CANOPY GROWTH CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2021

FEBRUARY 9, 2022

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 (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 third quarter of fiscal 2022 in comparison to the third quarter of fiscal 2021, and for the nine months ended December 31, 2021 in comparison to the nine months ended December 31, 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, 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 Wana Agreements (as defined below), including the occurrence of waiver (at our discretion) of the Triggering Event;
- the grant, renewal and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof;
- our international activities and joint venture interests, including required regulatory approvals and licensing, anticipated costs and timing, and expected impact;
- our ability to successfully create and launch brands and further create, launch and scale cannabis-based products and U.S. hemp-derived consumer products in jurisdictions where such products are legal and that we currently operate in;
- the benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, including CBD and other cannabinoids;
- the anticipated benefits and impact of the investments in us (the "CBI Group Investments") from Constellation Brands, Inc. ("CBI") and its affiliates (together, the "CBI Group");
- the potential exercise of the warrants held by the CBI Group, pre-emptive rights and/or top-up rights held by the CBI Group, 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;
- expectations of the amount or frequency of impairment losses, including as a result of the write-down of intangible assets, including goodwill;
- 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. In the first quarter of fiscal 2022, we completed the acquisitions of (i) Supreme Cannabis Company, Inc. ("Supreme Cannabis"), a producer of recreational, wholesale and medical cannabis products with a diversified portfolio of distinct cannabis products and brands, and (ii) AV Cannabis Inc. ("Ace Valley"), an Ontario-based cannabis brand focused on premium, ready-to-enjoy products including vapes, pre-roll joints and gummies.

Our Spectrum Therapeutics medical division is a global leader in medical cannabis. Spectrum Therapeutics produces and distributes a diverse portfolio of medical cannabis products to healthcare practitioners and medical customers in Canada, and in several other countries where it is federally permissible to do so.

Subsequent to the passage, 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 a line of premium, ready-to-drink CBD-infused sparkling waters under the Quatreau brand. In the second quarter of fiscal 2022, we introduced whisl, a CBD vape that was made available to customers in the United States on ShopCanopy.com in mid-September 2021, and through an exclusive nationwide retail partnership in the United States with Circle K beginning on October 1, 2021.

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.

Additionally, on October 14, 2021, we entered into definitive agreements (the "Wana Agreements") with Mountain High Products, LLC, Wana Wellness, LLC and The Cima Group, LLC (collectively, "Wana" and each, a "Wana Entity") providing us with the right, upon the occurrence or waiver (at our discretion) of the Triggering Event, to acquire 100% of the outstanding membership interests of Wana. Refer to "Recent Developments" below for further information regarding the plan to acquire Wana.

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 third 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. Recently in the United States, there have been a number of supply chain challenges, such as container ships facing delays due to congestion in ports, impacting many industries, including the industries in which we operate. Although we have not yet seen a significant impact, we continue to monitor our supply chain closely. The uncertain nature of the impacts of the COVID-19 pandemic may affect our results of operations into the fourth quarter of fiscal 2022.

We believe we have sufficient liquidity available from cash and cash equivalents and short-term investments on hand of $615.1 million and $807.9 million, respectively, at December 31, 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

Divestiture of C^3 Cannabinoid Compound Company

On December 15, 2021, we entered into an agreement to divest all of our interest in C^3 Cannabinoid Compound Company GmbH (“C^3”) to a European pharmaceutical company headquartered in Germany. C^3 develops and manufactures cannabinoid-based pharmaceutical products for distribution in Germany and certain other European countries.

The divestiture was completed on January 31, 2022, pursuant to which we received a cash payment of $128.3 million (€88.7 million), inclusive of cash, working capital and debt adjustments. We will also be entitled to an earnout payment of up to €42.6 million, subject to the achievement of certain milestones by C^3.

