

(ii) *Second*, to the establishment of and additions to reserves that are determined by the Liquidator to be reasonably necessary for any contingent or unforeseen liabilities or obligations of the Company; and

(iii) *Third*, to the Members in the same manner as Distributions are made under and pursuant to Section 6.02.

(d) Discretion of Liquidator. Notwithstanding Section 6.03 or the provisions of Section 10.03(c) that require the liquidation of the assets of the Company, but subject to the order of priorities set forth in Section 10.03(c), if upon dissolution of the Company the Liquidator determines that an immediate sale of part or all of the Company's assets would be impractical or could cause undue loss to the Members, the Liquidator may defer the liquidation of any assets except those necessary to satisfy Company liabilities and reserves, and may, in its absolute discretion, Distribute to the Members, in lieu of cash, as tenants in common and in accordance with the provisions of Section 10.03(c), undivided interests in such Company assets as the Liquidator deems not suitable for liquidation. Any such Distribution in kind shall be subject to such conditions relating to the disposition and management of such properties as the Liquidator, acting in good faith, deems reasonable and equitable and to any agreements governing the operating of such properties at such time. For purposes of any such Distribution, any property to be Distributed shall be valued at its Fair Market Value, as determined by the Liquidator in good faith.

**Section 10.04 Cancellation of Certificate.** Upon completion of the Distribution of the assets of the Company as provided in Section 10.03(c) hereof, the Company shall be terminated and the Liquidator shall cause the cancellation of the Certificate of Formation in the State of Delaware and of all qualifications and registrations of the Company as a foreign limited liability company in jurisdictions other than the State of Delaware and shall take such other actions as may be necessary to terminate the Company.

**Section 10.05 Survival of Rights, Duties, and Obligations.** Dissolution, liquidation, winding up, or termination of the Company for any reason shall not release any party from any Loss which at the time of such dissolution, liquidation, winding up, or termination already had accrued to any other party or which thereafter may accrue in respect of any act or omission prior to such dissolution, liquidation, winding up, or termination. For the avoidance of doubt, none of the foregoing shall replace, diminish, or otherwise adversely affect any Member's right to indemnification pursuant to Section 11.03.

**Section 10.06 Recourse for Claims.** Each Member shall look solely to the assets of the Company for all Distributions with respect to the Company and shall have no recourse therefor (upon dissolution or otherwise) against any Manager, the Liquidator, or any other Member.



## ARTICLE XI EXCULPATION AND INDEMNIFICATION

### Section 11.01 Exculpation of Covered Persons.

(a) Covered Persons. As used herein, the term “**Covered Person**” shall mean each (i) Member; (ii) officer, director, shareholder, partner, member, Affiliate, employee, agent, or representative of a Member, and each of their controlling Affiliates; and (iii) each Manager, Officer, Board observer, employee, agent, or representative of the Company.

(b) Standard of Care. No Covered Person shall be liable to the Company or any other Covered Person for any loss, damage, or claim incurred by reason of any action taken or omitted to be taken by such Covered Person in his, her, their, or its capacity as a Covered Person, whether or not such Person continues to be a Covered Person at the time such loss, damage, or claim is incurred or imposed, so long as such action or omission does not constitute fraud, gross negligence, willful misconduct, or a material breach by such Covered Person of any of such Covered Person’s or such Covered Person’s Affiliates’ agreements contained herein or in any other agreements with the Company or any Company Subsidiary.

(c) Good Faith Reliance. A Covered Person shall be fully protected in relying in good faith upon the records of the Company or any Company Subsidiary and upon such information, opinions, reports, or statements (including financial statements and information, opinions, reports, or statements as to the value or amount of the assets, liabilities of the Company or any Company Subsidiary, or any facts pertinent to the existence and amount of assets from which Distributions might properly be paid) of the following Persons or groups: (i) a Manager; (ii) one or more Officers or employees of the Company or any Company Subsidiary; (iii) any attorney, independent accountant, appraiser, or other expert or professional employed or engaged by or on behalf of the Company or any Company Subsidiary; or (iv) any other Person selected in good faith by or on behalf of the Company or any Company Subsidiary, in each case as to matters that such relying Person reasonably believes to be within such other Person’s professional or expert competence. The preceding sentence shall in no way limit any Person’s right to rely on information to the extent provided in § 18-406 of the Delaware Act.

