CANOPY GROWTH CORPORATION

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

FOR THE THREE MONTHS ENDED JUNE 30, 2020

AUGUST 10, 2020

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, 2020 (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 2021 in comparison to the first quarter of fiscal 2020.

- *Part 3 - Financial Liquidity and Capital Resources.* This section provides an analysis of our cash flows and outstanding debt and commitments. Included in this analysis is a discussion of the amount of financial capacity available to fund our ongoing operations and future commitments.

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

Special Note Regarding Forward-Looking Statements

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

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

- the uncertainties associated with the COVID-19 pandemic, including our ability to continue operations, the ability of our suppliers and distribution channels to continue to operate, 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;
- 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. Federal Drug Administration, the U.S. Federal Trade Commission, the U.S. Patent and Trademark Office, the U.S. Department of Agriculture (the "USDA") and any state equivalent regulatory agencies over U.S. hemp (including CBD) products;
- expectations regarding the regulation of the U.S. hemp industry in the U.S., including the promulgation of regulations for the U.S. hemp industry by the USDA;
- expectations regarding the potential success of, and the costs and benefits associated with, our acquisitions, joint ventures, strategic alliances and equity investments;
- the plan of arrangement with Acreage Holdings, Inc. ("Acreage"), as may be amended pursuant to the Proposal Agreement (as defined below), including the consummation of such acquisition;
- 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;
- the 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 investment in us (the "CBI Group Investments") by 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 in connection with the CBI Group Investments, including proceeds to us that may result therefrom or the potential conversion of notes held by the CBI Group in connection with the CBI Group Investments;
- expectations regarding the use of proceeds of equity financings, including the proceeds from the CBI Group Investments;
- the legalization of the use of cannabis for medical or 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 future performance of our business and operations;
- our competitive advantages and business strategies;
- the competitive conditions of the industry;
- the expected growth in the number of customers using our products;
- our ability or plans to identify, develop, commercialize or expand our technology and research and development initiatives in cannabinoids, or the success thereof;
- expectations regarding revenues, expenses and anticipated cash needs;
- expectations regarding cash flow, liquidity and sources of funding;
- expectations regarding capital expenditures;
- the expansion of our production and manufacturing, the costs and timing associated therewith and the receipt of applicable production and sale licenses;
- the expected growth in our growing, production and supply chain capacities;
- expectations regarding the resolution of litigation and other legal proceedings;
- expectations with respect to future production costs;
- expectations with respect to future sales and distribution channels;
- 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; and
- expectations regarding the costs and benefits associated with our contracts and agreements with third parties, including under our third-party supply and manufacturing agreements.

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, the risk that the COVID-19 pandemic may disrupt our operations and those of our suppliers and distribution channels and negatively impact the use of our products; consumer demand for cannabis and U.S. hemp products; 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; future levels of revenues; our ability to manage disruptions in credit markets or changes to our credit rating; 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; 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); the potential effects of judicial or other proceedings on our business, financial condition, results of operations and cash flows; volatility in and/or degradation of general economic, market, industry or business conditions; 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 leading cannabis 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, specifically, ingestible cannabis, cannabis extracts and cannabis topical products (referred to as "Cannabis 2.0"), were legalized pursuant to certain amendments to the regulations under the *Cannabis Act*. We began selling our cannabis-infused chocolates, cannabis-infused beverage offerings, vape pen power sources and pod-based vape devices across Canada in the fourth quarter of fiscal 2020, with these products complementing our existing flower, oil and softgel products. Our 510-threaded vape cartridges began shipping into the market in April 2020, 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 have also opened 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, and Spectrum Therapeutics also offers education, resource and support programs. 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 countries where permissible.

Subsequent to the passage of the U.S. Agricultural Improvement Act of 2018 in December 2018, we began building our hemp supply chain in the United States through our investment in hemp growing capability and in processing, extraction and finished goods manufacturing facilities. We sell a line of hemp-derived CBD isolate products under the First & Free brand, including oils, softgels and topical creams. In June 2019 we executed an arrangement (the "Existing Arrangement") pursuant to an arrangement agreement (the "Arrangement Agreement") with Acreage, a U.S. multi-state cannabis operator. Pursuant to the Existing 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 Arrangement Agreement, we will acquire all of the issued and outstanding shares of Acreage. In June 2020, we entered into the Proposal Agreement (as defined below) with Acreage to amend the terms of the Existing Arrangement; refer to "Recent Developments" below for further information. 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) vaporizers sold by Storz & Bickel GmbH & Co. KG ("Storz & Bickel"); (ii) beauty, skincare, wellness and sleep products, some of which have been blended with hemp-derived CBD isolate, sold by This Works Products Limited ("This Works"); and (iii) sports nutrition beverages, mixes, protein, gum and mints, some of which have been infused with hemp-derived CBD isolate, sold by BioSteel.

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, 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, greenhouse and outdoor 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 a chocolate manufacturing facility. These infrastructure investments allow us to supply the recreational and medical markets with a complimentary balance of flower products and extracted cannabinoid input for our oil, CBD and Cannabis 2.0 products. Additionally, we have built a hemp supply chain in the United States, and we hold the necessary licenses to cultivate and produce cannabis in Denmark, allowing us to supply the domestic European market.

