Court File No.:

ONTARIO
SUPERIOR COURT OF JUSTICE

B E T W E E N :

STEPHEN LEONARD

Plaintiff

- and -

CANOPY GROWTH CORPORATION, DAVID KLEIN, JUDY HONG, JUDY SCHMELING, DAVID LAZZARATO, THERESA YANOOFSKY, ROBERT HANSON, JAMES SABIA, GARTH HANKINSON, JOHN CELENZA, MICHAEL CAMMALLERI, and KPMG LLP

Defendants

Proceeding under the *Class Proceedings Act, 1992*

STATEMENT OF CLAIM

TO THE DEFENDANTS:

A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU by the plaintiff. The claim made against you is set out in the following pages.

IF YOU WISH TO DEFEND THIS PROCEEDING, you or an Ontario lawyer acting for you must prepare a statement of defence in Form 18A prescribed by the *Rules of Civil Procedure*, serve it on the plaintiff's lawyers or, where the plaintiff does not have a lawyer, serve it on the plaintiff, and file it, with proof of service, in this court office, WITHIN TWENTY DAYS after this statement of claim is served on you, if you are served in Ontario.

If you are served in another province or territory of Canada or in the United States of America, the period for serving and filing your statement of defence is forty days. If you are served outside Canada and the United States of America, the period is sixty days.

Instead of serving and filing a statement of defence, you may serve and file a notice of intent to defend in Form l8B prescribed by the *Rules of Civil Procedure*. This will entitle you to ten more days within which to serve and file your statement of defence.

IF YOU FAIL TO DEFEND THIS PROCEEDING, JUDGMENT MAY BE GIVEN AGAINST YOU IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO DEFEND THIS PROCEEDING BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

TAKE NOTICE: THIS ACTION WILL AUTOMATICALLY BE DISMISSED if it has not been set down for trial or terminated by any means within five years after the action was commenced unless otherwise ordered by the court.

Date: July 6, 2023 Issued by: ____________________

Local Registrar
Address of Court Office:
Superior Court of Justic393 University Ave.,
10th Floor
Toronto, ON M5G 1E6

TO: Canopy Growth Corporation
1 Hershey Drive
Smiths Falls, Ontario
K7A 0A8

AND TO: David Klein
1 Hershey Drive
Smiths Falls, Ontario
K7A 0A8

AND TO: Judy Hong
1 Hershey Drive
Smiths Falls, Ontario
K7A 0A8

AND TO: Judy Schmeling
1 Hershey Drive
Smiths Falls, Ontario
K7A 0A8

AND TO: David Lazzarato
1 Hershey Drive
Smiths Falls, Ontario
K7A 0A8

AND TO: Theresa Yanoofsky
1 Hershey Drive
Smiths Falls, Ontario
K7A 0A8

AND TO: Robert Hanson
1 Hershey Drive
Smiths Falls, Ontario
K7A 0A8

AND TO: James Sabia
1 Hershey Drive
Smiths Falls, Ontario
K7A 0A8

AND TO: Garth Hankinson
1 Hershey Drive
Smiths Falls, Ontario
K7A 0A8

AND TO: John Celenza
87 Wingold Avenue, Unit 1,
Toronto, Ontario
M6B 1P8

AND TO: Michael Cammalleri
87 Wingold Avenue, Unit 1,
Toronto, Ontario
M6B 1P8

AND TO: KPMG LLP
150 Elgin Street, Suite 1800
Ottawa, Ontario
K2P 2P8

I. DEFINITIONS

1. In this Statement of Claim, in addition to the terms that are defined elsewhere herein, the following terms have the following meanings:

(a) "**ASC 606**" means Accounting Standards Codification 606—*Revenue from Contracts with Customers*, which was the revenue recognition standard applicable to **Canopy** under **U.S. GAAP** during the **Class Period**;

(b) "**BioSteel**" means **Canopy**'s subsidiary BioSteel Sports Nutrition Inc., including its predecessor corporations BioSteel Sports Nutrition Inc. and 11351249 Canada Inc. prior to their amalgamation on October 1, 2019;

(c) "**Canopy"** means Canopy Growth Corporation;

(d) "**CEO**" means Chief Executive Officer;

(e) "**CFO**" means Chief Financial Officer;

(f) "**Class**" and "**Class Members**" means all persons and entities, wherever they may reside or be domiciled, who acquired **Canopy** securities during the **Class Period**, other than the **Excluded Persons**;

(g) "**Class Period**" means the period from release of the first **Impugned Document** on May 31, 2022 to the release of the Audited Annual Financial Statements and MD&A for the year ended March 31, 2022 on June 22, 2023;

(h) "***CPA***" means *Class Proceedings Act, 1992*, SO 1992, c 6, as amended;

(i) "**DC&P**" means Disclosure Controls and Procedures;

(j) "**Defendants**" means **Canopy**, the **Individual Defendants** and **KPMG**;

(k) "**EDGAR**" means the Electronic Data Gathering, Analysis and Retrieval System;

(l) "**Excluded Persons**" means **Canopy** and **KPMG** and their subsidiaries, affiliates, officers, partners, directors, senior employees, legal representatives, heirs, predecessors, successors and assigns, and the **Individual Defendants,** any entity in which any of them has or had during the **Class Period** any legal or *de facto* controlling interest, and any member of their families;

(m) **Impugned Documents** means **Canopy**'s:

(i) **MD&A** for the year ended March 31, 2022 dated May 31, 2022;

(ii) Audited Annual Financial Statements for the year ended March 31, 2022;

(iii) the CEO and CFO certifications of annual filings for the year ended March 31, 2022;

(iv) the Annual Report on Form 10-K for the year ended March 31, 2022;

(v) **MD&A** for the three months ended June 30, 2022 dated August 9, 2022;

(vi) interim financial statements for the three months ended June 30, 2022;

(vii) the CEO and CFO certifications of interim filings for the three months ended June 30, 2022;

(viii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2022;

(ix) **MD&A** for the three and six months ended September 30, 2022 dated November 9, 2022;

(x) interim financial statements for the three and six months ended September 30, 2022;

(xi) the CEO and CFO certifications of the interim filings for the three and six months ended September 30, 2022;

(xii) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2022;

(xiii) **MD&A** for three and nine months ended December 31, 2022 dated February 9, 2023;

(xiv) interim financial statements for the three and nine months ended December 31, 2022;

(xv) the CEO and CFO certifications of the interim filings for the quarterly period ended September 30, 2022;

(xvi) the Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2022; and

(xvii) **Prospectuses**;

(n) "**ICFR**" means Internal Control over Financial Reporting;

(o) "**Individual Defendants**" means David Klein, Judy Hong, Judy Schmeling, David Lazzarato, Theresa Yanoofsky, Robert Hanson, James Sabia, Garth Hankinson, John Celenza, and Michael Cammalleri;

(p) "**KPMG**" means KPMG LLP;

(q) "**MD&A**" means Management's Discussion and Analysis;

(r) "**NASDAQ**" means National Association of Securities Dealers Automatic Quotation System;

(s) "***OSA***" means the *Securities Act*, RSO 1990, c S.5, as amended;

(t) "**Other Canadian Securities Legislation**" means, collectively, the *Securities Act*, RSA 2000, c S-4, as amended; the *Securities Act*, RSBC 1996, c 418, as amended; the *Securities Act*, CCSM c S50, as amended; the *Securities Act*, SNB 2004, c S-5.5, as amended; the *Securities Act*, RSNL 1990, c S-13, as amended; the *Securities Act*, SNWT 2008, c 10, as amended; the *Securities Act*, RSNS 1989, c 418, as amended; the *Securities Act*, S Nu 2008, c 12, as amended; the *Securities Act*, RSPEI 1988, c S-3.1, as amended; the *Securities Act*, *1988*, SS 1988- 89, c S-42.2, as amended; and the *Securities Act*, SY 2007, c 16, as amended; and the *Securities Act*, CQLR C V-1.1, as amended;