Plan to Acquire Wana

On October 14, 2021, we and Wana entered into the Wana Agreements providing us with the right, upon the occurrence or waiver (at our discretion) of the Triggering Event, to acquire 100% of the outstanding membership interests of Wana. Wana manufactures and sells gummies in the U.S. state of Colorado and licenses its intellectual property to partners, who manufacture, distribute, and sell Wana-branded gummies across the United States, including in California, Arizona, Illinois, Michigan and Florida. This gives Wana a total footprint of 12 U.S. states currently, and across Canada. Wana expects to have license agreements in place in more than 20 U.S. states, including in future adult-use markets in New York and New Jersey, prior to the end of calendar 2022.

The Wana Agreements are structured as three separate option agreements whereby we have a call option to acquire 100% of the membership interests in each Wana Entity. As consideration for entering into the Wana Agreements, we made an upfront cash payment (the "Upfront Payment") in the aggregate of $368.1 million (US$297.5 million). Upon exercise of the right to acquire Wana, we will make a payment equal to 15% of the fair market value of Wana at the time the option is exercised (the "Call Option Payments"). As additional consideration for the right to acquire Wana, we expect to make additional deferred payments (the "Deferred Payments") in respect of Wana as of the 2.5- and 5-year anniversary of the Upfront Payment, less certain deductions. At our option, the Call Option Payments and the Deferred Payments may be satisfied in cash, common shares or a combination thereof at our sole discretion.

Until such time as we exercise our right to acquire Wana, we will have no economic or voting interest in Wana, we will not control Wana, and we and Wana will continue to operate independently. Refer to Note 9 of the Interim Financial Statements for further information regarding the plan to acquire Wana.

Part 2 - Results of Operations

Discussion of Third Quarter of Fiscal 2022 Results of Operations

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Three months ended December 31, 2021	Three months ended December 31, 2020	$ Change	% Change
Selected consolidated financial information:				
Net revenue	$ 140,972	$ 152,528	$ (11,556)	(8%)
Gross margin percentage	7%	16%	-	(900) bps
Net loss	$ (115,496)	$ (829,251)	$ 713,755	86%
Net loss attributable to Canopy Growth Corporation	$ (108,925)	$ (904,380)	$ 795,455	88%
Basic and diluted loss per share[1]	$ (0.28)	$ (2.43)	$ 2.15	88%

[1]For the three months ended December 31, 2021, the weighted average number of outstanding common shares, basic and diluted, totaled 393,818,282. For the three months ended December 31, 2020, the weighted average number of outstanding common shares, basic and diluted, totaled 372,908,767.

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 December 31, 2021 and 2020:

Revenue by Channel

(in thousands of Canadian dollars)	Three months ended December 31, 2021	Three months ended December 31, 2020	$ Change	% Change
Canadian recreational cannabis net revenue				
Business-to-business[1]	$ 33,282	$ 43,129	$ (9,847)	(23%)
Business-to-consumer	14,477	20,224	(5,747)	(28%)
	47,759	63,353	(15,594)	(25%)
Canadian medical cannabis net revenue[2]	12,919	13,947	(1,028)	(7%)
	60,678	77,300	(16,622)	(22%)
International and other revenue				
C[3]	9,675	17,642	(7,967)	(45%)
Other	12,624	8,886	3,738	42%
	22,299	26,528	(4,229)	(16%)
Global cannabis net revenue	82,977	103,828	(20,851)	(20%)
Other consumer products				
Storz & Bickel	25,205	24,147	1,058	4%
This Works	10,730	10,907	(177)	(2%)
BioSteel	16,974	7,348	9,626	131%
Other	5,086	6,298	(1,212)	(19%)
Other consumer products revenue	57,995	48,700	9,295	19%
Net revenue	$ 140,972	$ 152,528	$ (11,556)	(8%)

[1] Reflects excise taxes of $12,754 and other revenue adjustments, representing our determination of returns and pricing adjustments, of $1,000 for the three months ended December 31, 2021 (three months ended December 31, 2020 - excise taxes of $15,977 and other revenue adjustments of $3,750).