We operate in two reportable segments:

- Cannabis, Hemp and Other Consumer Products, which encompasses the production, distribution and sale of a diverse range of cannabis, hemp-based, and other consumer products in Canada and internationally pursuant to applicable international and domestic legislation, regulations and permits; and
- Canopy Rivers Inc. ("Canopy Rivers"), a publicly-traded company in Canada, through which we provide growth capital and strategic support in the global cannabis sector, where federally lawful. Canopy Rivers did not generate net revenue in the three months ended June 30, 2020.

<u>Update on COVID-19</u>

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 our 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, as highlighted in the MD&A section of our Annual Report. We have continued to operate under the preventative measures as previously described and have experienced minimal disruption to our production and supply chain. 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.

We temporarily closed our Tweed and Tokyo Smoke retail stores beginning in mid-March in response to the COVID-19 pandemic. Upon re-opening, beginning in mid-April, our retail stores largely operated with reduced hours and under a "click-and-collect" model with curbside pickup or delivery. As of the date of the filing of this Quarterly Report, all 22 of our corporate-owned retail stores are open and offering click-and-collect and in-store shopping. Our Canadian medical business, which operates as an ecommerce 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.

Given the uncertainties associated with the COVID-19 pandemic, including those related to 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 long-term impact of the COVID-19 pandemic on our business, financial condition, results of operations, and/or cash flows. We expect the COVID-19 pandemic to continue to negatively affect our results of operations for the second quarter of fiscal 2021 and, if the effects of the COVID-19 pandemic continue, our results so long as the measures used to contain the pandemic remain in effect. We believe we have sufficient liquidity available from cash and cash equivalents and short-term investments on hand of $975.9 million and $1.1 billion, respectively at June 30, 2020, 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. Refer to "Part 3 – Financial Liquidity and Capital Resources" for further information.

Recent Developments

On June 24, 2020, we entered into a proposal agreement (the "Proposal Agreement") with Acreage to amend the terms of the Existing Arrangement made pursuant to the Arrangement Agreement between us and Acreage dated April 18, 2019, as amended on May 15, 2019. Pursuant to the terms of the Existing Arrangement, shareholders of Acreage and holders of certain securities convertible into Existing SVS (as defined below) as of June 26, 2019, received an immediate aggregate total payment of US$300.0 million ($395.2 million) in exchange for granting Canopy Growth both the right and the obligation (the "Acreage financial instrument") to acquire all of the issued and outstanding shares of Acreage following the occurrence or waiver of the Triggering Event and subject to the satisfaction or waiver of the conditions set out in the Arrangement Agreement.

Pursuant to the terms of the Proposal Agreement, the Existing Arrangement will be amended (the "Amended Arrangement") to provide for, among other things, the following:

- A capital reorganization of Acreage (the "Capital Reorganization") pursuant to which Acreage will amend its Notice of Articles and Articles to, among other things, create the Fixed Shares (as defined below), the Floating Shares (as defined below) and the Fixed Multiple Shares (as defined below) and remove the existing Acreage subordinated voting shares (the "Existing SVS"), the existing Acreage proportionate voting shares (the "Existing PVS") and the existing Acreage multiple voting shares (the "Existing MVS"). Pursuant to the Capital Reorganization (i) each outstanding Existing SVS will be exchanged for 0.7 of a Fixed Share and 0.3 of a Floating Share; (ii) each outstanding Existing PVS will be exchanged for 28 Fixed Shares and 12 Floating Shares; and (iii) each outstanding Existing MVS will be exchanged for 0.7 of a Fixed Multiple Share and 0.3 of a Floating Share;
- The new Class E subordinated voting shares (the "Fixed Shares") will have the same attributes as the Existing SVS and will be listed on the Canadian Securities Exchange (the "CSE"). Following the occurrence or waiver (at the discretion of Canopy Growth) of the Triggering Event and subject to the satisfaction or waiver of the conditions set out in the Arrangement Agreement (as modified in connection with the Amended Arrangement), Canopy Growth will acquire all of the issued and outstanding Fixed Shares based on an amended exchange ratio equal to 0.3048 of a common share to be received for each Fixed Share held (reduced from 0.5818 per Existing SVS pursuant to the Existing Agreement). The foregoing exchange ratio for the Fixed Shares is subject to adjustment in accordance with the Amended Arrangement if, among other things, Acreage issues greater than the permitted number of Fixed Shares;
- The new Class D subordinated voting shares (the "Floating Shares") will be listed on the CSE. Upon the occurrence or waiver (at the discretion of Canopy Growth) of the Triggering Event, Canopy Growth will have the right exercisable for a period of 30 days, to acquire all of the issued and outstanding Floating Shares for cash or common shares or a combination thereof, in Canopy Growth's sole discretion at a price equal to the 30-day volume weighted average trading price of the Floating Shares on the CSE, subject to a minimum call price of US$6.41 per Floating Share. The foregoing exchange ratio for the Floating Shares is subject to adjustment in accordance with the Amended Arrangement if Acreage issues greater than the permitted

number of Floating Shares. The acquisition of the Floating Shares, if acquired, will take place concurrently with the closing of the acquisition of the Fixed Shares;

