CANOPY GROWTH CORPORATION

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED JUNE 30, 2021

AUGUST 6, 2021

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

Introduction

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

- *Part 1 - Business Overview.* This section provides a general description of our business, which we believe is important in understanding the results of our operations, financial condition, and potential future trends.

- *Part 2 - Results of Operations.* This section provides an analysis of our results of operations for the first quarter of fiscal 2022 in comparison to the first quarter of fiscal 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 U.S. GAAP. Our Interim Financial Statements, and the financial information contained herein, are reported in thousands of Canadian dollars, except share and per share amounts or as otherwise stated. We have determined that the Canadian dollar is the most relevant and appropriate reporting currency as, despite continuing shifts in the relative size of our operations across multiple geographies, the majority of our operations are conducted in Canadian dollars and our financial results are prepared and reviewed internally by management in Canadian dollars.

Special Note Regarding Forward-Looking Statements

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

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

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

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

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

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

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

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

Part 1 - Business Overview

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

On October 17, 2018, the *Cannabis Act* came into effect in Canada, regulating both the medical and recreational cannabis markets in Canada and providing provincial, territorial and municipal governments the authority to prescribe regulations regarding the distribution and sale of recreational cannabis. On October 17, 2019, the second phase of recreational cannabis products was legalized pursuant to certain amendments to the regulations under the *Cannabis Act*. We currently offer product varieties in dried flower, oil, softgels, vape pen power sources, pod-based vape devices, vape cartridges, cannabis-infused beverages and cannabis-infused edibles, with product availability varying based on provincial and territorial regulations. Our recreational cannabis products are predominantly sold to provincial and territorial agencies under a “business-to-business” wholesale model, with those provincial and territorial agencies then being responsible for the distribution of our products to brick-and-mortar stores and for online retail sales. We also operate a network of Tweed and Tokyo Smoke retail stores across Canada, where permissible, to promote brand awareness and drive consumer demand under a “business-to-consumer” model.

Our Spectrum Therapeutics medical division is a global leader in medical cannabis. Spectrum Therapeutics produces and distributes a diverse portfolio of medical cannabis products to healthcare practitioners and medical customers in Canada, and in several other countries where it is federally permissible to do so. In April 2019, we acquired C^3 Cannabinoid Compound Company (“C^3”), Europe’s largest cannabinoid-based pharmaceuticals company and a leading manufacturer of dronabinol, a registered active pharmaceutical ingredient in Germany and certain other European countries. The addition of dronabinol has allowed us to expand our portfolio of medical cannabis offerings for our customers in Germany.

Subsequent to the passage, in December 2018, of the U.S. Agricultural Improvement Act of 2018, we began building our hemp supply chain in the United States through our investment in processing, extraction and finished goods manufacturing facilities. In September 2020, our Martha Stewart CBD line of premium quality, hemp-derived wellness gummies, oils and softgels was launched in the United States. In the fourth quarter of fiscal 2021, we expanded our product offering to include CBD products for pets under the Martha Stewart CBD for Pet line and SurityPro, and a line of premium, ready-to-drink CBD-infused sparkling waters under the Quatreau brand.

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

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

Our products contain THC, CBD, or a combination of these two cannabinoids which are found in the cannabis sativa plant species. THC is the primary psychoactive or intoxicating cannabinoid found in cannabis. We also refer throughout this MD&A to “hemp”, which is a term used to classify varieties of the cannabis sativa plant that contain CBD and 0.3% or less THC content (by dry weight). Conversely, references to the term “marijuana” refers to varieties of the cannabis sativa plant with more than 0.3% THC content and moderate levels of CBD.

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

We operate in two reportable segments:

- Global cannabis, which encompasses the production, distribution and sale of a diverse range of cannabis and cannabinoid-based consumer products in Canada and internationally pursuant to applicable international and domestic legislation, regulations and permits; and
- Other consumer products, which is comprised of the production, distribution and sale of consumer products by Storz & Bickel, This Works, and BioSteel, and other revenue sources.

Update on the COVID-19 Pandemic

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

The COVID-19 pandemic, including government measures to limit the spread of COVID-19, did not have a material adverse impact on our results of operations in the first quarter of fiscal 2022. However, given the uncertainties associated with the COVID-19 pandemic, including those related to the distribution and acceptance of the vaccines and their effectiveness with respect to new variants of the virus, the use of our products by consumers, disruptions to the global and local economies due to related stay-at-home orders, quarantine policies and restrictions on travel, trade and business operations and a reduction in discretionary consumer spending we are unable to estimate the future impact of the COVID-19 pandemic on our business, financial condition, results of operations, and/or cash flows. The uncertain nature of the impacts of the COVID-19 pandemic may affect our results of operations into the second quarter of fiscal 2022.

We believe we have sufficient liquidity available from cash and cash equivalents and short-term investments on hand of $559.8 million and $1.5 billion, respectively, at June 30, 2021, and from available capacity under our revolving debt facility to enable us to meet our working capital and other operating requirements, fund growth initiatives and capital expenditures, settle our liabilities, and repay scheduled principal and interest payments on debt for at least the next twelve months. Refer to "Part 3 – Financial Liquidity and Capital Resources" for further information.