(u) "**Plaintiff**" means Stephen Leonard;

(v) "**Prospectuses**" means the Prospectus Supplement dated November 14, 2022 to the Prospectus dated March 31, 2021 and the Prospectus Supplement dated March 28, 2023 to the Prospectus dated March 31, 2021;

(w) “**Redeemable Noncontrolling Interests”** means the **BioSteel** shares that were not acquired by Canopy when it acquired **BioSteel** in October 2019. Canopy had a right to acquire half the shares, and the holders of the shares had a right to sell half the shares, three years after the acquisition of **BioSteel** at a valuation based on a multiple of **BioSteel**’s revenue;

(x) “**SEDAR**” means the System for Electronic Document Analysis and Retrieval of the Canadian Securities Administrators;

(y) “**TSX**” means the Toronto Stock Exchange; and

(z) “**U.S. GAAP**” means Generally Accepted Accounting Principles, the standard adopted by the U.S. Securities and Exchange Commission. Canopy’s financial statements were purportedly prepared in accordance with **U.S. GAAP** during the **Class Period**.

II. RELIEF SOUGHT

2. The Plaintiff claims:

(a) an order certifying this action as a class proceeding and appointing the Plaintiff as the representative plaintiff for the Class;

(b) an order granting leave to proceed with an action under Part XXIII.1 of the *OSA*, or, if necessary, the corresponding provisions of the Other Canadian Securities Legislation;

(c) a declaration that the Impugned Documents contained one or more misrepresentations within the meaning of the *OSA*, the Other Canadian Securities Legislation, and at common law;

(d) a declaration that:

(i) Canopy is a "responsible issuer" within the meaning of the *OSA* or Other Canadian Securities Legislation, if necessary;

(ii) KPMG is an "expert" within the meaning of the *OSA* or Other Canadian Securities Legislation, if necessary;

(iii) David Klein and Judy Hong are "officers" within the meaning of the *OSA* or Other Canadian Securities Legislation, if necessary;

(iv) David Klein, Judy Hong, Judy Schmeling, David Lazzarato, Theresa Yanoofsky, Robert Hanson, James Sabia, and Garth Hankinson are "directors" within the meaning of the *OSA* or Other Canadian Securities Legislation, if necessary;

(v) John Celenza and Michael Cammalleri are each an "influential person" within the meaning of the *OSA* or Other Canadian Securities Legislation, if necessary;

(e) a declaration that David Klein and Judy Hong authorized, permitted or acquiesced in the release of all or some of the Impugned Documents;

(f) a declaration that John Celenza and Michael Cammalleri knowingly influenced Canopy to release all or some of the Impugned Documents and/or knowingly influenced a director or officer of Canopy to authorize, permit or acquiesce in the release of some or all of the Impugned Documents;

(g) a declaration that some or all of the Individual Defendants authorized, permitted or acquiesced in the making some or all the misrepresentations in the Impugned Documents alleged herein while knowing it to be a misrepresentation and/or influenced the making of some or all of the misrepresentations in the Impugned Documents while knowing that it was a misrepresentation;

(h) a declaration that KPMG authorized, permitted or acquiesced in making some or all the misrepresentation in the Audited Annual Financial Statements for the year ended March 31, 2022 while knowing it to be a misrepresentation and/or influenced the making of that misrepresentation while knowing that it was a misrepresentation;

(i) a declaration that the Defendants owed the Plaintiff and Class Members a duty of care in the preparation and dissemination of the Impugned Documents and that they breached that duty of care;

(j) a declaration that Canopy is vicariously liable for the acts and/or omissions of the Individual Defendants and, as may be applicable, its other officers, directors or employees;

(k) a declaration that KPMG is vicariously liable for the acts and/or omissions of its partners, officers, directors or employees;

(l) general and special damages in an amount to be determined, and if the court determines it is just and appropriate, aggregate damages;

(m) prejudgment and post judgment interest;

(n) costs of this action on a substantial indemnity basis or in an amount that provides full indemnity plus, pursuant to section 26(9) of the *CPA*, the costs of notice and of administering the plan of distribution of the recovery in this action, plus applicable taxes;

(o) in the event that some issues are not decided at the common issues trial, an order directing a reference to determine those issues or such other directions as may be just; and

(p) such further and other relief as this Honourable Court may deem just.

III. OVERVIEW

3. This is a proposed securities misrepresentation class action against Canopy, its senior officers and directors, Canopy's auditor KPMG and BioSteel's senior officers and directors. The action is brought by the Plaintiff on behalf of investors who acquired Canopy's shares during the Class Period and suffered significant losses as a result of the Defendants' misrepresentations.

4. Canopy operates a cannabis and consumer packaged goods ("**CPG**") business. One of Canopy's key CPG businesses is its BioSteel brand of sports nutrition and hydration products, including ready-to-drink products. During the Class Period, BioSteel products were purportedly sold in Canada, the United States and internationally.

5. Canopy acquired BioSteel in October 2019.

6. BioSteel quickly became an important success story for Canopy, as the cannabis part of Canopy's business rapidly declined. The core of that success story was BioSteel's

purported revenue growth, which was disclosed to investors in the Impugned Documents during the Class Period. For instance, in its disclosures for the quarter ending September 30, 2022, Canopy represented that revenue declines in other business areas were being "partially offset by continued growth in our BioSteel business", which purportedly had $29.922 million in quarterly revenue. This revenue growth was being driven by, among other things, "strong international sales growth."

7. In truth, the BioSteel success story was materially overstated. Canopy misrepresented BioSteel's revenue in the Impugned Documents.

8. Canopy, its management and KPMG ought to have known better. BioSteel revenue had been previously misrepresented by BioSteel management and employees in BioSteel's financial statements for fiscal year-ended December 31, 2019. Canopy acknowledged that BioSteel's management had breached Canopy's "internal contract controls" by making the purported transactions underpinning the improperly recognized BioSteel revenue for fiscal 2019. KPMG's audit opinion for those 2019 financials was that a substantial portion of BioSteel revenue had been overstated and "met the criteria for potential 'channel stuffing'". KPMG asserted that the pecuniary incentives facing BioSteel management and employees in BioSteel's fiscal 2019 warranted "increased professional skepticism" of BioSteel's revenue. All of this was concealed from the Class.

9. Despite the fiscal 2019 issues, members of the BioSteel senior management team responsible, including Defendants John Celenza and Michael Cammalleri, continued to occupy senior positions at BioSteel for some or all of the Class Period. Worse, Canopy did not have effective, or any, internal controls over the recognition of BioSteel revenue in place and the Impugned Documents misrepresented BioSteel revenue as a result.

10. The Impugned Documents:

(a) misrepresented BioSteel's revenue by overstating BioSteel revenue materially;

(b) misrepresented the goodwill attributable to the BioSteel reporting unit;

(c) misrepresented the effectiveness of Canopy's ICFR and DC&P;

(d) misrepresented that Canopy's financial statements were presented accurately in accordance with U.S. GAAP; and

(e) misrepresented that KPMG complied with applicable auditing standards.

11. The misrepresentations in the Impugned Documents were publicly corrected:

(a) on May 10, 2023, when Canopy announced, preliminarily, that it had identified material misstatements in its prior financial statements related to revenue recognition in non-compliance with ASC 606 in its BioSteel business unit, that it was assessing its ICFR and DC&P and that it would likely report one or more material weaknesses in its ICFR; and

(b) on June 22, 2023, when Canopy restated BioSteel revenue and related financial metrics in its prior financial statements revealing the full extent of the material overstatement of BioSteel revenue, impaired goodwill in the BioSteel reporting unit in its entirety, confirmed material weaknesses in Canopy's ICFR, provided details about the material weakness in Canopy's ICFR, and reported a material weakness in Canopy's DC&P.