[2] Reflects excise taxes of $1,298 for the three months ended December 31, 2021 (three months ended December 31, 2020 - $1,402).

Revenue by Form	Three months ended December 31,			
(in thousands of Canadian dollars)	2021	2020	$ Change	% Change
Canadian recreational cannabis				
Dry bud[1]	$ 46,957	$ 66,210	$ (19,253)	(29%)
Oils and softgels[1]	8,782	7,292	1,490	20%
Beverages, edibles, topicals and vapes[1]	5,774	9,578	(3,804)	(40%)
Other revenue adjustments	(1,000)	(3,750)	2,750	73%
Excise taxes	(12,754)	(15,977)	3,223	20%
	47,759	63,353	(15,594)	(25%)
Medical cannabis and other				
Dry bud	12,963	10,098	2,865	28%
Oils and softgels	18,302	27,696	(9,394)	(34%)
Beverages, edibles, topicals and vapes	5,251	4,083	1,168	29%
Excise taxes	(1,298)	(1,402)	104	7%
	35,218	40,475	(5,257)	(13%)
Global cannabis net revenue	82,977	103,828	(20,851)	(20%)
Other consumer products				
Storz & Bickel	25,205	24,147	1,058	4%
This Works	10,730	10,907	(177)	(2%)
BioSteel	16,974	7,348	9,626	131%
Other	5,086	6,298	(1,212)	(19%)
Other consumer products revenue	57,995	48,700	9,295	19%
Net revenue	$ 140,972	$ 152,528	$ (11,556)	(8%)

[1] Excludes the impact of other revenue adjustments.

Net revenue was $141.0 million in the third quarter of fiscal 2022, as compared to $152.5 million in the third quarter of fiscal 2021. The year-over-year decrease is attributable to a decrease of 20% in our global cannabis segment, which was primarily due to declines across our organic Canadian recreational and medical businesses, and C[3]. The declines in this segment were partially offset by (i) net revenue attributable to the acquisitions, in the first quarter of fiscal 2022, of Supreme Cannabis and Ace Valley; and (ii) an increase of 19% in our other consumer products segment, which was primarily due to growth in our BioSteel business.

Global cannabis

Net revenue from our global cannabis segment was $83.0 million in the third quarter of fiscal 2022, as compared to $103.8 million in the third quarter of fiscal 2021.

Canadian recreational cannabis net revenue was $47.8 million in the third quarter of fiscal 2022, as compared to $63.4 million in the third quarter of fiscal 2021.

- Net revenue from the business-to-business channel was $33.3 million in the third quarter of fiscal 2022, as compared to $43.1 million in the third quarter of fiscal 2021. In the third quarter of fiscal 2022, we continued to be impacted primarily by (i) insufficient supply of in-demand dried flower products, driven by shifting consumer preferences for certain single strain and higher-potency dried flower products and smaller format pre-rolls; and (ii) continued price compression resulting from increased competition, both in the value-priced and mainstream dried flower categories of the Canadian recreational market. These factors were partially offset by net revenue from the acquisitions of Ace Valley and Supreme Cannabis in the first quarter of fiscal 2022 which, together, contributed net revenue of $10.4 million in the third quarter of fiscal 2022.
- Revenue from the business-to-consumer channel was $14.5 million in the third quarter of fiscal 2022, as compared to $20.2 million in the third quarter of fiscal 2021. The year-over-year decrease is primarily attributable to the continuing rapid increase in the number of third-party owned retail stores across Canada, resulting in increased competition in the provinces in which we operate corporate-owned stores.

Canadian medical cannabis net revenue was $12.9 million in the third quarter of fiscal 2022, a year-over-year decrease of $1.0 million. While the broadening of our brand and medical cannabis product offerings to include pre-rolled joints, vapes, and premium dried flower products has benefited the average size of orders placed through our medical channel, we continued to be impacted in the third quarter of fiscal 2022 by a year-over-year decrease in the total number of medical orders, which was primarily related to the increasing number of recreational cannabis retail stores across Canada. With the build-out of the retail store network across Canada, customers are now offered greater availability and convenience in shopping for cannabis products.