### Section 11.02 Liabilities and Duties of Covered Persons.

(a) Limitation of Liability. This Agreement is not intended to, and does not, create or impose any fiduciary duty on any Covered Person. Furthermore, each of the Members and the Company hereby waives any and all fiduciary duties that, absent such waiver, may be implied by Applicable Law, and in doing so, acknowledges and agrees that the duties and obligations of each Covered Person to each other and to the Company are only as expressly set forth in this Agreement. The provisions of this Agreement, to the extent that they restrict the duties and liabilities of a Covered Person otherwise existing at law or in equity, are agreed by the Members to replace such other duties and liabilities of such Covered Person.

(b) Duties. Whenever in this Agreement a Covered Person is permitted or required to make a decision (including a decision that is in such Covered Person’s “discretion” or under a grant of similar authority or latitude), the Covered Person shall be entitled to consider only such interests and factors as such Covered Person desires, including such Covered Person’s own interests (or, in the case of a Manager, the interests of the Member that appointed such Manager or such Member’s

Affiliates), and shall have no duty or obligation to give any consideration to any interest of or factors affecting the Company or any other Person. Whenever in this Agreement a Covered Person is permitted or required to make a decision in such Covered Person's "good faith," the Covered Person shall act under such express standard and shall not be subject to any other or different standard imposed by this Agreement or any other Applicable Law.

### **Section 11.03 Indemnification.**

(a) To the fullest extent permitted by the Delaware Act, as the same now exists or may hereafter be amended, substituted, or replaced (but, in the case of any such amendment, substitution, or replacement only to the extent that such amendment, substitution, or replacement permits the Company to provide broader indemnification rights than the Delaware Act permitted the Company to provide prior to such amendment, substitution, or replacement), the Company shall indemnify, hold harmless, defend, pay, and reimburse any Covered Person from and against any and all losses, claims, damages, judgments, fines, or liabilities, including reasonable legal fees or other expenses incurred in investigating or defending against such losses, claims, damages, judgments, fines, or liabilities, and any amounts expended in settlement of any claims (collectively, "**Losses**") to which such Covered Person may become subject by reason of:

(i) any act or omission or alleged act or omission performed or omitted to be performed on behalf of the Company in connection with the business of the Company; or

(ii) the fact that such Covered Person is or was acting in connection with the business of the Company as a manager, officer, employee, or agent of the Company or that such Covered Person is or was serving at the request of the Company as a manager, director, officer, employee, or agent of any other Person, including any Company Subsidiary;

*provided*, that (x) such Covered Person acted in good faith and in a manner believed by such Covered Person to be in, or not opposed to, the best interests of the Company, and, with respect to any criminal proceeding, had no reasonable cause to believe his, her, their, or its conduct was unlawful, and (y) such Covered Person's conduct did not constitute fraud, gross negligence, willful misconduct, or a material breach by such Covered Person of any of such Covered Person's or such Covered Person's Affiliates' agreements contained herein or in any other agreements with the Company or any Company Subsidiary, in each case as determined by a final, non-appealable order of a court of competent jurisdiction. In connection with the foregoing, the termination of any action, suit, or proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that the Covered Person did not act in good faith or, with respect to any criminal proceeding, had reasonable cause to believe that such Covered Person's conduct was unlawful, or that the Covered Person's conduct constituted fraud, gross negligence, willful misconduct, or a material breach by such Covered Person of any of such Covered Person's or such Covered Person's Affiliates' agreements contained herein or in any other agreements with the Company or any Company Subsidiary.

(b) Entitlement to Indemnity. The indemnification provided by this Section 11.03 shall not be deemed exclusive of any other rights to indemnification to which those seeking indemnification may be entitled under any agreement or otherwise. The provisions of this Section 11.03 shall continue to afford protection to each Covered Person regardless of whether such Covered Person remains in the position or capacity pursuant to which such Covered Person became

entitled to indemnification under this Section 11.03 and shall inure to the benefit of the executors, administrators, legatees, and distributees of such Covered Person.