12. Following the public corrections, the market value of Canopy's shares on the TSX and NASDAQ plummeted. The Plaintiff and Class suffered significant losses as a result. The Plaintiff, on behalf of the Class, seeks to recover damages suffered because of the Defendants' misrepresentations.

IV. PARTIES

A. The Plaintiff

13. The Plaintiff, Stephen Leonard, is an individual residing in Niagara Falls, Ontario. He acquired shares of Canopy on the TSX and NASDAQ during the Class Period. Mr. Leonard continued to hold those shares at the end of the Class Period

B. The Defendants

i. Canopy

14. Canopy is a publicly traded company incorporated under the *Canada Business Corporations Act*, RSC 1985, c C-44 with its registered office in Smiths Falls, Ontario. Canopy's common shares were predominately traded on the TSX under ticker symbol "WEED" and on the NASDAQ under ticker symbol "CGC". Canopy's financial year ends on March 31st.

15. The Ontario Securities Commission is Canopy's principal Canadian securities regulator. At all material times during the Class Period, Canopy was a responsible issuer within the meaning of Part XXIII.1 of the *OSA* and the equivalent provisions of the Other Canadian Securities Legislation.

16. Pursuant to Canadian securities laws, Canopy was required throughout the Class Period to issue and file with SEDAR certain documents and information, including:

(a) within 45 days of the end of each quarter, quarterly interim financial statements;

(b) within 90 days of the end of the fiscal year, annual financial statements; and

(c) MD&As contemporaneously with each of the interim and annual financial statements. MD&As are a narrative explanation of how the company performed during the period covered by the financial statements, and of the company's financial condition and future prospects. The MD&A must discuss important trends and risks that have affected the financial statements, and trends and risks that are reasonably likely to affect them in the future.

17. Canopy controlled the contents of its MD&As, financial statements, and the other documents particularized herein.

18. In releasing those documents, Canopy was prohibited from making a statement that:

(a) was, in a material respect and at the time and in the light of the circumstances under which it was made, misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statement not misleading; and

(b) would reasonably be expected to have a significant effect on the market price or value of its securities.

19. Canopy was required to present its financial statements in accordance with U.S. GAAP. That standard required Canopy to apply ASC 606 to recognize revenue, including revenue

related to purported BioSteel sales. Unbeknownst to the Class, Canopy and its management failed to do so.

20. Canopy, and its management, were required to design, implement and maintain proper and effective ICFR and DC&P in order to ensure the reliability of its disclosures and financial reports. Unbeknownst to the Class, Canopy and its management failed to do so.

ii. The Individual Defendants

21. David Klein ("**Klein**") is an individual residing in New York, United States. At all times during the Class Period, Klein was the CEO of Canopy and a director of Canopy. As Canopy's CEO, Klein was required to and did certify each of the Impugned Documents that are quarterly and annual disclosures. In his capacity as a director of Canopy, Klein approved each of the Impugned Documents prior to its release.

22. At all times during the Class Period, Judy Hong ("**Hong**") was the CFO of Canopy. As Canopy's CFO, Hong was required to and did certify each of the Impugned Documents that are quarterly and annual disclosures of Canopy.

23. Judy Schmeling ("**Schmeling**") is an individual residing in Indian Rocks Beach, Florida, United States. At all times during the Class Period, Schmeling was chair of the board of directors for Canopy and a member of Canopy's audit committee. In her capacity as a director of Canopy, Schmeling approved each of the Impugned Documents prior to its release.

24. David Lazzarato ("**Lazzarato**") is an individual residing in Toronto, Ontario. At all times during the Class Period, Lazzarato was a member of Canopy's board of directors and was

chair of Canopy's audit committee. In his capacity as a director of Canopy, Lazzarato approved each of the Impugned Documents prior to its release.

25. Theresa Yanoofsky ("**Yanoofsky**") is an individual residing in Westmount, Quebec. At all times during the Class Period, Yanoofsky was a member of Canopy's Board of Directors and a member of Canopy's audit committee. In her capacity as a director of Canopy, Yanoofsky approved each of the Impugned Documents prior to its release.

26. Robert Hanson ("**Hanson**") is an individual residing in San Francisco, California, United States. At all times during the Class Period, Hanson was a member of Canopy's board of directors. In his capacity as a director of Canopy, Hanson approved each of the Impugned Documents prior to its release.

27. James Sabia ("**Sabia**") is an individual residing in Chicago, Illinois, United States. At all times during the Class Period, Sabia was a member of Canopy's board of directors. In his capacity as a director of Canopy, Sabia approved each of the Impugned Documents prior to its release.

28. Garth Hankinson ("**Hankinson**") is an individual residing in Rochester, New York, United States. At all times during the Class Period, Hankinson was a member of Canopy's board of directors. In his capacity as a director of Canopy, Sabia approved each of the Impugned Documents prior to its release.

29. Each of the Individual Defendants who were directors and/or officers of Canopy knew, from the time that they accepted their positions, that Canopy was a reporting issuer and that they would have direct responsibility for ensuring the accuracy and reliability of some or all of its disclosure documents, including the Impugned Documents.

30. John Celenza ("**Celenza**") is the co-founder of BioSteel. At the time of Canopy's acquisition of BioSteel, he was a 18% shareholder of BioSteel. Celenza was the CEO of BioSteel and a member of the board of directors of BioSteel from the start of the Class Period until he was removed from those positions on or before March 3, 2023.

31. In his position as an officer and director of BioSteel, Celenza had responsibility for providing and/or overseeing the reporting of BioSteel's revenue and other financial information to Canopy. Celenza knew that Canopy was a reporting issuer and that BioSteel's revenue and other financial information would be incorporated into Canopy's public disclosures.

32. Michael Cammalleri ("**Cammalleri**") is the co-founder of BioSteel. At the time of Canopy's acquisition of BioSteel, he was a 21% shareholder of BioSteel. He is also a former co-CEO of BioSteel and was a member of BioSteel's board of directors during the Class Period.

33. In his positions as an officer and director of BioSteel, Cammalleri had responsibility for providing and/or overseeing the reporting of BioSteel's revenue and other financial information to Canopy. Cammalleri knew that Canopy was a reporting issuer and that BioSteel's revenue and other financial information would be incorporated into Canopy's public disclosures, including the Impugned Documents.

iii. KPMG

34. KPMG is an Ontario limited liability partnership

35. KPMG is a member firm of KPMG International, which is one of the major professional and accounting services firms in the world.

36. At all material times during the Class Period, and since 2019, KPMG has acted as the auditor of Canopy from its offices in Ottawa, Ontario.

37. KPMG was, by its own election, the auditor of Canopy and an "expert" of Canopy for purposes of the *OSA* and Other Canadian Securities Legislation. The *OSA*, the Other Canadian Securities Legislation and National Instruments 51-102, 52-107, 52-108 and 52-109 imposed specific obligations on KPMG for the discharge of its audit engagement with Canopy.

38. Furthermore, in performing its audits for Canopy, KPMG was governed by and was obligated to comply with the professional standards of the Public Company Accounting Oversight Board (United States).

39. KPMG accepted and acknowledged the obligations imposed upon it by the aforementioned laws, national instruments and professional standards in standing for election at the general annual meeting of shareholders and accepting its appointment by Canopy's shareholders, including Class Members, as Canopy's auditor.