- The new Class F multiple voting shares (the "Fixed Multiple Shares") will have the same attributes as the Existing MVS, provided that each Fixed Multiple Share will entitle the holder thereof to 4,300 votes per share at shareholder meetings of Acreage. Immediately prior to the acquisition of the Fixed Shares, each issued and outstanding Fixed Multiple Share will automatically be exchanged for one Fixed Share and thereafter be acquired by Canopy Growth upon the same terms and conditions as the acquisition of the Fixed Shares;
- If the occurrence or waiver of the Triggering Event does not occur within 10 years from the date the Amended Arrangement is implemented, Canopy Growth's rights to acquire both the Fixed Shares and the Floating Shares will terminate;
- Upon implementation of the Amended Arrangement, Canopy Growth will make a cash payment to the shareholders of Acreage and holders of certain securities convertible into Existing SVS in the aggregate amount of US$37.5 million; and
- Acreage is only permitted to issue an aggregate of up to 32,700,000 Fixed Shares and Floating Shares following the implementation of the Amended Arrangement.

Canopy Growth has also agreed to loan a wholly-owned subsidiary of Acreage ("Acreage Hempco") up to US$100.0 million pursuant to a secured debenture, of which US$50.0 million will be subject to the satisfaction of certain conditions by Acreage Hempco. The secured debenture will bear interest at a rate of 6.1% per annum, and mature 10 years from the date the Amended Arrangement is implemented or such earlier date in accordance with the terms of the secured debenture. As at June 30, 2020, no amounts have been loaned to Acreage Hempco.

Implementation of the Amended Arrangement is contingent upon obtaining the requisite prior approvals of the shareholders of Acreage and the Supreme Court of British Columbia and certain other closing conditions.

Part 2 - Results of Operations

Discussion of First Quarter of Fiscal 2021 Results of Operations

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Three months ended June 30, 2020	Three months ended June 30, 2019	Change	% Change
Selected financial information:				
Net revenue	$ 110,416	$ 90,482	$ 19,934	22%
Gross margin percentage	6%	20%	-	(14%)
Net loss	$ (128,322)	$ (194,051)	$ 65,729	34%
Net loss attributable to Canopy Growth Corporation	$ (108,501)	$ (185,869)	$ 77,368	42%
Loss per share - basic and diluted[1]	$ (0.30)	$ (0.54)	$ 0.24	44%

[1]For the three months ended June 30, 2020, the weighted average number of outstanding common shares, basic and diluted, totaled 363,763,347. For the three months ended June 30, 2019, the weighted average number of common shares, basic and diluted, totaled 346,779,156.

Revenue

Revenue by Channel *(in thousands of Canadian dollars)*	Three months ended June 30, 2020	Three months ended June 30, 2019	$ Change	% Change
Recreational net revenue				
Business-to-business[1]	$ 34,934	$ 38,881	$ (3,947)	(10%)
Business-to-consumer	9,330	10,638	(1,308)	(12%)
	44,264	49,519	(5,255)	(11%)
Medical net revenue				
Canadian[2]	13,910	11,686	2,224	19%
International	20,191	10,496	9,695	92%
	34,101	22,182	11,919	54%
Other revenue	32,051	18,781	13,270	71%
Net revenue	$ 110,416	$ 90,482	19,934	22%

[1] Includes excise taxes of $7,246 for the three months ended June 30, 2020 (three months ended June 30, 2019 - $11,544).

[2] Includes excise taxes of $1,426 for the three months ended June 30, 2020 (three months ended June 30, 2019 - $1,365).

Revenue by Form *(in thousands of Canadian dollars)*	Three months ended June 30, 2020	2019	$ Change	% Change
Recreational revenue by form				
Dry bud	$ 40,129	$ 60,854	$ (20,725)	(34%)
Oils and softgels	7,721	8,209	(488)	(6%)
Cannabis 2.0 products	7,060	-	7,060	-
Other revenue adjustments[1]	(3,400)	(8,000)	4,600	58%
Excise taxes	(7,246)	(11,544)	4,298	37%
	44,264	49,519	(5,255)	(11%)
Medical revenue by form				
Dry bud	10,205	7,210	2,995	42%
Oils and softgels	25,008	16,337	8,671	53%
Cannabis 2.0 products	314	-	314	-
Excise taxes	(1,426)	(1,365)	(61)	(4%)
	34,101	22,182	11,919	54%
Other revenue	32,051	18,781	13,270	71%
Net revenue	$ 110,416	$ 90,482	$ 19,934	22%

[1] Other revenue adjustments represent our determination of returns and pricing adjustments.

Net revenue in the first quarter of fiscal 2021 was $110.4 million, as compared to $90.5 million in the first quarter of fiscal 2020. The year-over-year increase is primarily attributable to (i) the year-over-year increase in other revenue resulting from strong performance by Storz & Bickel, a full quarter of revenue contribution from This Works (acquired in May 2019), and the acquisition of BioSteel in October 2019; and (ii) the year-over-year increase in medical net revenue, which was primarily due to a full quarter of revenue contribution from C^3 (acquired in April 2019), and year-over-year growth in our German and Canadian medical businesses. These increases were partially offset by a year-over-year decrease in Canadian recreational net revenue.

Recreational

Canadian recreational net revenue in the first quarter of fiscal 2021 was $44.3 million, as compared to $49.5 million in the first quarter of fiscal 2020.