International and other cannabis revenue was $22.3 million in the third quarter of fiscal 2022, as compared to $26.5 million in the third quarter of fiscal 2021.

- C^3 contributed revenue of $9.7 million in the third quarter of fiscal 2022, a year-over-year decrease of $8.0 million driven primarily by (i) increased competition in the synthetic cannabinoid market in Germany, and price compression for C^3's products; and (ii) a limitation on sales activities associated with COVID-19 restrictions in Germany.
- Other cannabis revenue was $12.6 million in the third quarter of fiscal 2022, a year-over-year increase of $3.7 million primarily attributable to (i) opportunistic international bulk cannabis sales from Supreme Cannabis in the amount of $4.2 million; and (ii) the growth in our U.S. CBD business, which was driven by the introduction of whisl CBD vapes. Partially offsetting these increases was a year-over-year decrease associated with our German medical cannabis business, primarily related to increased competition and price compression.

Other consumer products

Revenue from our other consumer products segment was $58.0 million in the third quarter of fiscal 2022, as compared to $48.7 million in the third quarter of fiscal 2021.

- Revenue from Storz & Bickel was $25.2 million in the third quarter of fiscal 2022, a year-over-year increase of $1.1 million due primarily to sales of new vaporizers launched late in the second quarter of fiscal 2022. However, the impact of continuing global supply chain shortages and delays creating challenges in obtaining certain parts for our vaporizers partially offset the benefit to revenue of the new product launches.
- Revenue from This Works was $10.7 million in the third quarter of fiscal 2022, relatively consistent with revenue generated in the third quarter of fiscal 2021 of $10.9 million.
- Revenue from BioSteel was $17.0 million in the third quarter of fiscal 2022, a year-over-year increase of $9.6 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) higher international sales of ready-to-drink products and beverage mixes.

Cost of Goods Sold and Gross Margin

The following table presents cost of goods sold, gross margin and gross margin percentage on a consolidated basis for the three months ended December 31, 2021 and 2020:

	Three months ended December 31,			
(in thousands of Canadian dollars except where indicated)	2021	2020	$ Change	% Change
Net revenue	$ 140,972	$ 152,528	$ (11,556)	(8%)
Cost of goods sold	$ 130,882	$ 127,943	$ 2,939	2%
Gross margin	10,090	24,585	(14,495)	(59%)
Gross margin percentage	7%	16%	-	(900) bps

Cost of goods sold was $130.9 million in the third quarter of fiscal 2022, as compared to $127.9 million in the third quarter of fiscal 2021. Our gross margin was $10.1 million in the third quarter of fiscal 2022, or 7% of net revenue, as compared to a gross margin of $24.6 million and gross margin percentage of 16% of net revenue in the third quarter of fiscal 2021. The year-over-year decrease in the gross margin percentage was primarily attributable to:

- A year-over-year decrease in net revenue and continued price compression in our Canadian recreational cannabis channel, as described above in our analysis of revenue for the third quarter of fiscal 2022;
- The impact of the under-absorption of costs for our U.S. CBD business and for BioSteel;
- A shift in the business mix resulting from a decrease in the proportionate revenue contribution from C^3 relative to the third quarter of fiscal 2021; and
- A year-over-year decline in C^3's gross margins due primarily to (i) the decrease in revenue, and the associated impact on C^3's cost leverage; and (ii) price compression for synthetic cannabinoid products resulting from increased competition.

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

- Charges totaling $3.1 million related to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022; and

- Restructuring charges totaling $4.6 million relating to inventory write-downs resulting from strategic changes to our business, including the closure of our facility in Langley, British Columbia.