(c) Insurance. To the extent available on commercially reasonable terms, the Company may purchase and thereafter maintain, at its expense, insurance to cover Losses covered by the foregoing indemnification provisions and to otherwise cover Losses for any breach or alleged breach by any Covered Person of such Covered Person's duties in such amount and with such deductibles as the Board may determine; *provided*, that the failure to obtain such insurance shall not affect the right to indemnification of any Covered Person under the indemnification provisions contained herein, including the right to be reimbursed or advanced expenses or otherwise indemnified for Losses hereunder. If any Covered Person recovers any amounts in respect of any Losses from any insurance coverage, then such Covered Person shall, to the extent that such recovery is duplicative, reimburse the Company or any Company Subsidiary for any amounts previously paid to such Covered Person by the Company or any Company Subsidiary in respect of such Losses.

(d) Funding of Indemnification Obligation. Notwithstanding anything contained herein to the contrary, any indemnity by the Company relating to the matters covered in this Section 11.03 shall be provided out of and to the extent of Company assets only, and no Member (unless such Member otherwise agrees in writing) shall have personal liability on account thereof or shall be required to make additional Capital Contributions to help satisfy such indemnity by the Company.

(e) Savings Clause. If this Section 11.03 or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Company shall nevertheless indemnify and hold harmless each Covered Person pursuant to this Section 11.03 to the fullest extent permitted by any applicable portion of this Section 11.03 that shall not have been invalidated and to the fullest extent permitted by Applicable Law.

(f) Amendment. The provisions of this Section 11.03 shall be a contract between the Company, on the one hand, and each Covered Person who served in such capacity at any time while this Section 11.03 is in effect, on the other hand, pursuant to which the Company and each such Covered Person intend to be legally bound. No amendment, modification, or repeal of this Section 11.03 that adversely affects the rights of a Covered Person to indemnification for Losses incurred or relating to a state of facts existing prior to such amendment, modification, or repeal shall apply in such a way as to eliminate or reduce such Covered Person's entitlement to indemnification for such Losses without the Covered Person's prior written consent.

**Section 11.04 Survival.** The provisions of this ARTICLE XI shall survive the dissolution, liquidation, winding up, and termination of the Company.

## **ARTICLE XII MISCELLANEOUS**

**Section 12.01 Protection Agreement.** Any action taken by the Company, a Member, the Board, any sole Manager or any officer of the Company that is either not permitted by or would constitute a breach of the Protection Agreement shall be considered null and void, and the Company and all Members agree that (1) the Company has no authority (pursuant to Section 7.01 hereof or otherwise) to take any such action and (2) notwithstanding anything to the contrary in this Agreement, this Section and Section 4.13 shall be for the benefit of and enforceable by Canopy Sub, Canopy or their permitted assigns, as applicable, which

shall be entitled to seek any relief or remedy (including specific performance) permissible under applicable law in connection therewith. The Company and each Member acknowledge and agree that the Protection Agreement shall remain in full force and effect upon a Transfer of Exchangeable Shares and each holder of Exchangeable Shares now or in the future shall be entitled to the benefits and protections set forth in the Protection Agreement.