Net revenue from the business-to-business channel in the first quarter of fiscal 2021 was $34.9 million, as compared to $38.9 million in the first quarter of fiscal 2020. The year-over-year decrease is primarily attributable to lower sales of our dry bud products, which is largely a result of increased competition in the value-priced dried flower category of the recreational market. In recent quarters we have observed an increase in the number of competitive offerings, particularly those with higher THC potency, and aggressive pricing strategies adopted by some market participants. The impact of lower dry bud product sales was partially offset by the introduction of our portfolio of Cannabis 2.0 product offerings across Canada over the past several months, as highlighted in the "Business Overview" section above. In the first quarter of fiscal 2021, sales of our Cannabis 2.0 products represented approximately 13% of gross revenue from the business-to-business channel.

Revenue from the business-to-consumer channel in the first quarter of fiscal 2021 was $9.3 million, as compared to $10.6 million in the first quarter of fiscal 2020. The year-over-year decrease is primarily attributable to the temporary closures of our Tweed and Tokyo Smoke retail stores beginning in mid-March in response to the COVID-19 pandemic. Upon re-opening, beginning in mid-April, our retail stores largely operated with reduced hours and under a "click-and-collect" model with curbside pickup or delivery, where permitted by provincial governments. Partially offsetting the adverse impact of COVID-19 related retail store closures is an increase related to the build-out of our retail store platform across Canada. At June 30, 2020, we had 22 corporate-owned Tweed and Tokyo Smoke retail stores in operation, an increase of 2 stores from June 30, 2019.

Medical

Medical cannabis net revenue in the first quarter of fiscal 2021 was $34.1 million, as compared to $22.2 million in the first quarter of fiscal 2020. Canadian medical net revenue in the first quarter of fiscal 2021 was $13.9 million, as compared to $11.7 million in the first quarter of fiscal 2020. The year-over-year increase is due primarily to the prior year quarter being impacted by the transition of our medical customers to the Spectrum Therapeutics online store and its more medical-focused range of cannabis products prior to the opening of the Canadian recreational market in October 2018. Since that transition, we have broadened our brand and medical cannabis product offerings available on the Spectrum Therapeutics online store in response to medical customer demand. International medical revenue in the first quarter of fiscal 2021 was $20.2 million, as compared to $10.5 million in the first quarter of fiscal 2020. C^3 (acquired in April 2019) contributed a full quarter of revenue totaling $15.4 million in the current quarter, a year-over-year increase of $6.6 million. Additionally, the year-over-year growth in our German medical business of $3.1 million is attributable to the resolution of supply constraints we had experienced early in the prior fiscal year, and which were associated with the opening of the recreational cannabis market in Canada.

Other

Other revenue is comprised of revenue related to (i) vaporizers sold by Storz & Bickel; (ii) beauty, skincare, wellness and sleep products, some of which have been blended with hemp-derived CBD isolate, sold by This Works; (iii) sports nutrition beverages, mixes, protein, gum and mints, some of which have been infused with hemp-derived CBD isolate, sold by BioSteel; and (iv) other strategic revenue sources such as our clinic partners.

Other revenue in the first quarter of fiscal 2021 was $32.1 million, as compared to $18.8 million in the first quarter of fiscal 2020. The year-over-year increase of $13.3 million is primarily due to an increase in revenue from Storz & Bickel and a full quarter of revenue contribution from both This Works (acquired in May 2019) and BioSteel (acquired in October 2019). Revenue from Storz & Bickel was $17.1 million in the current quarter, a year-over-year increase of $7.4 million due to stronger-than-expected sales performance and an expansion of our distribution network in the United States. Additionally, This Works contributed a full quarter of revenue totaling $6.0 million in the current quarter, a year-over-year increase of $3.7 million.

Cost of Goods Sold and Gross Margin

	Three months ended June 30,			
(in thousands of Canadian dollars except where indicated)	2020	2019	$ Change	% Change
Net revenue	$ 110,416	$ 90,482	$ 19,934	22%
Cost of goods sold	$ 103,921	$ 72,192	$ 31,729	44%
Gross margin	6,495	18,290	(11,795)	(64%)
Gross margin percentage	6%	20%	-	(14%)

Cost of goods sold in the first quarter of fiscal 2021 was $103.9 million, as compared to $72.2 million in the first quarter of fiscal 2020. Our gross margin in the first quarter of fiscal 2021 was $6.5 million, or 6% of net revenue, as compared to a gross margin of $18.3 million and gross margin percentage of 20% of net revenue in the first quarter of fiscal 2020. In the first quarter of fiscal 2021, our gross margin percentage was adversely impacted by the following:

- The impact of operating costs relating to facilities not yet cultivating or producing cannabis, not yet producing cannabis-related products or having under-utilized capacity. In the first quarter of fiscal 2021 these costs amounted to $8.7 million and primarily related to (i) start-up costs associated with our indoor cultivation facility in Newfoundland, our gummy production facility in Smiths Falls, and our greenhouse in Denmark, including charges for obsolete inventory resulting from delays in obtaining the required export approvals from the Danish government; and (ii) under-utilized capacity associated with our Cannabis 2.0 production facilities in Smiths Falls;
- Lower production output in the first quarter of fiscal 2021, particularly in Canada, to align with current and expected market demand. 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 current quarter, resulted in the under-absorption of these fixed and variable costs and an adverse impact on gross margin in the current quarter. In connection with these changes to our production strategy we also adjusted our cannabis production profile to focus on higher-potency strains which are more in-demand in the current market, resulting in additional inventory charges in the current quarter; and
- Charges totaling $1.2 million related to the flow-through of inventory step-up associated with fiscal 2020 business combinations.