Recent Developments

Acquisition of Supreme Cannabis

On June 22, 2021, we and Supreme Cannabis Company, Inc. ("Supreme Cannabis") completed an arrangement (the "Supreme Arrangement") pursuant to which we acquired 100% of the issued and outstanding common shares of Supreme Cannabis (the "Supreme Shares"). Supreme Cannabis is a producer of recreational, wholesale and medical cannabis products, with a diversified portfolio of distinct cannabis companies, products and brands. Pursuant to the Supreme Arrangement, we issued 9,013,400 common shares with a fair value on closing of $260.7 million and made a cash payment of $0.1 million to former Supreme Cannabis shareholders in consideration for their Supreme Shares.

Acquisition of Ace Valley

On April 1, 2021, we entered into a share purchase agreement (the "AV Share Purchase Agreement") with Tweed Inc., AV Cannabis Inc. ("Ace Valley"), and the shareholders of Ace Valley (the "AV Vendors") pursuant to which we indirectly acquired 100% of the issued and outstanding shares of Ace Valley for cash consideration of $51.6 million. Ace Valley is an Ontario-based cannabis brand with a focus on premium, ready-to-enjoy products including vapes, pre-roll joints and gummies. Pursuant to the terms of the AV

Share Purchase Agreement, we may be required to make certain earn-out payments to the AV Vendors, which may result in an additional cash payment or the issuance of common shares, subject to the fulfillment of certain conditions by April 1, 2023.

Refer to Note 26 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 for the acquisitions of Supreme Cannabis and Ace Valley.

Part 2 - Results of Operations

Discussion of First Quarter of Fiscal 2022 Results of Operations

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Three months ended June 30,			
	2021	2020	$ Change	% Change
Selected consolidated financial information:				
Net revenue	$ 136,209	$ 110,416	$ 25,793	23%
Gross margin percentage	20%	6%	-	1,400 bps
Net income (loss)	$ 389,955	$ (128,322)	$ 518,277	404%
Net income (loss) attributable to Canopy Growth Corporation	$ 392,418	$ (108,501)	$ 500,919	462%
Basic earnings (loss) per share[1]	$ 1.02	$ (0.30)	$ 1.32	240%
Diluted earnings (loss) per share[1]	$ 0.84	$ (0.30)	$ 1.14	180%

[1]For the three months ended June 30, 2021, the weighted average number of outstanding common shares, basic and diluted, totaled 384,055,133 and 404,546,243, respectively. For the three months ended June 30, 2020, the weighted average number of outstanding common shares, basic and diluted, totaled 363,763,347.

Revenue

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

Revenue by Channel	Three months ended June 30,			
(in thousands of Canadian dollars)	2021	2020	$ Change	% Change
Canadian recreational cannabis net revenue				
Business-to-business[1]	$ 42,693	$ 34,934	$ 7,759	22%
Business-to-consumer	17,344	9,330	8,014	86%
	60,037	44,264	15,773	36%
Canadian medical cannabis net revenue[2]	13,492	13,910	(418)	(3%)
	73,529	58,174	15,355	26%
International and other revenue				
C[3]	11,443	15,369	(3,926)	(26%)
Other	7,967	5,739	2,228	39%
	19,410	21,108	(1,698)	(8%)
Global cannabis net revenue	92,939	79,282	13,657	17%
Other consumer products				
Storz & Bickel	24,070	17,120	6,950	41%
This Works	6,551	6,049	502	8%
BioSteel	6,661	2,448	4,213	172%
Other	5,988	5,517	471	9%
Other consumer products revenue	43,270	31,134	12,136	39%
Net revenue	$ 136,209	$ 110,416	$ 25,793	23%

[1] Reflects excise taxes of $17,834 and other revenue adjustments, representing our determination of returns and pricing adjustments, of $3,000 for the three months ended June 30, 2021 (three months ended June 30, 2020 - excise taxes of $7,246 and other revenue adjustments of $3,400).

[2] Reflects excise taxes of $1,380 for the three months ended June 30, 2021 (three months ended June 30, 2020 - $1,426).

Revenue by Form	Three months ended June 30,			
(in thousands of Canadian dollars)	2021	2020	$ Change	% Change
Canadian recreational cannabis				
Dry bud[1]	$ 65,970	$ 40,129	$ 25,841	64%
Oils and softgels[1]	5,741	7,721	(1,980)	(26%)
Beverages, edibles, topicals and vapes[1]	9,160	7,060	2,100	30%
Other revenue adjustments	(3,000)	(3,400)	400	12%
Excise taxes	(17,834)	(7,246)	(10,588)	(146%)
	60,037	44,264	15,773	36%
Medical cannabis and other				
Dry bud	9,611	10,832	(1,221)	(11%)
Oils and softgels	20,516	25,215	(4,699)	(19%)
Beverages, edibles, topicals and vapes	4,155	397	3,758	947%
Excise taxes	(1,380)	(1,426)	46	3%
	32,902	35,018	(2,116)	(6%)
Global cannabis net revenue	92,939	79,282	13,657	17%
Other consumer products				
Storz & Bickel	24,070	17,120	6,950	41%
This Works	6,551	6,049	502	8%
BioSteel	6,661	2,448	4,213	172%
Other	5,988	5,517	471	9%
Other consumer products revenue	43,270	31,134	12,136	39%
Net revenue	$ 136,209	$ 110,416	$ 25,793	23%

[1] Excludes the impact of other revenue adjustments.