**Section 12.02 Confidentiality.** Each Member shall, and shall cause each of such Member's Affiliates to, maintain, at all times (including after any time that such Member ceases to be a Member), the confidentiality of all information furnished to such Member pertaining to the Company or the Company Subsidiaries ("**Confidential Information**"), other than information that such Member can demonstrate (a) is or becomes generally available to the public other than as a result of a disclosure by such Member or such Member's Affiliate; (b) becomes available to such Member or any of such Member's Representatives on a non-confidential basis from a third party who is not known by such Member to be prohibited by any obligation of confidentiality owed to the Company or any Company Subsidiary from transmitting the information to such Member; or (c) was already in the possession of such Member prior to his, her, their, or its becoming a Member; *provided, however*, that the prohibitions set forth in this Section 12.02 shall not prohibit disclosure of Confidential Information (i) to Representatives of such Member or such Member's Affiliates who, in the reasonable judgment of such Member, have a need to know such information and shall be subject to a confidentiality obligation at least as protective as set forth herein; (ii) to any investor in the equity or assets of the Initial Member or its Affiliates as part of disclosures to such investor in the ordinary course of the Initial Member's or its Affiliate's business; (iii) to any bona fide prospective Transferee of such Member that shall have agreed to be bound by the provisions of this Section 12.02 as if a Member; (iv) to the extent necessary in the course of performing such Member's obligations or enforcing any remedy under this Agreement or the agreements expressly contemplated hereby; or (v) as is required to be disclosed by a court of competent jurisdiction, administrative body, or governmental body or by subpoena, summons, or legal process, or by Applicable Law; *provided* that, to the extent permitted by Applicable Law, the Member required to make such disclosure shall provide to the Board prompt notice of such disclosure. The Company and each Member acknowledges and agrees that a public announcement and/or other disclosure of the Company, its ownership, and its business dealings (each an "**Announcement**") may become necessary from time to time under applicable law or for other valid business reasons. Should the Company (or any Member) determine that an Announcement is required, it will provide notice to any Covered Person mentioned or referenced in such Announcement as soon as reasonably possible, and will not release such Announcement until the form and content of the Announcement is approved by the Covered Person, acting reasonably.

**Section 12.03 Expenses.** Except as otherwise expressly provided herein, all costs and expenses, including fees and disbursements of counsel, financial advisors, and accountants, incurred in connection with the preparation and execution of this Agreement, or any amendment or waiver hereof, and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses.

**Section 12.04 Further Assurances.** Each Member shall execute all such certificates and other documents and do all such filing, recording, publishing, and other acts as the Board deems necessary or appropriate to comply with the requirements of the Delaware Act or Applicable Law relating to the formation and operation of the Company and the acquisition, operation, or holding of its property.

**Section 12.05 Notices.** All notices, requests, consents, claims, demands, waivers, and other communications hereunder shall be in writing and shall be deemed to have been given: (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by facsimile or email of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on

the next Business Day if sent after normal business hours of the recipient; or (d) on the third day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 12.05):

If to the Company:

35715 US HWY 40, STE D-102  
Evergreen CO 80439  
Attention: David Klein, Manager  
Email: [contracts@canopycannabis.com](mailto:contracts@canopycannabis.com)

If to a Member, to such Member's respective mailing address or email address, as set forth on the Members Schedule.

**Section 12.06 Headings.** The headings in this Agreement are inserted for convenience or reference only and are in no way intended to describe, interpret, define, or limit the scope, extent, or intent of this Agreement or any provision of this Agreement.

**Section 12.07 Severability.** If any term or provision of this Agreement is held to be invalid, illegal, or unenforceable under Applicable Law in any jurisdiction, such invalidity, illegality, or unenforceability shall not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Except as provided in Section 11.03(e), upon such determination that any term or other provision is invalid, illegal, or unenforceable, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

**Section 12.08 Entire Agreement.** This Agreement, together with the Certificate of Formation, the Share Purchase Agreements, the Protection Agreement, and all related Exhibits and Schedules, constitutes the sole and entire agreement of the parties to this Agreement with respect to the subject matter contained herein and therein, and supersedes all prior and contemporaneous understandings, agreements, representations, and warranties, both written and oral, with respect to such subject matter.

**Section 12.09 Successors and Assigns.** Subject to the restrictions on Transfers set forth herein, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors, and permitted assigns. This Agreement may not be assigned by any Member except as permitted by this Agreement and any assignment in violation of this Agreement shall be null and void.