Partially offsetting these factors was the continued shift in the business mix in the first quarter of fiscal 2021 towards increased contributions to our revenues from our higher-margin C3, Storz & Bickel and This Works businesses.

Comparatively, our gross margin percentage in the first quarter of fiscal 2020 was impacted by operating costs of $16.2 million relating to facilities not yet cultivating or processing cannabis, not yet producing cannabis-related products or having under-utilized capacity, adjustments related to the net realizable value of inventory, and a shift in the product mix in the first quarter of fiscal 2020 towards a lower percentage of higher-margin, advanced manufactured product offerings.

We harvested 22,990 kilograms of cannabis in the first quarter of fiscal 2021, as compared to 40,960 kilograms in the first quarter of fiscal 2020. The decrease is primarily due to the closure of our two greenhouses in British Columbia in the fourth quarter of fiscal 2020, partially offset by an increase in production from our greenhouse in Mirabel, Quebec.

Operating Expenses

	Three months ended June 30,			
(in thousands of Canadian dollars)	2020	2019	$ Change	% Change
Operating expenses				
General and administrative	$ 64,827	$ 63,288	$ 1,539	2%
Sales and marketing	37,769	50,547	(12,778)	(25%)
Research and development	13,659	8,490	5,169	61%
Acquisition-related costs	1,394	13,182	(11,788)	(89%)
Depreciation and amortization	17,743	10,140	7,603	75%
Selling, general and administrative expenses	135,392	145,647	(10,255)	(7%)
Share-based compensation	28,559	77,081	(48,522)	(63%)
Share-based compensation related to acquisition milestones	2,126	10,281	(8,155)	(79%)
Share-based compensation expense	30,685	87,362	(56,677)	(65%)
Asset impairment and restructuring costs	12,794	-	12,794	-
Total operating expenses	$ 178,871	$ 233,009	$ (54,138)	(23%)

Selling, general and administrative expenses

Selling, general and administrative expenses in the first quarter of fiscal 2021 were $135.4 million, as compared to $145.6 million in the first quarter of fiscal 2020.

General and administrative expense in the first quarter of fiscal 2021 was $64.8 million, relatively consistent with $63.3 million in the first quarter of fiscal 2020.

Sales and marketing expense in the first quarter of fiscal 2021 was $37.8 million, as compared to $50.5 million in the first quarter of fiscal 2020. In the comparative period we incurred costs attributable to (i) creative design, brand insights and product marketing campaigns in preparation for the launch of our Cannabis 2.0 portfolio of products, and (ii) media and advertisement placement campaigns to drive brand awareness and educate consumers in support of our Tweed, Tokyo Smoke and other recreational brands at the onset of the opening of the Canadian recreational market in October 2018. These costs did not recur to the same extent in the first quarter of fiscal 2021. Additionally, in the current quarter, as a result of the COVID-19 pandemic and the associated measures established to contain its spread, we delayed or cancelled various product and brand marketing initiatives that were planned for retail stores across Canada, and incurred significantly reduced travel costs due to travel restrictions.

The above factors resulting in a year-over-year decrease in sales and marketing expense were partially offset by higher compensation costs related to our marketing and sales capabilities servicing (i) the United States market, where initiatives continue to commercialize and drive brand and product awareness for our First & Free line of CBD products; and (ii) the growth in our business as compared to the first quarter of fiscal 2020 resulting from the acquisitions of C^3 in April 2019, This Works in May 2019 and BioSteel in October 2019.

Research and development expense in the first quarter of fiscal 2021 was $13.7 million, as compared to $8.5 million in the first quarter of fiscal 2020. The year-over-year increase is primarily attributable to (i) higher compensation costs associated with a year-over-year increase in the number of employees conducting research and developing patent-protected technology, most notably in relation to our Cannabis 2.0 products and plant science; and (ii) a year-over-year increase in costs associated with conducting external laboratory research, testing and clinical trials for CBD- and other cannabinoid-based human and animal health products and therapies. The above factors resulting in a year-over-year increase in research and development expense were partially offset by lower travel costs resulting from COVID-19 related travel restrictions, and lower third-party professional fees associated with a refocusing of Spectrum Therapeutics' research objectives.

Acquisition-related costs in the first quarter of fiscal 2021 were $1.4 million, as compared to $13.2 million in the first quarter of fiscal 2020. The year-over-year decrease is primarily attributable to more mergers and acquisitions activity in the first quarter of fiscal 2020, most notably entering into and implementing the Arrangement Agreement with Acreage and closing the acquisitions of C3 and This Works. Comparatively, in the first quarter of fiscal 2021 our primary mergers and acquisitions activity related to entering the Proposal Agreement and Amended Arrangement with Acreage, as described in "Recent Developments" above.