40. At the start of the Class Period, KPMG issued an unqualified auditor's report to Canopy shareholders and its board of directors on Canopy's audited financial statements for the year ending March 31, 2022 and the state of Canopy's ICFR as of March 31, 2022. As particularized below, KPMG's audit report contained misrepresentations within the meaning of the *OSA* and Other Canadian Securities Legislation, if necessary.

41. On June 29, 2023, Canopy announced that KPMG was being replaced as its auditor by PFK O'Connor Davies.

IV. PROSPECTUSES

42. In a November 14, 2022 Prospectus Supplement to the Prospectus dated March 31, 2021, Canopy registered 5,648,927 shares for sale from time to time by certain selling security holders.

43. In a March 28, 2023 Prospectus Supplement to the Prospectus dated March 31, 2021, Canopy registered 7,102,081 shares for sale from time to time by certain selling security holders.

44. The Prospectuses, and the documents incorporated by reference therein, contained misrepresentations within the meaning of the *OSA* and Other Canadian Securities Legislation, if necessary.

V. EVENTS GIVING RISING TO THIS ACTION

A. The BioSteel Acquisition

45. On October 1, 2019, Canopy acquired 72% of the outstanding shares of BioSteel for $50.7 million, subject to certain adjustments and holdbacks, and a post-closing earnout based on five times BioSteel's 2019 net revenue[1], to be confirmed by an audit of BioSteel revenue conducted by KPMG. Immediately following the acquisition, Canopy subscribed for additional shares in BioSteel bringing its total ownership up to 76.7%.

46. The shares that were not acquired by Canopy were retained by current shareholders and management of BioSteel for a period of up to five years (these shares are referred to as Redeemable Noncontrolling Interests). On the third anniversary of the agreement closing, Canopy had the right to acquire, and the Redeemable Noncontrolling Interest holders had

[1] Defined in the share purchase agreement as 72% of BioSteel's net revenue.

the right to sell, 50% of their remaining Redeemable Noncontrolling Interests at a valuation based on a multiple of BioSteel's net revenue.

B. Canopy and KPMG assert that BioSteel and its Management Overstated 2019 Revenue

47. In connection with the post-closing earnout, BioSteel's financials initially reported unaudited revenue for financial 2019 of $22.75 million. Of that amount, approximately $8.2 million in revenue was attributable to purported sales to two new customers in late December 2019: (i) to Hero Brands Inc. for distribution in the U.S.; and (ii) to 9365-7823 Quebec Inc. for distribution internationally ("**Contested 2019 Revenue**").

48. KPMG, in its audit of the 2019 BioSteel revenue, concluded that the Contested 2019 Revenue had been improperly recognized. Canopy refused to pay the post-closing earn out on the Contested 2019 Revenue as a result.

49. Canopy stated that Cammalleri, Celenza and Craig Mode "had a strong incentive to increase BioSteel's apparent revenues for the period ending on December 31, 2019. Such revenue, to the extent they brought BioSteel's total revenues for 2019 above $16 million, would generate a corresponding 3.6-fold payment to the Selling Shareholders, including the Vendor Representatives [Cammalleri, Celenza and Mode]."

50. Canopy asserted that BioSteel's management acted on that incentive and the Contested 2019 Revenue was improperly recognized contrary to applicable accounting standards because, among other things, "they were very large transactions with two new customers with no payment history, no formal contracts, no indicia of collectability" and there was doubt as to whether the products were actually shipped to the customers. According to

Canopy, the transactions underpinning the Contested 2019 Revenue "as claimed by BioSteel management, contravened Canopy's internal contract controls."

51. KPMG asserted, among other things, that the Contested 2019 Revenue could not be recognized for the following reasons:

(a) the absence of written agreements for the transactions;

(b) there was no strong evidence of contractual obligations with respect to the transactions existing as of December 31, 2019;

(c) there were issues as to whether the goods had actually been shipped;

(d) there was a lack of evidence that control of the goods had been transferred;

(e) BioSteel did not have practices and processes in place for establishing contracts for the types of transactions at issue;

(f) there was a possibility of returns negatively impacting revenue recognition; and

(g) the transactions at issue potentially met the criteria for "channel stuffing".

52. According to KPMG, "increased professional skepticism" of the Contested 2019 Revenue was warranted because it was a situation "where management has the incentive [due to the earn-out based on a multiple of BioSteel revenue] and opportunity to misstate revenue".

53. Only a tiny portion of the Contested 2019 Revenue was collected within the six months of the revenue being recorded. BioSteel's board ultimately directed management to remove the Contested 2019 Revenue from its 2019 financial statements shortly before June 16, 2020.

54. Following these events, Canopy and its management failed to put proper, or any, ICFR or DC&P in place to prevent the improper recognition of BioSteel revenue from reoccurring. This is despite: (i) two key senior members of management responsible (*e.g.* Celenza and Cammalleri) and other employees remaining at BioSteel; and (ii) a pecuniary incentive for BioSteel employees and consultants to overstate revenue continuing to exist because of Canopy's right to purchase, and BioSteel employees and consultants right to sell, the Redeemable Noncontrolling Interests at a multiple of BioSteel's net revenue on or about October 1, 2022.

55. Likewise, KPMG, despite knowledge of the past revenue recognition issues and the continuing pecuniary incentive for BioSteel employees and consultants to overstate revenue, did not perform an audit of Canopy's ICFR and financial statements for the year ended March 31, 2022 that met applicable professional standards. KPMG did not apply the "increased professional skepticism" they said was owed (and was owed) in such circumstances.

56. As alleged herein, BioSteel revenue was improperly recognized in the Impugned Documents. That revenue recognition occurred in substantially similar circumstances and was improperly recognized for substantially similar reasons as the Contested 2019 Revenue.

C. BioSteel's Strong Growth

57. In the Impugned Documents, Canopy touted exceptionally strong growth in revenue in the BioSteel business unit, driven, in part, by strong international sales.

58. Increasingly, BioSteel was becoming Canopy's most important asset and driver of growth, as other areas of Canopy's business declined. As a market analyst from Piper Sandler stated in a November 9, 2022 report on Canopy entitled "Hydration Salvation: BioSteel Drives Top-Line, Gross Profit": "[n]ear-term growth will likely be driven by BioSteel, lifted by recent Walmart distribution gains. BioSteel revenues rose ~C$22M while sales for the rest of the portfolio fell ~C$36M. BioSteel contributed 65% of total company adjusted gross profit."

59. BioSteel's quarterly revenue peaked at $29.922 million in the quarter ending September 30, 2022, which was shortly before Canopy had the right to acquire 50% of the outstanding Redeemable Noncontrolling Interests in BioSteel based on a multiple of BioSteel's net revenue.

60. The representations about BioSteel growth were materially overstated. BioSteel's revenue was misrepresented in the Impugned Documents and BioSteel's revenue and related financial information has since been restated. BioSteel was not growing as quickly as the Impugned Documents represented. As a result, Canopy has moved to significantly decrease its BioSteel expenditures, exit parts of the U.S. market and exit international markets entirely.

D. Acquisition of the Redeemable Noncontrolling Interests

61. On or about October 1, 2022 (the third anniversary of Canopy's acquisition of BioSteel), Canopy acquired a portion of the outstanding Redeemable Noncontrolling Interests, thereby increasing Canopy's ownership of BioSteel to 90.3%. Canopy issued its own common shares with a value of $26.5 million in connection with the redemption.

