Approved by Board:
September 1, 2021

HEXO CORP.

Investment Policy Statement

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1. Purpose

The purpose of this Investment Policy Statement (IPS) is to establish guidelines for the investable assets (the Portfolio) of HEXO Corp. and its subsidiaries, herein referred to as HEXO. This document shall apply to the Management of HEXO as well as all Investment Consultants, Brokers, Advisor and Financial Institutions (herein referred to as "Advisor") engaged to assist with the management of the Portfolio.

2. Investment Objectives & Constraints

(a) The objectives of the Portfolio are to achieve a balance between maximizing investment income flows and preserving the company's capital.

(b) The Portfolio is subject to the following constraints:

i. 50% of the portfolio must be invested in guaranteed Canadian dollar interest paying instruments from Canadian financial institutions listed under the *Bank Act,* S.C. 1991, c. 46, Schedule 1.

ii. Up to 50% of the portfolio can be invested in short term and floating rate instruments, by way of an offering memorandum fund, so long as the fund holds positions that exhibit:

1. Credit rating of BBB or higher (up to 50%).
2. Credit rating of A- or higher (50% or more).
3. Overall duration of the portfolio of short term / floating rate instruments will be no more than two years longer than the FTSE TMX short term overall bond index.
4. Maximum 10% in any issuer rated A or above and 8% in any issuer rated BBB.

iii. Up to 5% of the portfolio can be invested in equities, new issues and/or private shares.

In the above cases any Advisor engaged to assist with the management of the Portfolio, is required to obtain written approval (by signed letter or email) to invest any funds.

The above constraints are strict guidelines, any portfolio that falls outside of these bounds, must be approved by the Board of Directors.

Also, should the portfolio be in violation of the above constraints, due to returns/losses on the portfolio or any other reason, HEXO is required to rebalance the portfolio by the following calendar quarter.

3. Description of Responsibilities

(a) The responsibilities of each party involved in managing the portfolio are defined below:

Within the scope of this policy two of the following HEXO Management team are required to approve investment decisions, while one of the two must be the CEO, CFO, or VP Finance:

- CEO
- CFO
- VP of Finance
- Senior Finance Manager
- Controller
- Director of Finance

(b) **Investment Consultants, Brokers, Advisor and/or Financial Institutions**

Provide HEXO with investment alternatives consistent with this policy, proactively managing the portfolio to identify appropriate investment opportunities, and executing the instructions provided by HEXO in timely fashion.

4. Fiduciary Duty

(a) In seeking to attain the investment objectives set forth in the IPS, the Prudent Investor Rule shall apply, which states that Management is under a duty to HEXO Corp. to invest and manage the Portfolio as a prudent investor would, as described below:

i. The exercise of reasonable care, skill, and caution that is applied to investments not in isolation but in the context of the Portfolio and as part of an overall investment strategy, which should incorporate risk and return objectives reasonably suited to the Portfolio

ii. In making and implementing investment decisions, Management has a duty to diversify the Portfolio unless, under the circumstances, it is prudent not to do so

iii. In addition, Management must:

1. Conform to fundamental fiduciary duties of loyalty and impartiality

2. Act with prudence in deciding whether and how to delegate authority and in the selection and supervision of agents (i.e. Investment Consultants and/or Investment Managers)

3. Incur only costs that are reasonable in amount and appropriate to the management of the Portfolio

4. Ensure the maintenance of sufficient liquidity to fund cash flows needs and avoid being forced to sell or dispose of assets at an inopportune time.

(b) The Prudent Investor Rule is based on the following five basic principles:

i. Sound diversification is fundamental to risk management and is therefore ordinarily required of the Investment Committee

ii. Risk and return are so directly related that Management has a duty to analyze and make conscious decisions concerning the levels of risk appropriate to the purposes, distribution requirements, and other circumstances of the Portfolio

iii. Management has a duty to avoid fees, transaction costs, and other expenses that are not justified by needs and realistic objectives of the Portfolio

iv. The fiduciary duty of impartiality requires a balancing of the elements of return between production of income and the protection of purchasing power

v. Management may have a duty as well as having the authority to delegate as prudent investors would

5. Conflicts of Interest

(a) Any person or organization involved in the oversight or management of the Portfolio should adhere and may be requested to consent in writing to the following guidelines, and any other policies to that effect put in place by the company regarding conflicts of interest:

> A conflict of interest is deemed to exist when such person or organization has an interest of sufficient substance and proximity to his/her duties and powers with respect to an investment to impair his/her ability to render unbiased advice or to make unbiased decisions affecting the Portfolio;
>
> Each such person or organization must disclose any direct or indirect, real or perceived, material association or material interest or involvement in aspects related to their role with regard to the Portfolio that would result in any potential or actual conflict of interest. Without limiting the generality of the foregoing, this would include benefit from any asset held in the fund, or any significant holdings, or the membership on the boards of other corporations, or any actual or proposed contracts

6. Investment Philosophy/Guideline

(a) The basic tenets upon which the IPS is based include the following:

Refer to Section 2.

7. Monitoring Portfolio Investments & Performance

(a) The Advisor shall prepare a quarterly performance report, which should include the Portfolio's performance, asset allocation, and compliance with all applicable guidelines defined in the IPS. The Portfolio and individual managers shall be measured against the appropriate benchmarks, as defined below.

1. Market Benchmark

2. Asset Class-Specific Benchmark

(b) Performance of the Portfolio, as well as individual Advisor, shall be measured versus appropriate benchmarks over rolling 3- and 5-year periods, measured quarterly.

(c) The portfolio shall be reviewed at least quarterly to ensure that all managers remain in compliance with all applicable guidelines defined in the IPS.

8. IPS Review

(a) Any of the following shall trigger a review of the IPS:

i. A change to the organization's Investment Objectives.

ii. Possible issues associated with the continued feasibility of the Investment Objectives;

iii. In the absence of any change to the organization's Investment Objectives, the IPS should be reviewed at least annually.