Net revenue was $136.2 million in the first quarter of fiscal 2022, as compared to $110.4 million in the first quarter of fiscal 2021. The year-over-year increase is attributable to:

- Growth in our global cannabis segment, which was primarily due to the performance of our Canadian recreational business-to-business and business-to-consumer channels; and
- Growth in our other consumer products segment, which was primarily due to the continued strong performance by Storz & Bickel and growth in our BioSteel business. These increases were both due primarily to the expansion of our U.S. distribution networks during fiscal 2021.

Global cannabis

Net revenue from our global cannabis segment was $92.9 million in the first quarter of fiscal 2022, as compared to $79.3 million in the first quarter of fiscal 2021.

Canadian recreational cannabis net revenue was $60.0 million in the first quarter of fiscal 2022, as compared to $44.3 million in the first quarter of fiscal 2021.

- Net revenue from the business-to-business channel was $42.7 million in the first quarter of fiscal 2022, as compared to $34.9 million in the first quarter of fiscal 2021. The year-over-year increase is primarily attributable to (i) the overall increase in demand resulting from the opening of 1,117 new retail stores across Canada since June 30, 2020, of which 413 opened in the first quarter of fiscal 2022; (ii) the growth in our business from the acquisitions of Ace Valley on April 1, 2021, and Supreme Cannabis on June 22, 2021; and (iii) the removal of COVID-19 related restrictions on businesses and reopening of cannabis retail stores across Canada since the first quarter of fiscal 2021; these closures and restrictions had negatively impacted net revenue from our business-to-business channel in the first quarter of fiscal 2021. However, we were impacted in the first quarter of fiscal 2022 by an unfavorable product mix due primarily to an increase in the volume of value-priced dried flower product sold compared to the prior year, and continued price compression resulting from increased competition in the value-priced dried flower category of the recreational market.
- Revenue from the business-to-consumer channel was $17.3 million in the first quarter of fiscal 2022, as compared to $9.3 million in the first quarter of fiscal 2021. The year-over-year increase is primarily attributable to (i) the build-out of our retail store platform across Canada to 34 corporate-owned Tweed and Tokyo Smoke retail stores, an increase from 22 stores at June 30, 2020; and (ii) in the first quarter of fiscal 2021, revenue from our business-to-consumer channel was impacted by the

temporary closures of our retail stores and other operating restrictions implemented in response to the COVID-19 pandemic; upon their re-opening, beginning in mid-April 2020, our retail stores largely operated with reduced hours and under a "click-and-collect" model with curbside pickup or delivery.

Canadian medical cannabis net revenue was $13.5 million in the first quarter of fiscal 2022, a slight decrease of 3% as compared to the first quarter of fiscal 2021.

International and other cannabis revenue was $19.4 million in the first quarter of fiscal 2022, as compared to $21.1 million in the first quarter of fiscal 2021.

- C^3 contributed revenue of $11.4 million in the first quarter of fiscal 2022, a year-over-year decrease of $3.9 million driven primarily by a limitation on sales activities associated with COVID-19 restrictions, and increased competition in the synthetic cannabinoid market in Germany relative to the prior year.
- Other cannabis revenue was $8.0 million in the first quarter of fiscal 2022, a year-over-year increase of $2.2 million primarily attributable to the growth in our U.S. CBD business, which was driven by the introduction of the Martha Stewart CBD line of products and Quatreau CBD beverages in the second and fourth quarters of fiscal 2021, respectively. Partially offsetting this was a year-over-year decrease associated with our German medical cannabis business, primarily related to increased competition and the stockpiling of cannabis products by German pharmacies in the first quarter of fiscal 2021 in response to COVID-19 related restrictions on trade and business operations.

Other consumer products

Revenue from our other consumer products segment was $43.3 million in the first quarter of fiscal 2022, as compared to $31.1 million in the first quarter of fiscal 2021.

- Revenue from Storz & Bickel was $24.1 million in the first quarter of fiscal 2022, a year-over-year increase of $7.0 million due primarily to the continuing strong performance in the United States which was largely attributable to the expansion of our distribution network over the last year.
- Revenue from This Works was $6.6 million in the first quarter of fiscal 2022, a year-over-year increase of $0.5 million driven primarily by (i) the expansion of third-party e-commerce channels over the last year; and (ii) the adverse impact on revenue in the first quarter of fiscal 2021 due to the temporary closure of brick-and-mortar retail stores in the United Kingdom associated with the COVID-19 pandemic, which This Works was able to partially mitigate through the sale of hand sanitizer products.
- Revenue from BioSteel was $6.7 million in the first quarter of fiscal 2022, a year-over-year increase of $4.2 million due primarily to (i) the expansion of our United States distribution network beginning in the fourth quarter of fiscal 2021; (ii) new "ready-to-drink" product launches during the last year; and (iii) the adverse impact on revenue in the first quarter of fiscal 2021 related to COVID-19 related restrictions on retailers.