62. According to Canopy, the redeemed Redeemable Noncontrolling Interests were held by certain employees and consultants of BioSteel. Similar to the initial earn out based on a multiple of 2019 revenue, the compensation paid to Redeemable Noncontrolling Interest holders was based on a multiple of BioSteel's net revenue. As in 2019, the employees and consultants of BioSteel, therefore, had a pecuniary incentive to overstate BioSteel's net revenue and did so. As Canopy belatedly acknowledges, BioSteel's overstated revenue resulted in an overpayment to BioSteel employees and consultants who sold Redeemable Noncontrolling Interests to it.

V. THE MISREPRESENTATIONS IN THE IMPUGNED DOCUMENTS

63. As further particularized below, the Impugned Documents:

(a) misrepresented BioSteel's revenue by overstating BioSteel revenue materially;

(b) misrepresented the goodwill attributable to the BioSteel reporting unit;

(c) misrepresented the effectiveness of Canopy's ICFR and DC&P;

(d) misrepresented that Canopy's financial statements were accurate in accordance with U.S. GAAP; and

(e) misrepresented that KPMG complied with applicable auditing standards.

A. Misrepresented BioSteel Revenue

64. The Impugned Documents misrepresented BioSteel's revenue. Consolidated revenue figures and other financial metrics in the Impugned Documents that incorporated BioSteel revenue, including Canopy's gross margin and Adjusted EBITDA, were also misrepresented as a consequence.

i. Full Year 2022 BioSteel Revenue[2]

65. Canopy's MD&A for the year ended March 31, 2022 dated May 31, 2022 represented that for fiscal year 2022 BioSteel's revenue was $44.626 million, a year-over-year increase of $16.096 million or 56%, driven by, among other things, higher international sales of ready-to-drink products and beverages mixes.

66. Canopy's Audited Annual Financial Statements for the year ended March 31, 2022 similarly represented that for fiscal year 2022 BioSteel revenue was $44.626 million.

ii. Q1 2023 BioSteel Revenue[3]

67. Canopy's MD&A for the three months ended June 30, 2022 dated August 9, 2022 represented that BioSteel's revenue for the quarter was $17.888 million, a year-over-year increase of $11.2227 million or 169%, driven by, among other things, higher international sales of ready-to-drink products and beverage mixes.

68. Canopy's interim financial statements for the three months ended June 30, 2022 similarly represented that BioSteel's revenue for the quarter was $17.88 million.

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[2] Canopy's financial year ends March 31st.
[3] Canopy's Q1 2023 ends June 30, 2022.

iii. Q2 2023 BioSteel Revenue[4]

69. Canopy's MD&A for the three and six months ended September 30, 2022 dated November 9, 2022 represented that BioSteel's revenue for the quarter was $29.922 million, as compared to $7.512 million in the quarter ended September 30, 2021, a 298% increase. The year-over-year increase was primarily attributable, among other things, to strong international sales growth.

70. The MD&A further represented that BioSteel revenue for the six months ended September 30, 2022 was $47.81 million, as compared to $14.173 million in the six months ended September 30, 2021, a 237% increase. The year-over-year increase was primarily attributable to, among other things, strong international sales growth of ready-to-drink products and beverage mixes.

71. Canopy's interim financial statements for the three and six months ended September 30, 2022 similarly represented that BioSteel's revenue for the quarter was $29.922 million and revenue for the six months ended September 30, 2022 was $47.81 million.

iv. Q3 2023 BioSteel Revenue[5]

72. Canopy's MD&A for the three and nine months ended December 31, 2022 dated February 9, 2023 represented that BioSteel's revenue for the quarter was $16.363 million, as compared to $16.974 million in the quarter ended December 31, 2021.

73. The MD&A further represented that BioSteel's revenue for the nine months ended December 31, 2022 was $64.173 million, as compared to $31.147 million for the nine months ended December 31, 2021, a 106% increase. The year-over-year increase resulted,

[4] Canopy's Q3 2023 ends September 30, 2022.
[5] Canopy's Q3 2023 ends December 31, 2022.

among other things, from strong international sales growth of read-to-drink products and beverage mixes.

74. Canopy's interim financial statements for the three and nine months December 31, 2022 similarly represented that BioSteel's revenue for the quarter was $16.363 million and revenue for the nine months ended December 31, 2022 was $64.173 million.

v. BioSteel Revenue was Materially Overstated

75. BioSteel revenue was misrepresented as follows:

Reporting Period	Misrepresented BioSteel Revenue	Actual (restated) BioSteel Revenue	Difference between Actual and Misrepresented Revenue
Year ended March 31, 2022	$44.626 million	$34.622 million	(22.4%)
Three months ended June 30, 2022	$17.888 million	$13.693 million	(23.5%)
Three months ended September 30, 2022	$29.922 million	$17.477 million	(41.6%)
Six months ended September 30, 2022	$47.81 million	$31.170 million	(34.8%)
Three months ended December 31, 2022	$16.363 million	$19.181 million	17.2%
Nine months ended December 31, 2022	$64.173 million	$50.351 million	(21.5%)

76. BioSteel revenue was improperly recognized primarily in business-to-business sales in international markets in situations where: (i) product ordered by the customer had not been shipped; (ii) product was shipped without a legally enforceable written, oral or implied contract with the customer that specified each party's rights regarding the goods to be transferred and the payment terms; and (iii) product had been shipped, and ultimately not accepted by the customer, because the product did not have the required remaining shelf life to be sold by the customer. Items (i) and (ii) were a reoccurring problem at BioSteel. They are substantially similar to the reasons BioSteel initially improperly recognized the 2019 Contested Revenue.

77. Consolidated revenue figures and other financial metrics disclosed in the Impugned Documents were materially overstated as a result of the BioSteel revenue misstatements, including gross margin and Adjusted EBITDA.

78. Canopy admits BioSteel revenue was materially misstated and required restatement. Canopy restated its financials for the year ended March 31, 2022 and the quarters ended June 30, 2022, September 30, 2022 and December 31, 2022. Contemporaneously with the restatements, Canopy also announced several remedial measures to its internal controls (all of which ought to have been implemented in response to improper recognition of the 2019 Contested Revenue) and its decision to exit BioSteel's international business, the business area primarily responsible for the revenue misrepresentations, entirely.

B. Misrepresented Goodwill Attributable to the BioSteel Reporting Unit

79. The Audited Annual Financial Statements and MD&A for the year ended March 31, 2022 represented that the BioSteel reporting unit had goodwill attributable to it of $57.339 million.

80. The interim financial statements for the three months ended June 30, 2022 represented that Canopy had goodwill with a total carrying value of $138.419 million. This amount included $57.401 million in goodwill attributable to the BioSteel reporting unit.

81. The interim financial statements for the three and six months ended September 30, 2022; represented that Canopy had goodwill with at total carrying value of $136.513 million. This amount included approximately $57.401 million in goodwill attributable to the BioSteel reporting unit.

82. The for the three and nine months ended December 30, 2022 represented that Canopy had goodwill with at total carrying value of $142.076 million. This amount included approximately $57.401 million in goodwill attributable to the BioSteel reporting unit.

83. The goodwill attributable to the BioSteel reporting unit was misrepresented. Canopy has since impaired the goodwill attributable to the BioSteel reporting unit in its entirety because of lower than excepted future revenue generation in the BioSteel reporting unit. Canopy admits that it failed to impair the goodwill in the BioSteel reporting unit on a timely basis. Inadequate controls over ICFR prevented Canopy from detecting changes in the performance of BioSteel in a timely manner.

C. Misrepresentations about the effectiveness of Canopy's ICFR

84. In the "Report of Independent Registered Public Accounting Firm" in Canopy's Audited Annual Financial Statements for the year ended March 31, 2022, KPMG expressed an unqualified audit opinion that Canopy maintained, in all material respects, effective ICFR. This included the effectiveness of ICFR policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S GAAP and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

85. Canopy's Annual Report on Form 10-K for the year ended March 31, 2022 represents that Canopy's CEO and CFO concluded that Canopy had effective ICFR and DC&P as of March 31, 2022.