Our gross margin in the third quarter of fiscal 2022 benefited from payroll subsidies in the amount of $6.6 million received from the Canadian government, pursuant to a COVID-19 relief program.

Comparatively, our gross margin in the third quarter of fiscal 2021 was impacted by restructuring charges totaling $15.6 million relating primarily to inventory write-downs associated with the closure of several of our production facilities in Canada in December 2020.

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 December 31, 2021 and 2020:

	Three months ended December 31,			
(in thousands of Canadian dollars except where indicated)	2021	2020	$ Change	% Change
Global cannabis segment				
Cost of goods sold	$ 94,186	$ 96,434	$ (2,248)	(2%)
Gross margin	(11,209)	7,394	(18,603)	(252%)
Gross margin percentage	(14%)	7%		(2,100) bps
Other consumer products segment				
Cost of goods sold	$ 36,696	$ 31,509	$ 5,187	16%
Gross margin	21,299	17,191	4,108	24%
Gross margin percentage	37%	35%		200 bps

Global cannabis

Gross margin for our global cannabis segment was $(11.2) million in the third quarter of fiscal 2022, or (14%) of net revenue, as compared to $7.4 million in the third quarter of fiscal 2021, or 7% of net revenue. The year-over-year decease in the gross margin percentage was primarily due to (i) a shift in the business mix resulting from a decrease in the proportionate revenue contribution from the relatively-higher margin C^3 business as compared to the third quarter of fiscal 2021; and (ii) the factors impacting the gross margins for C^3 and our Canadian recreational cannabis business, our U.S. CBD business, and BioSteel, as described in our analysis of cost of goods sold and gross margin on a consolidated basis above. Additionally, we recorded:

- Charges totaling $3.1 million related to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis; and
- Restructuring charges totaling $4.6 million relating to inventory write-downs resulting from strategic changes to our business. Comparatively, our gross margin in the third quarter of fiscal 2021 was impacted by restructuring charges totaling $15.6 million relating primarily to inventory write-downs associated with the closure of several of our production facilities in Canada in December 2020.

Finally, our gross margin in the third quarter of fiscal 2022 benefited from payroll subsidies in the amount of $6.6 million received from the Canadian government, pursuant to a COVID-19 relief program.

Other consumer products

Gross margin for our other consumer products segment was $21.3 million in the third quarter of fiscal 2022, or 37% of net revenue, relatively consistent with our gross margin and gross margin percentage of $17.2 million and 35% of net revenue, respectively, in the third quarter of fiscal 2021.

Operating Expenses

The following table presents operating expenses for the three months ended December 31, 2021 and 2020:

(in thousands of Canadian dollars)	Three months ended December 31, 2021	2020	$ Change	% Change
Operating expenses				
General and administrative	$ 27,421	$ 52,125	$ (24,704)	(47%)
Sales and marketing	64,398	53,682	10,716	20%
Research and development	6,510	13,957	(7,447)	(53%)
Acquisition-related costs	1,617	3,095	(1,478)	(48%)
Depreciation and amortization	16,889	21,219	(4,330)	(20%)
Selling, general and administrative expenses	116,835	144,078	(27,243)	(19%)
Share-based compensation	5,806	18,315	(12,509)	(68%)
Share-based compensation related to acquisition milestones	971	1,648	(677)	(41%)
Share-based compensation expense	6,777	19,963	(13,186)	(66%)
Expected credit losses on financial assets and related charges	-	13,735	(13,735)	(100%)
Asset impairment and restructuring costs	36,439	400,422	(363,983)	(91%)
Total operating expenses	$ 160,051	$ 578,198	$ (418,147)	(72%)

Selling, general and administrative expenses

Selling, general and administrative expenses were $116.8 million in the third quarter of fiscal 2022, as compared to $144.1 million in the third quarter of fiscal 2021.