Cost of Goods Sold and Gross Margin

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

	Three months ended June 30,			
(in thousands of Canadian dollars except where indicated)	2021	2020	$ Change	% Change
Net revenue	$ 136,209	$ 110,416	$ 25,793	23%
Cost of goods sold	$ 108,971	$ 103,921	$ 5,050	5%
Gross margin	27,238	6,495	20,743	319%
Gross margin percentage	20%	6%	-	1,400 bps

Cost of goods sold was $109.0 million in the first quarter of fiscal 2022, as compared to $103.9 million in the first quarter of fiscal 2021. Our gross margin was $27.2 million in the first quarter of fiscal 2022, or 20% of net revenue, as compared to a gross margin of $6.5 million and gross margin percentage of 6% of net revenue in the first quarter of fiscal 2021. The year-over-year increase in the gross margin percentage was primarily attributable to:

- Improved leverage of our fixed and variable costs relative to the first quarter of fiscal 2021, particularly as it relates to Canada. In the first quarter of fiscal 2021, we lowered our production output to align with the expected market demand at that time. Lower production output, coupled with (i) our fixed costs representing a high proportion of our overall cultivation and manufacturing cost structure; and (ii) the gradual reduction of our variable costs late in the first quarter of fiscal 2021, resulted in an adverse impact on our gross margin in the first quarter of fiscal 2021. Additionally, in connection with the change to our production strategy we had also adjusted our cannabis production profile to focus on higher-potency strains, resulting in additional inventory charges in the first quarter of fiscal 2021.

- Payroll subsidies in the amount of $7.3 million received from the Canadian government in the first quarter of fiscal 2022, pursuant to a COVID-19 relief program.

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

- Higher third-party shipping, distribution and warehousing costs across North America resulting primarily from increased rates, which impacted our Canadian cannabis and U.S. CBD businesses, BioSteel, and Storz & Bickel.
- Charges totaling $1.4 million related to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022. This compares to charges of $1.2 million in the first quarter of fiscal 2021, which were associated with fiscal 2020 business combinations.

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

	Three months ended June 30,			
(in thousands of Canadian dollars except where indicated)	2021	2020	$ Change	% Change
Global cannabis segment				
Cost of goods sold	$ 79,570	$ 86,140	$ (6,570)	(8%)
Gross margin	13,369	(6,858)	20,227	295%
Gross margin percentage	14%	(9%)		2,300 bps
Other consumer products segment				
Cost of goods sold	$ 29,401	$ 17,781	$ 11,620	65%
Gross margin	13,869	13,353	516	4%
Gross margin percentage	32%	43%		(1,100) bps

Global cannabis

Gross margin for our global cannabis segment was $13.4 million in the first quarter of fiscal 2022, or 14% of net revenue, as compared to $(6.9) million in the first quarter of fiscal 2021, or (9%) of net revenue. The year-over-year increase in the gross margin percentage was primarily due to (i) the improvement in our Canadian cannabis business, as described above in our analysis of gross margin on a consolidated basis; and (ii) payroll subsidies in the amount of $7.3 million received from the Canadian government in the first quarter of fiscal 2022, pursuant to a COVID-19 relief program. Partially offsetting these factors was (i) a shift in the business mix in the first quarter of fiscal 2022, as the revenue contribution to the global cannabis segment from our higher-margin C^3 business decreased relative to the first quarter of fiscal 2021, as explained above in our analysis of segmented revenue; and (ii) charges totaling $1.4 million related to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

Other consumer products

Gross margin for our other consumer products segment was $13.9 million in the first quarter of fiscal 2022, or 32% of net revenue, as compared to $13.4 million in the first quarter of fiscal 2021, or 43% of net revenue. The year-over-year decrease in the gross margin percentage was primarily attributable to increased third-party shipping, distribution and warehousing costs across North America, which primarily impacted Storz & Bickel and BioSteel. The effect of this was compounded by a shift in the business mix towards an increased revenue contribution from the lower-margin BioSteel business.

Operating Expenses

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

(in thousands of Canadian dollars)	Three months ended June 30, 2021	Three months ended June 30, 2020	$ Change	% Change
Operating expenses				
General and administrative	$ 33,677	$ 64,827	$ (31,150)	(48%)
Sales and marketing	50,532	37,769	12,763	34%
Research and development	8,342	13,659	(5,317)	(39%)
Acquisition-related costs	5,780	1,394	4,386	315%
Depreciation and amortization	14,243	17,743	(3,500)	(20%)
Selling, general and administrative expenses	112,574	135,392	(22,818)	(17%)
Share-based compensation	11,427	28,559	(17,132)	(60%)
Share-based compensation related to acquisition milestones	1,699	2,126	(427)	(20%)
Share-based compensation expense	13,126	30,685	(17,559)	(57%)
Asset impairment and restructuring costs	89,249	12,794	76,455	598%
Total operating expenses	$ 214,949	$ 178,871	$ 36,078	20%

Selling, general and administrative expenses

Selling, general and administrative expenses were $112.6 million in the first quarter of fiscal 2022, as compared to $135.4 million in the first quarter of fiscal 2021.

General and administrative expense was $33.7 million in the first quarter of fiscal 2022, as compared to $64.8 million in the first quarter of fiscal 2021. The year-over-year decrease is due primarily to a reduction in costs attributable to the restructuring actions initiated in the fourth quarter of fiscal 2020 and continuing through fiscal 2021, resulting from an organizational and strategic review of our business. As a result of these restructuring actions, we realized reductions primarily related to (i) compensation costs for finance, information technology, legal and other administrative functions; and (ii) professional consulting fees. Additionally, we received payroll subsidies in the amount of $12.7 million from the Canadian government in the first quarter of fiscal 2022, pursuant to a COVID-19 relief program.