Depreciation and amortization expense in the first quarter of fiscal 2021 was $17.7 million, as compared to $10.1 million in the first quarter of fiscal 2020. The year-over-year increase is primarily attributable to substantial completion of the build-out of our infrastructure across Canada over the past year, investment in our infrastructure in Europe and the United States, and the growth in our business over the past year with the acquisitions of C^3, BioSteel and This Works.

Share-based compensation expense

Share-based compensation expense in the first quarter of fiscal 2021 was $28.6 million, as compared to $77.1 million in the first quarter of fiscal 2020. The year-over-year decrease is primarily attributable to:

- The significant number of stock options that were granted in previous years at relatively higher exercise prices, which impacted share-based compensation expense more significantly in previous periods. We granted 22.1 million stock options in fiscal 2019 at a weighted average price of $51.49 per option, as compared to 9.5 million options in fiscal 2020 at a weighted average price of $33.87. The year-over-year decrease in the number of stock option grants was due to the modification of our share-based compensation program in the first half of fiscal 2020, and only 155,800 options were granted in the first quarter of fiscal 2021; and
- The forfeiture or cancellation of 5.9 million stock options in fiscal 2020 and 3.1 million stock options in the first quarter of fiscal 2021 resulting primarily from restructuring actions commenced in the fourth quarter of fiscal 2020. These forfeitures and cancellations also resulted in a year-over-year reduction in share-based compensation expense.

Share-based compensation expense related to acquisition milestones in the first quarter of fiscal 2021 was $2.1 million, as compared to $10.3 million in the first quarter of fiscal 2020. The year-over-year decrease is primarily related to (i) the restructuring of our operations in Colombia in the fourth quarter of fiscal 2020, which resulted in the acceleration of share-based compensation expense related to the unvested milestones associated with the acquisitions of Spectrum Colombia and Canindica. As a result, there is no remaining share-based compensation expense to be recognized in association with the Spectrum Colombia acquisition and only a minimal amount was recognized in connection with the Canindica acquisition in the current quarter; and (ii) the achievement, in earlier quarters, of major milestones associated with the acquisitions of Spectrum Colombia, Canindica, and Spectrum Cannabis Denmark Aps, which had resulted in the recognition of share-based compensation expense at that time.

Asset impairment and restructuring costs

Asset impairment and restructuring costs recorded in operating expenses in the first quarter of fiscal 2021 were $12.8 million. In the first quarter of fiscal 2021, we completed certain of the restructuring actions that had commenced in the previous fiscal year, and recorded final adjustments related to changes in certain estimates recorded at March 31, 2020. In addition, we incurred additional costs in the first quarter of fiscal 2021 related primarily to the rationalization of our marketing organization in April 2020. As a result, in the first quarter of fiscal 2021 we recognized asset impairment and restructuring costs in relation to (i) costs associated with the closure of certain of the Company's Canadian production facilities; (ii) completing the exit of the Company's operations in South Africa and Lesotho; and (iii) employee-related costs associated with rationalizing certain marketing activities.

Other

	Three months ended June 30,			
(in thousands of Canadian dollars)	2020	2019	$ Change	% Change
Loss from equity method investments	$ (7,189)	$ (1,833)	$ (5,356)	(292%)
Other income (expense), net	48,205	32,768	15,437	47%
Income tax recovery (expense)	3,038	(10,267)	13,305	130%

Loss from equity method investments

The loss from equity method investments in the first quarter of fiscal 2021 was $7.2 million, as compared to $1.8 million in the first quarter of fiscal 2020. The year-over-year increase in the loss is primarily attributable to larger net losses incurred by PharmHouse and Agripharm relative to the prior year, which is predominantly related to current quarter business performance.

Other income (expense), net

Other income (expense), net in the first quarter of fiscal 2021 was $48.2 million, as compared to $32.8 million in the first quarter of fiscal 2020. The year-over-year increase of $15.4 million is primarily attributable to:

- Change of $62.9 million related to non-cash fair value changes on our other financial assets, from an expense amount of $41.1 million in the first quarter of fiscal 2020 to an income amount of $21.8 million in the first quarter of fiscal 2021. This change is primarily attributable to a fair value increases totaling $21.3 million in the TerrAscend Canada secured debenture and the TerrAscend warrants in the current quarter, driven largely by an increase in TerrAscend's share price of approximately 17% from April 1 to June 30, 2020. Comparatively, in the first quarter of fiscal 2020 the expense amount was primarily driven by decreases of $20.0 million and $8.0 million in the fair value of our exchangeable shares in TerrAscend and warrants in the capital of SLANG Worldwide Inc., respectively.
- Change of $41.6 million related to non-cash fair value changes on acquisition related contingent consideration, from an expense amount in the first quarter of fiscal 2020 to an income amount in the first quarter of fiscal 2021. In fiscal 2019 we acquired ebbu Inc. ("ebbu"), and the consideration paid included contingent consideration related to the achievement, by ebbu, of certain scientific related milestones. The year-over-year change in the fair value of the acquisition related contingent consideration is primarily attributable to changes in our assessment of the probability and timing of ebbu achieving certain of these milestones.
- Increase in non-cash income of $10.5 million related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI. The decrease in the fair value of the warrant derivative liability during the first quarter of fiscal 2021 is primarily attributable to changes during the quarter in certain of the assumptions used to value the liability, including the risk-free interest rate, partially offset by a slight increase in the price of our common shares. Comparatively, the decrease in the fair value of the warrant derivative liability during the first quarter of fiscal 2020 was attributable to a decline in our share price from the time the terms of the Tranche B Warrants were amended to June 30, 2019.
- Change of $51.8 million, from an income amount of $31.5 million in the first quarter of fiscal 2020 to an expense amount of $20.3 million in the first quarter of fiscal 2021, related to the non-cash fair value changes on our senior convertible notes. The price of our common shares increased approximately 7% from April 1, 2020 to June 30, 2020, which resulted in an expense being recognized in the current period. Comparatively, the price of our common shares declined approximately 7% from April 1, 2019 to June 30, 2019, which resulted in income being recognized in the first quarter of fiscal 2020.
- Non-cash fair value changes of $35.0 million related to the liability arising from the Acreage Arrangement, primarily attributable to the proposed amendments to be made to the Existing Arrangement with Acreage pursuant to the Proposal Agreement during the first quarter of fiscal 2021, as described above in "Recent Developments". Specifically, the increase in the fair value of the liability is primarily attributable to the revised exchange ratio in the Proposal Agreement, and the expected incremental shareholder payment of US$37.5 million.
- A decrease in interest income of $13.7 million, primarily attributable to the year-over-year decrease in our cash and cash equivalents and short-term investments balances and interest rates.