General and administrative expense was $27.4 million in the third quarter of fiscal 2022, as compared to $52.1 million in the third 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 initiatives, we continued to realize reductions relative to the prior year primarily in relation to (i) compensation and third-party costs for finance, information technology, legal and other administrative functions; (ii) professional consulting fees; and (iii) facilities costs. Additionally, we received payroll subsidies in the amount of $10.6 million from the Canadian government in the third quarter of fiscal 2022, pursuant to a COVID-19 relief program. These cost reductions were partially offset by an increase in general and administrative expenses associated with the growth in our business, particularly in relation to our acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

Sales and marketing expense was $64.4 million in the third quarter of fiscal 2022, as compared to $53.7 million in the third quarter of fiscal 2021. The year-over-year increase is primarily due to (i) higher sponsorship fees associated with BioSteel's partnership deals; and (ii) increased digital advertising and trade activity expenses associated with BioSteel's new product launches across the United States. We also incurred professional consulting fees associated with our selling, advertising and marketing strategies; and our costs increased as a result of the acquisitions of Supreme Cannabis and Ace Valley in the first quarter of fiscal 2022. These increases in sales and marketing expense were partially offset by cost reductions attributable to the restructuring actions initiated in the fourth quarter of fiscal 2020 and continuing through fiscal 2021, resulting in lower compensation costs as compared to the third quarter of fiscal 2021.

Research and development expense was $6.5 million in the third quarter of fiscal 2022, as compared to $14.0 million in the third 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 the third quarter of fiscal 2021. We also realized a reduction in research and development costs associated with the closure of certain of our sites in Canada in the third quarter of fiscal 2021.

Acquisition-related costs were $1.6 million in the third quarter of fiscal 2022, as compared to $3.1 million in the third quarter of fiscal 2021. In the third quarter of fiscal 2022, costs were incurred primarily in relation to the plan to acquire Wana and the divestiture of C^3, both of which are described in the "Recent Developments" section above, and evaluating other potential acquisition opportunities. Comparatively, in the third quarter of fiscal 2021, costs were incurred primarily in relation to the plan of arrangement (the "RIV Arrangement") with RIV Capital Inc. ("RIV Capital"), which was completed on February 23, 2021. We also incurred costs evaluating other potential acquisition opportunities.

Depreciation and amortization expense was $16.9 million in the third quarter of fiscal 2022, as compared to $21.2 million in the third 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.

Share-based compensation expense

Share-based compensation expense was $5.8 million in the third quarter of fiscal 2022, as compared to $18.3 million in the third quarter of fiscal 2021. The year-over-year decrease is primarily attributable to:

- The completion of vesting, prior to the third quarter of fiscal 2022, of a significant number of stock options that were granted in previous fiscal years; and
- 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 2.2 million forfeitures in the first nine months of fiscal 2022. Further impacting share-based compensation expense was the forfeiture of 0.9 million stock options in the third quarter of fiscal 2022.

Share-based compensation expense related to acquisition milestones was $1.0 million in the third quarter of fiscal 2022, as compared to $1.6 million in the third quarter of fiscal 2021. The year-over-year decrease is primarily related to the completion of vesting, during the third quarter of fiscal 2022, of the share-based compensation associated with the acquisition of our clinic partners in fiscal 2017. This resulted in comparatively less share-based compensation expense recognized with respect to this acquisition in the third quarter of fiscal 2022.

Expected credit losses on financial assets and related charges

In the third quarter of fiscal 2021, we recorded expected credit losses on financial assets and related charges in the amount of $13.7 million, in relation to PharmHouse Inc. ("PharmHouse"), a joint venture formed between RIV Capital and its joint venture partner in May 2018. These expected credit losses and related charges were recognized through February 23, 2021, the date on which the RIV Arrangement was completed pursuant to which we surrendered all shares in the capital of RIV Capital held by us, and derecognized RIV Capital's consolidated assets and liabilities from our consolidated financial statements. These expected credit losses and related charges included:

- $7.5 million related to expected credit losses recognized for RIV Capital's contingent obligation to perform on the financial guarantee they provided with respect to PharmHouse's $90.0 million credit agreement (the "PharmHouse Financial Guarantee"). The expected credit losses reflected the shortfall between the estimated recoverable amount of PharmHouse and RIV Capital's exposure under their financial guarantee of PharmHouse's credit agreement; and
- $6.2 million related to expected credit losses associated with a debtor-in-possession credit facility advanced by RIV Capital to PharmHouse (the "DIP Financing"), and which we determined may not be recoverable.