Sales and marketing expense was $50.5 million in the first quarter of fiscal 2022, as compared to $37.8 million in the first quarter of fiscal 2021. The year-over-year increase is primarily due to a return to more normal advertising and promotional spending in the first quarter of fiscal 2022; in the first quarter of fiscal 2021, we delayed or cancelled various product and brand marketing initiatives across our business due to the measures established to contain the spread of COVID-19.

Research and development expense was $8.3 million in the first quarter of fiscal 2022, as compared to $13.7 million in the first quarter of fiscal 2021. The year-over-year decrease is primarily attributable to a reduction in costs due to the restructuring actions initiated in the fourth quarter of fiscal 2020 and continuing throughout fiscal 2021. As we rationalized our research and development activities to focus on opportunities outside of pharmaceutical drug development, we realized reductions in compensation costs and concluded or curtailed certain research and development projects for which we had incurred costs in fiscal 2020 and in the first quarter of fiscal 2021. Further, projects planned for fiscal 2022 have been slow to launch. Additionally, we realized a reduction in research and development costs associated with the closure of certain of our sites in Canada in the fourth quarter of fiscal 2021.

Acquisition-related costs were $5.8 million in the first quarter of fiscal 2022, as compared to $1.4 million in the first quarter of fiscal 2021. In the first quarter of fiscal 2022, costs were incurred in relation to the acquisitions of Ace Valley and Supreme Cannabis, as described in “Recent Developments” above, and evaluating other potential acquisition opportunities. Comparatively, in the first quarter of fiscal 2021, costs were primarily incurred in relation to the Acreage Amended Arrangement.

Depreciation and amortization expense was $14.2 million in the first quarter of fiscal 2022, as compared to $17.7 million in the first quarter of fiscal 2021. The year-over-year decrease is primarily associated with operational changes announced in December 2020 which resulted in the abandonment or impairment of certain of our Canadian production facilities and intangible assets, and the termination of a licensing agreement with a third party in the fourth quarter of fiscal 2021.

Share-based compensation expense

Share-based compensation expense was $11.4 million in the first quarter of fiscal 2022, as compared to $28.6 million in the first quarter of fiscal 2021. The year-over-year decrease is primarily attributable to:

- The completion of vesting, prior to the first quarter of fiscal 2022, of a significant number of stock options that were granted in previous fiscal years;
- The impact of our restructuring actions that commenced in the fourth quarter of fiscal 2020 and continued in fiscal 2021, which resulted in 8.2 million forfeitures in fiscal 2021 and 809,960 forfeitures and cancellations in the first quarter of fiscal 2022; and
- An overall decrease in the number of outstanding stock options resulting from the implementation of a new “Total Rewards Program” for our employees in the first half of fiscal 2020 and associated modification of our share-based compensation program, which reduced the number of stock option awards granted in the first quarter of fiscal 2022. On a go-forward basis, we have determined to fix the regular timing of our annual long-term incentive grants to occur in June of each year, beginning in fiscal 2022. As such, no long-term incentive awards were granted in the first quarter of fiscal 2021, with the prior long-term incentive grants having been made in the fourth quarter of fiscal 2020.

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

Asset impairment and restructuring costs

Asset impairment and restructuring costs recorded in operating expenses were $89.2 million in the first quarter of fiscal 2022, as compared to $12.8 million in the first quarter of fiscal 2021.

In the first quarter of fiscal 2022, we recorded charges related to operational changes resulting from the continuing strategic review of our business as a result of recent acquisition activities, and the partial outcome of certain integration initiatives. Additionally, we recognized incremental costs associated with the closure of certain of our Canadian production facilities in December 2020. Charges totaling $89.2 million were recognized in the first quarter of fiscal 2022, primarily representing the difference between the net book value of the associated long-lived assets and their estimated fair value. Comparatively, in the first quarter of fiscal 2021 we recognized asset impairment and restructuring costs of $12.8 million in relation to (i) final adjustments related to changes in certain estimates recorded at March 31, 2020, associated with the closure of certain of our Canadian production facilities; (ii) completing the exit of our operations in South Africa and Lesotho; and (iii) employee-related costs associated with rationalizing certain marketing activities.

Other

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

	Three months ended June 30,			
(in thousands of Canadian dollars)	2021	2020	$ Change	% Change
Loss from equity method investments	$ (100)	$ (7,189)	$ 7,089	99%
Other income (expense), net	580,666	48,205	532,461	1105%
Income tax (expense) recovery	(2,900)	3,038	(5,938)	(195%)

Loss from equity method investments

The loss from equity method investments was $0.1 million in the first quarter of fiscal 2022, as compared to $7.2 million in the first quarter of fiscal 2021. The year-over-year decrease in the loss is primarily attributable to the losses associated with our equity investments in PharmHouse Inc. and Agripharm Corp. (“Agripharm”) in the first quarter of fiscal 2021 (both of which were impaired in fiscal 2021, and no further equity method losses were recognized in respect of these investments in the first quarter of fiscal 2022), whereas in the first quarter of fiscal 2022 we recognized a nominal impairment of our investment in Agripharm.