86. In the CEO certification of the annual filings for the year ended March 31, 2022, Klein represented that he and the CFO had

(a) designed Canopy's DC&P or caused it to be designed under our supervision to ensure that material information related to Canopy and its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

(b) designed ICFR, or caused the ICFR 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 U.S. GAAP.

87. In the CFO certification of the annual filings for the year ended March 31, 2022, Hong made the same representations as in paragraph 86.

88. Canopy's Quarterly Reports on Form 10-Q for the quarters ended June 30, 2022, September 30, 2022 and December 31, 2022 stated that that there had been no changes to Canopy's ICFR that materially affected or that are reasonably likely to affect ICFR reporting. The Quarterly Reports, therefore, represented that Canopy's ICFR continued to be effective.

89. Canopy's Quarterly Reports on Form 10-Q for the quarters ended June 30, 2022, September 30, 2022 and December 31, 2022 represented that Canopy's CEO and CFO concluded that Canopy had effective DC&P at the end of each of the quarters.

90. In the CEO certifications for the interim filings for the three months ended June 30, 2022, the three months ended September 30, 2022 and the three months ended December 31, 2022, Klein represented that he and the CFO had:

(a) designed Canopy's DC&P or caused it to be designed under our supervision to ensure that material information related to Canopy and its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

(b) designed such ICFR, or caused the ICFR 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 U.S. GAAP.

91. In the CFO certifications for the interim filings for the three months ended June 30, 2022, the three months ended September 30, 2022 and the three months ended December 31, 2022, Hong made the same representations as in paragraph 90.

92. The above representations about the effectiveness of Canopy's ICFR and DC&P were misrepresentations. Canopy had material weaknesses in its ICFR and DC&P. Canopy's management has determined that it did not design and maintain effective controls sufficient to assess the timing, amount and appropriateness of revenue recognition. This included the lack of segregation of duties in the review of customer orders, inadequate controls over the review and approval of sales returns, and inadequate controls relating to revenue recognition policies and procedures.

93. The material weaknesses in ICFR contributed to the material misstatement of Canopy's revenue and trade receivables, and the failure to impair goodwill in the BioSteel reporting unit on a timely basis.

94. Canopy and its management have now belatedly implemented numerous remedial measures to rectify the weaknesses, including by applying remedial measures to the control environment and BioSteel's business-to-business sales.

95. These material weaknesses existed despite Canopy, its management and KPMG being well-aware of the need for stringent ICFR and DC&P and increased professional skepticism for the proper recognition of BioSteel revenue. KPMG had previously found that BioSteel improperly recognized the Contested 2019 Revenue in substantially similar circumstances to those leading to the misrepresentations in the Impugned Documents.

Canopy asserted that the transactions underpinning the Contested 2019 Revenue, "as claimed by BioSteel management, contravened Canopy's internal contract controls" and the Contested 2019 Revenue was improperly recognized as revenue under applicable accounting standards. Notwithstanding these red flags, Canopy did not have effective, or any, internal controls over the reporting of BioSteel revenue in place.

D. Misrepresentations About the Accuracy of Canopy's Financial Statements and Canopy's Compliance with Applicable Accounting Standards

96. In the "Report of Independent Registered Public Accounting Firm" in Canopy's Audited Annual Financial Statements for the year ended March 31, 2022, KPMG expressed an unqualified audit opinion that the Audited Annual Financial Statements presented fairly, in all material respects, the financial position of Canopy and the results of its operations and its cash flow, in conformity with U.S. GAAP. Other parts of the Audited Annual Financial Statements for the year ended March 31, 2022 also represented that the Audited Annual Financial Statements had been prepared in accordance with U.S. GAAP.

97. The MD&A for the year ended March 31, 2022 represented that the Audited Annual Financial Statements had been prepared in accordance with U.S. GAAP.

98. The interim financial statements and MD&As for the three months ended July 30, 2022, for the three and six months ended September 30 2022, and for the three and nine months ended December 31, 2022 represented that the interim financial statements had been prepared in accordance with U.S. GAAP.

99. The representations described at paragraphs 96 to 98 were misrepresentations. Canopy's financial statements were not presented accurately or in conformity with U.S. GAAP.

Canopy did not accurately record revenue attributable to its BioSteel business unit or goodwill in the BioSteel business unit.

E. Misrepresentation that KPMG Complied with Applicable Auditing Standards

100. In the "Report of Independent Registered Public Accounting Firm" in Canopy's Audited Annual Financial Statements for the year ended March 31, 2022, KPMG stated that it had: (i) audited Canopy's ICFR in accordance with the standards of the Public Accounting Oversight Board (United States); and (ii) audited Canopy's consolidated balance sheets, related consolidated statements of operations and comprehensive income (loss), shareholder's equity, cash flows and related notes in accordance with the standards of the Public Account Oversight Board (United States).

101. KPMG's representations about its compliance with applicable auditing standards were misrepresentations. KPMG failed to comply with applicable standards in its audits of BioSteel's revenue and Canopy's ICFR with respect to BioSteel's business-to-business international sales in particular. BioSteel revenue was recognized in the improper circumstances described in paragraph 76 that would have been discovered by KPMG had it conducted an audit in accordance with applicable auditing standards.

102. According to KPMG, BioSteel's management had previously overstated revenue in circumstances that warranted "increased professional skepticism". Similar circumstances existed at the time KPMG audited Canopy or, in the alternative, KPMG was aware they would exist in the near future (*i.e.* there was a pecuniary incentive on BioSteel employees and consultants to overstate BioSteel revenue). Yet, KPMG took no or insufficient audit steps to ensure that controls were in place to ensure similar issues did not reoccur in the future and took no or insufficient audit measures to ensure BioSteel revenue was properly

recognized. KPMG failed to apply the “increased professional skepticism” that it says is (and in fact is) owed in such situations to comply with applicable auditing standards.

F. Misrepresentations in the Prospectuses

103. The Prospectus Supplement dated November 14, 2022 to the Prospectus dated March 31, 2021 incorporates by reference Canopy’s Annual Report on Form 10-K for the year ended March 31, 2022 and Canopy’s Quarterly Report for the quarter September 30, 2022. The Annual Report and Quarterly Report contained the misrepresentations described at paragraphs 65-66, 69-71, 75-79, 81, 83-89, and 92-102 above.

104. The Prospectus Supplement dated March 28, 2023 to the Prospectus Supplement dated March 31, 2022 incorporates by reference Canopy’s Annual Report on Form 10-K for the year ended March 31, 2022 and Canopy’s Quarterly Report for the three months ended December 31, 2022. The Annual Report and Quarterly Report contained the misrepresentations described at paragraphs 65-66, 72-79, 82-83, 84-89, and 92-102 above.

IX. PUBLIC CORRECTION OF THE MISREPRESENTATIONS

105. The alleged misrepresentations were publicly corrected, revealing that Canopy had, among other things, materially overstated the BioSteel revenue growth success story.