**Section 12.10 No Third-Party Beneficiaries.** Except as provided in ARTICLE XI, which shall be for the benefit of and enforceable by Covered Persons as described therein and as provided in Sections 4.14 and 12.01, which shall be for the benefit of and enforceable by Canopy Sub, Canopy or their permitted assigns, as applicable, this Agreement is for the sole benefit of the parties hereto (and their respective heirs, executors, administrators, successors, and permitted assigns) and nothing herein, express or implied, is intended to or shall confer upon any other Person, including any creditor of the Company, any legal or equitable right, benefit, or remedy of any nature whatsoever under or by reason of this Agreement.

**Section 12.11 Amendment.** Subject to the terms and conditions of the Protection Agreement, no provision of this Agreement may be amended or modified except by an instrument in writing executed by the Company and Members holding a majority of the Voting Shares. Any such written amendment or

modification will be binding upon the Company and each Member; *provided*, that (i) an amendment or modification modifying the rights or obligations of (x) any Member in a manner that is disproportionately adverse to such Member relative to the rights of other Members in respect of Shares of the same class or series, or (y) a class or series of Shares in a manner that is disproportionately adverse to such class or series relative to the rights of another class or series of Shares, shall in each case be effective only with that Member's consent or the consent of the Members holding a majority of the Shares in that disproportionately affected class or series, as applicable and (ii) any amendment or modification of this Section 12.11 shall require the approval of all Voting Members. Notwithstanding the foregoing, the Board may, without the consent of or execution by the Members, (i) amend or modify the Members Schedule, in either case to reflect any new authorization, issuance, redemption, repurchase, or Transfer of Shares in accordance with this Agreement and (ii) upon execution of the Protection Agreement, insert the Protection Agreement as Exhibit C hereto.

**Section 12.12 Waiver.** No waiver by any party of any of the provisions hereof shall be effective unless explicitly set forth in writing and signed by the party so waiving. No waiver by any party shall operate or be construed as a waiver in respect of any failure, breach, or default not expressly identified by such written waiver, whether of a similar or different character, and whether occurring before or after that waiver. No failure to exercise, or delay in exercising, any right, remedy, power, or privilege arising from this Agreement shall operate or be construed as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power, or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power, or privilege. For the avoidance of doubt, nothing contained in this Section 12.12 shall diminish any of the explicit and implicit waivers described in this Agreement, including in Section 4.07(f), Section 7.04(c), and Section 12.15 hereof.

**Section 12.13 Governing Law.** All issues and questions concerning the application, construction, validity, interpretation, and enforcement of this Agreement shall be governed by and construed in accordance with the internal laws of the State of Delaware, without giving effect to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of laws of any jurisdiction other than those of the State of Delaware.

**Section 12.14 Submission to Jurisdiction.** The parties hereby agree that any suit, action, or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the transactions contemplated hereby, whether in contract, tort, or otherwise, shall be brought in the United States District Court for the District of Delaware or in the Court of Chancery of the State of Delaware (or, if such court lacks subject matter jurisdiction, in the Superior Court of the State of Delaware), so long as one of such courts shall have subject matter jurisdiction over such suit, action, or proceeding, and that any cause of action arising out of this Agreement shall be deemed to have arisen from a transaction of business in the State of Delaware. Each of the parties hereby irrevocably consents to the jurisdiction of such courts (and of the appropriate appellate courts therefrom) in any such suit, action, or proceeding and irrevocably waives, to the fullest extent permitted by law, any objection that it may now or hereafter have to the laying of the venue of any such suit, action, or proceeding in any such court or that any such suit, action, or proceeding which is brought in any such court has been brought in an inconvenient form. Service of process, summons, notice, or other document by registered mail to the address set forth in Section 12.05 shall be effective service of process for any suit, action, or other proceeding brought in any such court.

**Section 12.15 Waiver of Jury Trial.** Each party hereto hereby acknowledges and agrees that any controversy which may arise under this Agreement is likely to involve complicated and difficult issues and, therefore, each such party irrevocably and unconditionally waives any right such party may have to a trial

by jury in respect of any legal action arising out of or relating to this Agreement or the transactions contemplated hereby.