Other income (expense), net

Other income (expense), net was an income amount of $580.7 million in the first quarter of fiscal 2022, as compared to an income amount of $48.2 million in the first quarter of fiscal 2021. The year-over-year increase in income of $532.5 million is primarily attributable to:

- Increase in non-cash income of $280.9 million related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI (as defined in Note 27 of the Interim Financial Statements). The decrease of $316.3 million in the fair value of the warrant derivative liability (resulting in non-cash income) in the first quarter of fiscal 2022 is primarily attributable to a decrease of approximately 26% in our share price from April 1, 2021 to June 30, 2021, further impacted by a shorter expected time to maturity of the warrants. Comparatively, the decrease of $35.4 million in the fair value of the warrant derivative liability in the first quarter of fiscal 2021 was primarily attributable to changes during the quarter in certain assumptions used to value the liability, including the risk-free rate, partially offset by a slight increase in the price of our common shares.
- Change of $185.0 million related to the non-cash fair value changes on the liability arising from the Acreage Arrangement, from an expense amount of $35.0 million in the first quarter of fiscal 2021 to an income amount of $150.0 million in the first quarter of fiscal 2022. On a quarterly basis, we determine the fair value of the liability arising from the Acreage Arrangement using a probability-weighted expected return model, incorporating several potential scenarios and outcomes associated with the Acreage Amended Arrangement. The income amount recognized in the first quarter of fiscal 2022, associated with a decrease in the liability arising from the Acreage Arrangement, is primarily attributable to a decrease of approximately 26% in our share price from April 1, 2021 to June 30, 2021, relative to a decrease of approximately 27% in Acreage's share price during that same period. As a result, the model at June 30, 2021 reflects a lower estimated value of the Canopy Growth shares expected to be issued at the exchange ratio of 0.3048 upon a Triggering Event, relative to the estimated value of the Acreage shares expected to be acquired at that time (changes in our share price have a more significant impact on the model relative to changes in Acreage's share price). Comparatively, the expense amount recognized in the first quarter of fiscal 2021 was primarily attributable to the amendments proposed in that quarter to the previous arrangement with Acreage, relating to the revised exchange ratio and the expected incremental shareholder payment of US$37.5 million.
- Change of $71.0 million related to the non-cash fair value changes on the Notes, from an expense amount of $20.3 million in the first quarter of fiscal 2021 to an income amount of $50.7 million in the first quarter of fiscal 2022. The year-over-year change is primarily due to the decrease of approximately 26% in our share price in the first quarter of fiscal 2022, as compared to an increase of approximately 7% in our share price in the first quarter of fiscal 2021.
- Change of $62.3 million related to non-cash fair value changes on our other financial assets, from an income amount of $21.8 million in the first quarter of fiscal 2021 to an income amount of $84.2 million in the first quarter of fiscal 2022. The current quarter income amount is primarily attributable to fair value increases relating to our investments in the exchangeable shares in the capital of TerrAscend Corp. ("TerrAscend") ($53.0 million), and the secured debentures issued by TerrAscend Canada Inc. ("TerrAscend Canada") and Arise Bioscience and associated warrants issued by TerrAscend (the "TerrAscend Warrants") (totaling $32.7 million), driven largely by (i) an increase of approximately 11% in TerrAscend's share price in the first 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 and fourth quarters of fiscal 2021. Comparatively, in the first quarter of fiscal 2021 the income amount was primarily attributable to fair value increases in the secured debenture issued by TerrAscend Canada and the associated TerrAscend Warrants, driven largely by an increase in TerrAscend's share price of approximately 17% from April 1, 2020 to June 30, 2020. Although the percentage increase in TerrAscend's share price was more significant in fiscal 2021, we increased our investment in TerrAscend in the second half of fiscal 2021.
- Decrease in interest income of $6.3 million, from $9.0 million in the first quarter of fiscal 2021 to $2.6 million in the first quarter of fiscal 2022. The year-over-year decrease is primarily attributable to the decrease in interest rates and the divestiture of our interest in RIV Capital Inc. in the fourth quarter of fiscal 2021.
- Increase in interest expense of $23.4 million, primarily attributable to the US$750M debt financing that occurred in the fourth quarter of fiscal 2021.
- Decrease of $40.2 million in non-cash income related to fair value changes on acquisition related contingent consideration. In the first quarter of fiscal 2021, we recognized income attributable to changes in our assessment of the probability and timing of ebbu achieving certain scientific milestones associated with its acquisition in fiscal 2019. The acquisition related contingent consideration associated with ebbu was settled by the end of fiscal 2021.

Income tax (expense) recovery

Income tax expense in the first quarter of fiscal 2022 was $2.9 million, compared to income tax recovery of $3.0 million in the first quarter of fiscal 2021. In the first quarter of fiscal 2022, income tax expense consisted of a deferred income tax recovery of $0.6 million (compared to a recovery of $2.1 million in the first quarter of fiscal 2021) and current income tax expense of $3.5 million (compared to a recovery of $0.9 million in the first quarter of fiscal 2021).

The decrease of $1.5 million in the deferred income tax recovery is primarily a result of current quarter changes being less than prior year in respect of deferred tax liabilities that arose in connection with the required revaluation of the accounting carrying value, but not the tax basis, of property, plant and equipment, intangible assets, and other financial assets. In connection with certain deferred tax assets, mainly in respect to losses for tax purposes, where the accounting criteria for recognition of an asset has yet to be satisfied and it is not probable that they will be used, the deferred tax asset has not been recognized.