A. May 10, 2023 Public Correction

106. In a news release issued at 4:33 pm ET on May 10, 2023 and in an accompanying material change report posted on SEDAR at 4:46 pm ET, Canopy announced that:

> the Company has preliminarily identified material misstatements in the Prior Financial Statements (as defined below) related to sales in the BioSteel business unit that were accounted for incorrectly. In particular, on May 4, 2023, the Company, in consultation with the Audit Committee, concluded that the Company's (i) audited consolidated financial statements for the fiscal year ended March 31,

> 2022, included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2022 (the "2022 10-K"), and (ii) unaudited consolidated financial statements for the quarterly periods ended June 30, 2022, September 30, 2022 and December 31, 2022, included in the Company's Quarterly Reports on Form 10-Q for such quarterly periods (collectively, the "Form 10-Qs" and together with the 2022 10-K, the "Prior Financial Statements"), should no longer be relied upon because of certain material misstatements contained in the Prior Financial Statements. In addition, the reports of the Company's independent registered public accounting firm included in the 2022 10-K should no longer be relied upon.
>
> Based on the preliminary findings of the BioSteel Review to date, the Company currently anticipates that (i) the BioSteel Review generally will focus on the timing of revenue recognition in accordance with U.S. generally accepted accounting principles under Accounting Standards Codification ("ASC") 606 and (ii) the correction of the misstatements is expected to reduce certain revenues previously recognized and adjust related balance sheet items in the Prior Financial Statements, including certain segment disclosures. The Company is unable to quantify the impact of the BioSteel Review and the related corrections to the Prior Financial Statements at this time because the BioSteel Review is ongoing. The Company cannot provide assurance that other errors will not be identified or impact additional prior accounting periods.
>
> The Company has determined that it is appropriate to correct the misstatements by restating the Prior Financial Statements (the "Restated Financial Statements") and plans to file the Restated Financial Statements as soon as practicable …
>
> As a result of the preliminary findings of the ongoing BioSteel Review, including the discovery of misstatements, the Company is continuing to assess its disclosure controls and procedures and internal control over financial reporting. The Company expects to report one or more material weaknesses in internal control over financial reporting with respect to some or all impacted periods following completion of the review.

107. The May 10, 2023 correction revealed, in part, misrepresentations with respect to:

(a) BioSteel’s revenue;

(b) the effectiveness of Canopy’s ICFR;

(c) the accuracy of Canopy’s financial statements and compliance with U.S. GAAP; and

(d) KPMG’s audit of Canopy’s financials in accordance with applicable auditing standards.

108. The May 10, 2023 disclosure undermined the BioSteel massive revenue growth fueled success story disclosed to the market. As an analyst from CIBC Capital Markets noted in a June 11, 2023 report, that "BioSteel, previously an important contributor to growth, is now uncertain pending a past restatement".

109. On abnormally high trading volume, Canopy's share price closed at $1.39 on May 11, 2023, a decline of 14.2% from the close price on the previous trading day.

B. July 22, 2023 Public Correction

110. In a news release issued by Canopy at 4:50 pm ET and in Canopy's related Annual Report on Form 10-K, Audited Annual Financial Statements and MD&A for the year ending March 31, 2023 posted on SEDAR shortly thereafter, Canopy restated its prior financials[6] and disclosed:

(a) the full extent of the BioSteel revenue misstatements as particularized at paragraph 75 above and that the BioSteel revenue misstatements were primarily from business-to-business sales in international markets, which BioSteel was now exiting;

(b) the impairment of goodwill attributable to the BioSteel reporting unit in its entirety due to lower than excepted future BioSteel revenue generation;

(c) the failure to impair the goodwill in the BioSteel reporting unit on a timely basis because of inadequate controls over ICFR; and

[6] Canopy restated its financials for the following periods: the year ending March 31, 2022, the three months ended June 30, 2023, the three and six months ended September 30, 2023, and the three and nine months ended December 31, 2023.

(d) material weaknesses in Canopy's ICFR and DC&P and the particulars related thereto, including the lack of segregation of duties in the review of customer orders, inadequate controls over the review and approval of sales returns and inadequate controls relating to revenue recognition policies and procedures.

111. The July 22, 2023 Public Correction fully revealed misrepresentations with respect to:

(a) BioSteel's revenue;

(b) the BioSteel reporting unit's goodwill;

(c) Canopy's financial statements fair presentation and compliance with U.S. GAAP;

(d) the effectiveness of Canopy's ICFR and DC&P; and

(e) KPMG's compliance with applicable auditing standards.

112. The June 22, 2023 disclosures fully undermined the BioSteel revenue growth success story disclosed to the market. In a June 23, 2023 report entitled "BioSteel Outlook Cut; Not The Growth Driver We Had Expected", a market analyst from Piper Sandler lowered Canopy's price target from USD$1.00 to USD$0.50 explaining that "our BioSteel expectations continue to fall. BioSteel F22 sales were restated lower by C$10M and F23 by C$14M, and it is shifting its strategy to a more grassroots-type marketing approach. Our revised outlook (using its new base from which to grow) is now well below our prior estimates, essentially removing what had been a large driver of growth."

113. On abnormally high trading volume, Canopy's share price closed at $0.68 on June 23, 2023, a decline of 11.7% from the closing price on the previous trading day.

IX. RIGHTS OF ACTION

A. Part XXIII.1 of the *OSA*

114. On behalf of Class Members who acquired Canopy shares on the secondary market, the Plaintiff asserts the right of action in Part XXIII.1 of the *OSA*, and, if necessary, the equivalent sections of the Other Canadian Securities Legislation, against all the Defendants.

115. Each of the Impugned Documents contained one or more of the misrepresentations alleged herein. These misrepresentations were "misrepresentations" within the meaning of the *OSA* and Other Canadian Securities Legislation, if necessary.

116. Canopy is a "reporting issuer" and a "responsible issuer" within the meaning of the *OSA* and the Other Canadian Securities Legislation, if necessary. It released the Impugned Documents which contained the misrepresentations alleged herein.

117. Each of Klein and Hong was an "officer" of Canopy within the meaning of the *OSA* and Other Canadian Securities Legislation, if necessary. Each of Klein and Hong authorized, permitted or acquiesced in the release of some or all of the Impugned Documents.

118. Each of Klein, Schmeling, Lazzarato, Yanoofsky, Hanson, Sabia and Hankinson is a "director" of Canopy within the meaning of the *OSA* and Other Canadian Securities Legislation, if necessary. Each of Klein, Schmeling, Lazzarato, Yanoofsky, Hanson, Sabia and Hankinson was a "director" at the time some or all of the Impugned Documents were released.

119. Each of Celenza and Cammalleri, was a director and/or officer of BioSteel for some or all of the Class Period. BioSteel was a subsidiary of Canopy during the Class Period. Each of

Celenza and Cammalleri was, therefore, an "insider" of Canopy within the meaning of the *OSA* and Other Canadian Securities Legislation, if necessary. As "insiders" of Canopy, each of Celenza and Cammalleri was an "influential person" of Canopy within the meaning of the *OSA* and Other Canadian Securities Legislation, if necessary, for some or all of the Class Period.

120. Each of Celenza and Cammalleri knowingly influenced Canopy to release some or all of the Impugned Documents and/or knowingly influenced a director or officer of Canopy to authorize, permit or acquiesce in the release of some or all of the Impugned Documents.

121. KPMG was Canopy's auditor and therefore an "expert" within the meaning of the *OSA* and Other Canadian Securities Legislation, if necessary. KPMG provided an audit report, statement or opinion that contained the misrepresentations alleged herein in:

(a) the Audited Annual Financial Statements for the year ended March 31, 2022;

(b) the Supplemental Prospectus dated November 14, 2022 to the Prospectus dated March 31, 2022; and

(c) the Supplemental Prospectus dated March 28, 2023 to the Prospectus dated March 31, 2021.

KPMG consented to the use of its audit reports, statements or opinions in those Impugned Documents.

122. The Individual Defendants and KPMG authorized, permitted or acquiesced in making some or all the misrepresentations in the Impugned Documents alleged herein while knowing it to be a misrepresentation and/or influenced the making of some or all of the

misrepresentations in the Impugned Documents while knowing that it was a misrepresentation.