Income tax recovery (expense)

Income tax recovery in the first quarter of fiscal 2021 was $3.0 million, compared to income tax expense of $10.3 million in the first quarter of fiscal 2020. In the first quarter of fiscal 2021, the income tax recovery consisted of a deferred income tax recovery of $2.1 million (compared to an expense of $8.3 million in the first quarter of fiscal 2020) and current income tax recovery of $0.9 million (compared to an expense of $2.0 million in the first quarter of fiscal 2020).

The increase of $10.4 million in the deferred income tax recovery is primarily a result of (i) recording a reduction in deferred tax liabilities that arose in connection with the required revaluation of the accounting carrying value, but not the tax basis, of property, plant and equipment, intangible assets, and other financial assets; and (ii) the recognition of losses carried forward net of the use of losses carried forward from prior years for which a deferred tax asset had been recorded. In connection with certain deferred tax assets, mainly in respect of 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 $2.9 million in the current income tax recovery arose primarily in connection with legal entities that generated losses during the current period that will be used to reduce prior years' income for tax purposes, and acquired legal entities that generated income for tax purposes during prior periods that could not be reduced by the group's tax attributes but whose current period income will now be reduced by the group's tax attributes.

Net Loss

Net loss in the first quarter of fiscal 2021 was $128.3 million, as compared to $194.1 million in the first quarter of fiscal 2020. The decrease in the net loss is primarily attributable to the year-over-year decrease in operating expenses and the other variances described above.

Segmented Analysis

In the first quarters of fiscal 2021 and fiscal 2020, all of our revenue was earned by the Cannabis, Hemp and Other Consumer Products segment. Canopy Rivers contributed a net loss of $5.3 million in the first quarter of fiscal 2021, of which $1.5 million was attributable to Canopy Growth. In the first quarter of fiscal 2020, Canopy Rivers contributed a net loss of $3.3 million, of which $0.9 million was attributable to Canopy Growth. The increase in the net loss reflects changes in the fair value or carrying value of Canopy Rivers' strategic equity investments.

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 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 impairment and restructuring costs; and charges related to the flow-through of inventory step-up on business combinations, and further adjusted to remove acquisition-related costs. 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, 2020 and 2019:

	Three months ended June 30,			
(in thousands of Canadian dollars)	2020	2019	$ Change	% Change
Net loss	$ (128,322)	$ (194,051)	$ 65,729	34%
Income tax (recovery) expense	(3,038)	10,267	(13,305)	(130%)
Other (income) expense, net	(48,205)	(32,768)	(15,437)	(47%)
Loss on equity method investments	7,189	1,833	5,356	292%
Share-based compensation[1]	30,685	87,362	(56,677)	(65%)
Acquisition-related costs	1,394	13,182	(11,788)	(89%)
Depreciation and amortization[1]	34,047	20,752	13,295	64%
Asset impairment and restructuring costs	12,794	-	12,794	-
Charges related to the flow-through of inventory step-up on business combinations	1,213	-	1,213	-
Adjusted EBITDA[2]	$ (92,243)	$ (93,423)	$ 1,180	1%

[1] From Condensed Interim Consolidated Statements of Cash Flows.

[2] Adjusted EBITDA is a non-GAAP measure and is calculated as the reported net 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 impairment and restructuring costs; and charges related to the flow-through of inventory step-up on business combinations, and further adjusted to remove acquisition-related costs.

The Adjusted EBITDA loss in the first quarter of fiscal 2021 was $92.2 million, relatively consistent with the Adjusted EBITDA loss of $93.4 million in the first quarter of fiscal 2020.