The increase of $4.4 million in the current income tax expense arose primarily in connection with legal entities that generated income for tax purposes that could not be reduced by the group's tax attributes.

Net Income (Loss)

Net income in the first quarter of fiscal 2022 was $390.0 million, as compared to a net loss of $128.3 million in the first quarter of fiscal 2021. The year-over-year change from a net loss to net income is primarily attributable to the year-over-year increase in other income (expense), net, as described above.

Adjusted EBITDA (Non-GAAP Measure)

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

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

	Three months ended June 30,			
(in thousands of Canadian dollars)	2021	2020	$ Change	% Change
Net income (loss)	$ 389,955	$ (128,322)	$ 518,277	404%
Income tax expense (recovery)	2,900	(3,038)	5,938	195%
Other (income) expense, net	(580,666)	(48,205)	(532,461)	(1105%)
Loss on equity method investments	100	7,189	(7,089)	(99%)
Share-based compensation[1]	13,126	30,685	(17,559)	(57%)
Acquisition-related costs	5,780	1,394	4,386	315%
Depreciation and amortization[1]	25,132	34,047	(8,915)	(26%)
Asset impairment and restructuring costs	78,618	12,794	65,824	514%
Charges related to the flow-through of inventory step-up on business combinations	1,414	1,213	201	17%
Adjusted EBITDA	$ (63,641)	$ (92,243)	$ 28,602	31%

[1] From Statements of Cash Flows.

The Adjusted EBITDA loss in the first quarter of fiscal 2022 was $63.6 million, as compared to the Adjusted EBITDA loss of $92.2 million in the first quarter of fiscal 2021. The year-over-year decrease in the Adjusted EBITDA loss is primarily attributable to the year-over-year increase in our gross margin and the reduction in our total selling, general and administrative expense, as discussed 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 June 30, 2021, we had cash and cash equivalents of $559.8 million and short-term investments of $1.5 billion, which are predominantly invested in liquid securities issued by the United States and Canadian governments. Additionally, we have capacity of $40.0 million under our revolving debt facility with Farm Credit Canada ("FCC"), as well as up to an additional US$500.0 million available under the Credit Facility (as defined below). In evaluating our capital requirements, including the impact, if any, on our business from the COVID-19 pandemic, and our ability to fund the execution of our strategy, we believe we have adequate available liquidity to enable us to meet our working capital and other operating requirements, fund growth initiatives and capital expenditures, settle our liabilities, and repay scheduled principal and interest payments on debt for at least the next twelve months.

Our objective is to generate sufficient cash to fund our operating requirements and expansion plans. While we have incurred net losses on a U.S. GAAP basis and Adjusted EBITDA losses to date, and our cash and cash equivalents have decreased $594.8 million from March 31, 2021 (and, together with short-term investments, decreased $248.1 million from March 31, 2021), as discussed in the "Cash Flows" section below, management anticipates the success and eventual profitability of the business. We have also ensured that we have access to public capital markets through our U.S. and Canadian public stock exchange listings, and in March 2021, we entered into a credit agreement (the "Credit Agreement") with the lenders and Wilmington Trust, National Association, as administrative agent and collateral agent for the lenders. The Credit Agreement provided for a credit facility (the "Credit Facility") in the initial aggregate principal amount of US$750.0 million. We continue to review and pursue selected external financing sources to ensure adequate financial resources. These potential sources include, but are not limited to (i) obtaining financing from traditional or non-traditional investment capital organizations; (ii) obtaining funding from the sale of our common shares or other equity or debt instruments; and (iii) obtaining debt financing with lending terms that more closely match our business model and capital needs.

There can be no assurance that we will gain adequate market acceptance for our products or be able to generate sufficient positive cash flow to achieve our business plans. In the first quarter of fiscal 2022, our purchases of and deposits on property, plant and equipment totaled $20.3 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)	Three months ended June 30, 2021	2020
Net cash (used in) provided by:		
Operating activities	$ (165,780)	$ (118,546)
Investing activities	(374,559)	(425,984)
Financing activities	(44,968)	247,303
Effect of exchange rate changes on cash and cash equivalents	(9,506)	(30,079)
Net decrease in cash and cash equivalents	(594,813)	(327,306)
Cash and cash equivalents, beginning of period	1,154,653	1,303,176
Cash and cash equivalents, end of period	$ 559,840	$ 975,870

Operating activities

Cash used in operating activities totaled $165.8 million in the first quarter of fiscal 2022, as compared to cash used of $118.5 million in the first quarter of fiscal 2021. The increase in the cash used in operating activities is primarily due to the year-over-year increase in interest paid, associated with the US$750M debt financing that occurred in the fourth quarter of fiscal 2021.

Investing activities

The cash used in investing activities totaled $374.6 million in the first quarter of fiscal 2022, as compared to cash used of $426.0 million in the first quarter of fiscal 2021. In the first quarter of fiscal 2022, purchases of property, plant and equipment were $20.3 million, primarily in our production infrastructure in the United States and an expansion of our Storz & Bickel facilities. Comparatively, in the first quarter of fiscal 2021, we invested $61.5 million in our production infrastructure in Canada and the United

States and our gummie factory in Smiths Falls. The year-over-year decrease in our purchases of property, plant and equipment reflects the substantial completion of our infrastructure build-out, and the shift in strategy to an asset-light model in certain markets.