123. For each of the documents that is a "non-core document", Canopy and the Individual Defendants: knew at the time the Impugned Document was released that it contained a misrepresentation; at or before the Impugned Document was released, deliberately avoided acquiring knowledge that the Impugned Document contained a misrepresentation; or, through action or failure to act, was guilty of gross misconduct in connection with the release of the Impugned Document.

124. The Class Members acquired Canopy's securities following the release of one or more of the Impugned Documents and before the misrepresentations were publicly corrected as alleged herein.

B. Part XXIII of the *OSA*

125. The Prospectuses were required to provide full, true and plain disclosure of all material facts relating to the securities issued pursuant to those Impugned Prospectuses and in the distributions to which they related.

126. The Prospectuses contained misrepresentations, as alleged herein.

127. On behalf of Class Members who acquired their Canopy securities distributed under the Prospectuses, the Plaintiff asserts the right of action contained in section 130 of the *OSA* and, if necessary, the equivalent sections of the Other Canadian Securities Legislation, against Canopy, Klein, Schmeling, Lazzarato, Yanoofsky, Hanson, Sabia and Hankinson.

128. Canopy is an "issuer" within the meaning of the *OSA* and Other Canadian Securities Legislation, if necessary. Canopy released the Prospectuses.

129. Each of Klein, Schmeling, Lazzarato, Yanoofsky, Hanson, Sabia and Hankinson were "directors" of Canopy within the meaning of the *OSA* and Other Canadian Securities Legislation, if necessary.

C. Negligent Misrepresentation

130. On behalf of the Class, the Plaintiff pleads negligent misrepresentation in respect of all of the Impugned Documents against the Defendants.

131. The Impugned Documents were prepared, in part, for the purpose of attracting investment and inducing members of the investing public to purchase Canopy's securities. Canopy filed the Impugned Documents on SEDAR and EDGAR for the benefit of the market and the Class Members and communicated those documents to the public.

132. The Defendants knew and intended that the Class Members would reasonably rely, to their detriment, upon such documents and the representations contained therein in making the decision to purchase Canopy's securities.

133. The Defendants were in a relationship of proximity with the Class Members. It was reasonably foreseeable that any misrepresentations in the Impugned Documents could cause damage to the Class Members.

134. These Defendants had responsibility for the preparation of the Impugned Documents, or the reports contained therein, and undertook to do so, for the benefit of, and to be relied upon by, Class Members. They had a duty of care at common law to exercise due care and diligence to ensure that the Impugned Documents fairly and accurately disclosed all material information. They breached that duty by making the misrepresentations alleged herein and failing to exercise due care in the creation and dissemination of the Impugned Documents.

135. The Class Members read and reasonably relied on the Impugned Documents for the purpose for which they were prepared.

X. DAMAGES

136. The Plaintiff and the other Class Members suffered damages as a result of the Defendants' breach of their duties at law by making the misrepresentations particularized herein.

137. The Plaintiff and other Class Members suffered the damages proscribed under Part XXIII.1 of the *OSA* or Other Canadian Securities Legislation, if necessary.

138. Further, the Plaintiff and the other Class Members suffered damages equivalent to the inflation in the price of the securities they acquired during the Class Period which was related to the misrepresentations alleged herein. If the Defendants had not breached their duties and made the misrepresentations described above, Canopy's securities would not have traded or been sold at artificially high levels that Class Members paid for them, and the Class Members would not have suffered the losses alleged.

139. The Plaintiff pleads that the conduct of the Defendants was high-handed, outrageous, reckless, wanton, entirely without care, deliberate, callous, motivated by economic considerations, and amounted to an abuse of the capital markets. Such conduct renders the Defendants liable to pay punitive damages.

XI. THE RELATIONSHIP BETWEEN THE MISREPRESENTATIONS AND THE PRICE OF CANOPY GROWTH CORPORATION'S SECURITIES

140. The Price of Canopy's securities was directly affected during the Class Period by the issuance of the Impugned Documents. The Defendants were aware at all material times of the effect of Canopy's disclosure documents on the price of Canopy's securities.

141. The Impugned Documents were filed on SEDAR and EDGAR, and otherwise made available to the public, and thereby became immediately available to, and were reproduced for inspection by, the Class Members, other members of the investing public, financial analysts and the financial press.

142. Canopy routinely transmitted the documents referred to above to the financial press, financial analysts and certain prospective and actual holders of Canopy securities. Canopy either provided copies of the above referenced documents or links thereto on its website.

143. Canopy regularly communicated with public investors and financial analysts via established market communication mechanisms, including through regular disseminations of their disclosure documents, including press releases on newswire services in Canada, the United States and elsewhere. Each time Canopy communicated new material information about Canopy's financial results to the public, the price of Canopy's Securities was directly affected.

144. Canopy was the subject of analysts' reports that incorporated certain of the material information contained in the Impugned Documents, with the effect that any recommendations to purchase Canopy securities in such reports during the Class Period were based, in whole or in part, upon that information.

145. At all material times during the Class Period, Canopy's securities were traded, among other places, on the TSX and NASDAQ, which are efficient and automated markets. The price at which Canopy's securities traded promptly incorporated material information from Canopy's disclosure documents about Canopy's business and affairs, including the misrepresentations particularized herein, which were disseminated to the public through the documents referred to above and distributed by Canopy, as well as by other means.

XII. VICARIOUS LIABILITY

146. In addition to its direct liability, Canopy vicariously liable for the acts and/or omissions of the Individual Defendants and its other officers, directors, and employees because their acts and omissions with respect to the misrepresentations were carried out while they were engaged in the management, direction and control of the business affairs of Canopy.

147. In addition to its direct liability, KPMG is vicariously liable for the acts and/or omissions of its officers, directors, partners and employees because their acts and omissions with respect to the misrepresentations were carried out while they were engaged in the management, direction and control of the business affairs of Canopy.

XIII. REAL AND SUBSTANTIAL CONNECTION WITH ONTARIO

148. This action has a real and substantial connection with Ontario because, among other things:

(a) Canopy is a reporting issuer in Ontario;

(b) Canopy's principal securities regulator is the Ontario Securities Commission;

(c) the shares of Canopy trade on the TSX, which is located in Ontario;

(d) Canopy is headquartered in Ontario;

(e) KPMG is an Ontario limited liability partnership;

(f) the KPMG employees performing the Canopy audit were primarily based out of KPMG's Ottawa offices;

(g) a substantial proportion of the Class Members reside in Ontario; and

(h) a substantial portion of the damages sustained by Class Members were sustained in Ontario.

XIV. RELEVANT LEGISLATION

149. The Plaintiff pleads and relies on the *Courts of Justice Act*, RSO 1990, c C.43, the *CPA*, the *OSA* and the Other Canadian Securities Legislation, all as amended, and National Instruments 51-102, 52-107, 52-108 and 52-109.

XV. SERVICE OUTSIDE ONTARIO WITHOUT LEAVE

150. The Plaintiff pleads and relies on rule 17.02(g), (n), and (p) of the *Rules of Civil Procedure* to serve this claim outside Ontario without leave.

LEONARD v. CANOPY GROWTH CORPORATION et al. Court File No:

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

Proceeding under the *Class Proceedings Act,*

STATEMENT OF CLAIM

Siskinds LLP
Barristers & Solicitors

65 Queen Street West, Suite 1155
Toronto, ON M5H 2M5
Daniel E. H. Bach (LSUC #: 52087E)
Tel: (416) 594-4376
Fax: (416) 594-4277

275 Dundas Street, Unit 1
London, ON N6B 3L1
Garett M. Hunter (LSUC #: 71800D)
Tel: (519) 660-7802
Fax: (519) 660-7803

Lawyers for the Plaintiffs