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, 2020, we had cash and cash equivalents of $975.9 million and short-term investments of $1.1 billion, which are predominantly invested in liquid securities issued by the United States and Canadian governments. Additionally, we have capacity of $34.7 million under our $40.0 million revolving debt facility with Farm Credit Canada ("FCC"). 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 $327.3 million from March 31, 2020 (and, together with short-term investments, increased $60.3 million from March 31, 2020), 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. However, 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 2021, our purchases of and deposits on property, plant and equipment totaled $61.5 million, which were funded out of available cash, cash equivalents and short-term investments. Included in our purchase obligations for fiscal 2021, as reflected under the heading "Contractual Obligations and Commitments" in the MD&A section of our Annual Report, are commitments for the purchase of property, plant and equipment totaling $73.2 million in fiscal 2021. 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

	Three months ended June 30,	
(in thousands of Canadian dollars)	2020	2019
Net cash (used in) provided by:		
Operating activities	$ (118,546)	$ (158,290)
Investing activities	(425,984)	(405,597)
Financing activities	247,303	(81,691)
Effect of exchange rate changes on cash and cash equivalents	(30,079)	(18,620)
Net (decrease) increase in cash and cash equivalents	(327,306)	(664,198)
Cash and cash equivalents, beginning of year	1,303,176	2,480,830
Cash and cash equivalents, end of year	$ 975,870	$ 1,816,632

Operating activities

Cash used in operating activities in the first quarter of fiscal 2021 totaled $118.5 million, as compared to cash used of $158.3 million in the first quarter of fiscal 2020. The year-over-year decrease in the cash used in operating activities was primarily due to the year-over-year decrease in the net loss, and a year-over-year reduction in our working capital spending on inventory primarily attributable to the lower production output in the first quarter of fiscal 2021, as described in the "Cost of Goods Sold and Gross Margin" section above. These factors were partially offset by an overall decrease in the non-cash income and expense items impacting the net loss.

Investing activities

The cash used in investing activities totaled $426.0 million in the first quarter of fiscal 2021, as compared to cash used of $405.6 million in the first quarter of fiscal 2020. In the first quarter of fiscal 2021, we invested $61.5 million in our indoor facility in Newfoundland, our gummy factory in Smiths Falls, and our production infrastructure in the United States. Comparatively, in the first quarter of fiscal 2020 we invested $211.8 million in expanding our Canadian and international growing capacity, and in the construction of advanced manufacturing capability and a bottling plant at our Smiths Falls location. The year-over-year decrease in our purchases of property, plant and equipment reflects the substantial completion of our cultivation and Cannabis 2.0 infrastructure build-out, and the shift in strategy to an asset-light model in certain markets.

In the first quarter of fiscal 2021 we did not complete any acquisitions, whereas in the first quarter of fiscal 2020 cash outflows related to acquisitions totaled $425.0, and included our acquisitions of C^3 and This Works. We completed strategic investments totaling $2.6 million in the first quarter of fiscal 2021 in the form of equity instruments of certain entities, as compared to strategic investments totaling $427.4 million in the first quarter of fiscal 2020 which most notably included the $395.2 million investment in the Acreage financial instrument. Finally, in the first quarter of fiscal 2021 we made payments totaling $4.5 million for acquisition-related liabilities, as compared to $21.4 million in the first quarter of fiscal 2020 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 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 2021 in the amount of $382.5 million, as compared to the net redemption of short-term investments of $687.8 million in the first quarter of fiscal 2020. The year-over-year change reflects our investment of the proceeds from CBI exercising their warrants during the quarter (see below) in relatively safe, liquid investments. Comparatively, in the first quarter of fiscal 2020 we redeemed short-term investments for use for the purposes described above.

Financing activities

The cash provided by financing activities totaled $247.3 million in the first quarter of fiscal 2021, as compared to cash used of $81.7 million in the first quarter of fiscal 2020. 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. Additionally, in the first quarter of fiscal 2020 we repaid the Alberta Treasury Board financing in the amount of $95.2 million.

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)	2020	2019
Net cash used in operating activities	$ (118,546)	$ (158,290)
Purchases of and deposits on property, plant and equipment	(61,547)	(211,824)
Free cash flow[1]	$ (180,093)	$ (370,114)

[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 2021 was an outflow of $180.1 million, as compared to an outflow of $370.1 million in the first quarter of fiscal 2020. The year-over-year decrease in the outflow reflects the decrease in the cash used for operating activities, as described above, and the substantial completion of our cultivation and Cannabis 2.0 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 capital stock, including the $5.1 billion investment by CBI in the third quarter of fiscal 2019, and debt. Total debt outstanding as of June 30, 2020 was $500.4 million, as compared to $465.4 million as of March 31, 2020. The total principal amount owing, which excludes fair value adjustments related to our convertible senior notes, was $614.5 million at June 30, 2020, relatively consistent with the principal amount owing of $615.2 million at March 31, 2020.

Convertible senior notes

In June 2018, we issued convertible senior 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.

Other

On August 13, 2019, we entered into a $40.0 million revolving debt facility with FCC. The new facility replaces all previous loans with FCC and is secured by our property on Niagara-on-the-Lake, Ontario. The outstanding balance at June 30, 2020 is $5.3 million, and the facility bears interest of 3.45%, or the FCC prime rate plus 1.0%, and matures on September 3, 2024.

The revolving debt facility agreement with FCC includes affirmative, negative and financial covenants. As of June 30, 2020, we are in compliance with all covenants in the revolving debt facility agreement.

Further information regarding our debt issuances, including the conversion rights of the senior convertible notes, is included in Note 15 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.