In the first quarter of fiscal 2022, we completed the acquisitions of Ace Valley and Supreme Cannabis, with the net cash outflow totaling $8.9 million. In the first quarter of fiscal 2021, we did not complete any acquisitions. Our strategic investments in the first quarter of fiscal 2021 were $2.6 million. Finally, in the first quarter of fiscal 2022 we made payments totaling $8.4 million for acquisition-related liabilities, as compared to $4.5 million in the first quarter of fiscal 2021 as we continue to draw-down on the amounts owing in relation to acquisitions completed in prior years.

Additional cash inflows during the first quarter of fiscal 2022 related to proceeds of $10.3 million from the sale of certain wholly-owned subsidiaries. Additional cash inflows during the first quarter of fiscal 2021 related to proceeds of $18.3 million from the sale of a portfolio of patents in Germany, and $10.0 million related to a recovery of amounts related to construction financing.

Partially offsetting these decreases in cash outflows was the net purchase of short-term investments in the first quarter of fiscal 2022 in the amount of $346.6 million, as compared to $382.5 million in the first quarter of fiscal 2021.

Financing activities

The cash used in financing activities totaled $45.0 million in the first quarter of fiscal 2022, as compared to cash provided of $247.3 million in the first quarter of fiscal 2021. In the first quarter of fiscal 2022, we made repayments of long-term debt in the amount of $48.1 million, primarily related to the term loan assumed upon the completion of the acquisition of Supreme Cannabis on June 22, 2021. Comparatively, in the first quarter of fiscal 2021, we received proceeds of $245.0 million in relation to CBI exercising 18.9 million warrants to purchase our common shares.

Free Cash Flow (Non-GAAP Measure)

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

	Three months ended June 30,	
(in thousands of Canadian dollars)	2021	2020
Net cash used in operating activities	$ (165,780)	$ (118,546)
Purchases of and deposits on property, plant and equipment	(20,279)	(61,547)
Free cash flow[1]	$ (186,059)	$ (180,093)

[1]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 first quarter of fiscal 2022 was an outflow of $186.1 million, as compared to an outflow of $180.1 million in the first quarter of fiscal 2021. The year-over-year increase in the outflow reflects the increase in the cash used for operating activities, as described above, and the lower purchase of property, plant and equipment associated with the substantial completion of our infrastructure build-out over the past year and the shift in strategy to an asset-light model in certain markets.

Debt

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

Credit Facility

The Credit Agreement provides for the Credit Facility in the aggregate principal amount of US$750.0 million. We also have the ability to obtain up to an additional US$500.0 million of incremental senior secured debt pursuant to the Credit Agreement. The Credit Facility has no amortization payments, matures on March 18, 2026, has a coupon of LIBOR plus 8.50% and is subject to a LIBOR floor of 1.00%. Our obligations under the Credit Facility are guaranteed by material Canadian and U.S. subsidiaries of Canopy

Growth. The Credit Facility is secured by substantially all of the assets, including material real property, of the borrowers and each of the guarantors thereunder. The Credit Agreement contains representations and warranties, and affirmative and negative covenants, including a financial covenant requiring minimum liquidity of US$200.0 million at the end of each fiscal quarter.

Convertible Notes

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

Convertible Debentures and Accretion Debentures

On October 19, 2018, Supreme Cannabis issued 6.0% senior unsecured convertible debentures (the "Supreme Debentures") for gross proceeds of $100.0 million. On September 9, 2020, the Supreme Debentures were amended to effect, among other things: (i) the cancellation of $63.5 million of principal amount of the Supreme Debentures; (ii) an increase in the interest rate to 8% per annum; (iii) the extension of the maturity date to September 10, 2025; and (iv) a reduction in the conversion price to $0.285.

In addition, on September 9, 2020 Supreme Cannabis issued new senior unsecured non-convertible debentures ("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 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, we, Supreme Cannabis and Computershare Trust Company of Canada 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.

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

Other

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

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

Contractual Obligations and Commitments

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

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Foreign currency risk

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

A hypothetical 10% change in the U.S. dollar against the Canadian dollar compared to the exchange rate at June 30, 2021, would affect the carrying value of net assets by approximately $80.9 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 June 30, 2021, would affect the carrying value of net assets by approximately $14.3 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 June 30, 2021, our cash and cash equivalents, and short-term investments consisted of $1.7 billion, in interest rate sensitive instruments (March 31, 2021 – $1.9 billion).

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

	Aggregate Notional Value		Fair Value		Decrease in Fair Value - Hypothetical 1% Rate Increase	
	June 30, 2021	March 31, 2021	June 30, 2021	March 31, 2021	June 30, 2021	March 31, 2021
Convertible Notes	$ 600,000	$ 600,000	$ 636,042	$ 687,414	$ (9,060)	$ (8,010)
Fixed interest rate debt	43,809	3,872	N/A	N/A	N/A	N/A
Variable interest rate debt	880,927	891,677	N/A	N/A	N/A	N/A

Equity price risk

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

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

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