**Section 12.16 Equitable Remedies.** Each party hereto acknowledges that a breach or threatened breach by such party of any of such party's obligations under this Agreement would give rise to irreparable harm to the other parties, for which monetary damages would not be an adequate remedy, and hereby agrees that in the event of a breach or a threatened breach by such party of any such obligations, each of the other parties hereto shall, in addition to any and all other rights and remedies that may be available to them in respect of such breach, be entitled to equitable relief, including a temporary restraining order, an injunction, specific performance, and any other relief that may be available from a court of competent jurisdiction (without any requirement to post bond).

**Section 12.17 Remedies Cumulative.** The rights and remedies under this Agreement are cumulative and are in addition to and not in substitution for any other rights and remedies available at law or in equity or otherwise, except to the extent expressly provided in Section 11.02 to the contrary.

**Section 12.18 Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Agreement delivered by facsimile, email, or other means of Electronic Transmission (including via DocuSign or similar electronic signature) shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

**Section 12.19 Independent Counsel.** Each Member has read this Agreement and acknowledges that:

(a) counsel for the Company (being Dentons US LLP) and counsel for the Initial Member (being Cassels Brock & Blackwell LLP) prepared this Agreement on behalf of the Company and the Initial Member;

(b) such Member has been advised that a conflict may exist between such Member's interests, the interests of the other Members, and/or the interests of the Company;

(c) this Agreement may have significant legal, financial, and/or tax consequences to such Member;

(d) none of the Company or its Affiliates or Representatives (including counsel) makes or has made any representations to such Member regarding such consequences; and

(e) such Member has been advised to seek, and has had the full opportunity to seek, the advice of independent counsel and tax or other advisors regarding such consequences.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

**The Company:**

Canopy USA, LLC

By: /s/ David Klein

Name: David Klein

Title: Authorized Signatory

**The Member:**

EB Transaction Corp.

By: /s/ Jeridean Young

Name: Jeridean Young

Title: Authorized Signatory



**EXHIBIT A**  
**FORM OF JOINDER AGREEMENT**

See Attached

## JOINDER AGREEMENT

Reference is hereby made to the Limited Liability Company Agreement, dated September 1, 2022, as amended from time to time (the "**LLC Agreement**"), between EB Transaction Corp., a Delaware, a company organized under the laws of Delaware, Canopy USA, LLC, a company organized under the laws of Delaware (the "**Company**"), and each other Person who after the date hereof becomes a Member of the Company and becomes a party to the LLC Agreement by executing a Joinder Agreement. Pursuant to and in accordance with Section 4.01(b) of the LLC Agreement, the undersigned hereby acknowledges that it has received and reviewed a complete copy of the LLC Agreement and agrees that upon execution of this Joinder, such Person shall become a party to the LLC Agreement and shall be fully bound by, and subject to, all of the covenants, terms, and conditions of the LLC Agreement as though an original party thereto and shall be deemed, and is hereby admitted as, a Member for all purposes thereof and entitled to all the rights incidental thereto. The undersigned hereby further acknowledges that it has received and reviewed a complete copy of the Protection Agreement and agrees that upon execution of this Joinder, such Person shall be subject to, all of the covenants, terms, and conditions of the Protection Agreement.

Capitalized terms used herein without definition shall have the meanings ascribed thereto in the LLC Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of \_\_\_\_\_, 2022.

[New Member]

By \_\_\_\_\_

Name:

Title:

Accepted and Agreed to:

Canopy USA, LLC

By \_\_\_\_\_

Name:

Title:

**EXHIBIT B**  
**FORM OF SHARE PURCHASE AGREEMENT**

See Attached

**EXHIBIT C**  
**PROTECTION AGREEMENT**

See Attached

**SCHEDULE A**

**MEMBERS SCHEDULE**

Member Name	Type of Shares	Number of Shares	Capital Contribution (USD)
EB Transaction Corp.	Class B Shares	1	\$1

**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: February 9, 2023

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, Judy Hong, 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: February 9, 2023

By: /s/ Judy Hong  
Judy Hong  
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 December 31, 2022 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.

February 9, 2023

/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 December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Judy Hong, 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.

February 9, 2023

/s/ Judy Hong

Judy Hong

*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.