Asset impairment and restructuring costs

Asset impairment and restructuring costs recorded in operating expenses were $36.4 million in the third quarter of fiscal 2022, as compared to $400.4 million in the third quarter of fiscal 2021.

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

Comparatively, in the third quarter of fiscal 2021, we recognized asset impairment and restructuring costs in relation to:

- The restructuring actions commenced in the third quarter of fiscal 2021 resulting in the closure of certain of our sites in Canada. A loss totaling $352.6 million was recognized in the third quarter of fiscal 2021 representing the difference between the net book value of the long-lived assets and their estimated salvage value. Of this loss, $298.2 million related to property, plant and equipment and $54.4 million related to facility licenses and other intangible assets. The losses related to property, plant and equipment were primarily attributable to buildings and greenhouses, production and warehouse equipment, and right-of-use assets. Additionally, we recognized contractual and other settlement obligations of $13.1 million and employee-related and other restructuring costs of $1.9 million; and

- As a result of the sale of our production facilities in Aldergrove and Delta, British Columbia in December 2020 and January 2021, respectively, and the completion of our strategy shift in Latin America that we commenced in the fourth quarter of fiscal 2020, we recognized a loss totaling $28.4 million in the third quarter of fiscal 2021 representing the difference between the net book value of the long-lived assets and their selling prices. Additionally, we recognized costs totaling $4.4 million related to contractual and other settlement obligations, employee-related costs, and other restructuring costs associated with the remediation of damages caused by the fire at the Delta facility in November 2020, the closure of the facilities in British Columbia, and their sale.

Other

The following table presents loss from equity method investments, other income (expense), net, and income tax recovery for the three months ended December 31, 2021 and 2020:

	Three months ended December 31,			
(in thousands of Canadian dollars)	2021	2020	$ Change	% Change
Loss from equity method investments	$ -	$ (671)	$ 671	100%
Other income (expense), net	34,282	(290,567)	324,849	112%
Income tax recovery	183	15,600	(15,417)	(99%)

Loss from equity method investments

The loss from equity method investments was $nil in the third quarter of fiscal 2022, as compared to $0.7 million in the third quarter of fiscal 2021. The year-over-year decrease in the loss is primarily attributable to the impairment of our remaining investment in Agripharm Corp. (“Agripharm”) in the first quarter of fiscal 2022. As a result of this impairment, there were no remaining equity method investment balances at December 31, 2021.

Other income (expense), net

Other income (expense), net was an income amount of $34.3 million in the third quarter of fiscal 2022, as compared to an expense amount of $290.6 million in the third quarter of fiscal 2021. The year-over-year change of $324.8 million, from an expense amount to an income amount, is primarily attributable to:

- Increase in non-cash income of $362.0 million related to the non-cash fair value changes on the liability arising from the Acreage Arrangement, from an expense amount of $303.0 million in the third quarter of fiscal 2021 to an income amount of $59.0 million in the third 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 third quarter of fiscal 2022, associated with a decrease in the liability arising from the Acreage Arrangement, is primarily attributable to a decrease of approximately 37% in our share price during the third quarter of fiscal 2022, relative to a decrease of approximately 40% in Acreage’s share price during that same period. As a result, the model at December 31, 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); this resulted in a reduction of the liability amount. Comparatively, the expense amount recognized in the third quarter of fiscal 2021 was primarily attributable to an increase of approximately 64% in our share price in the third quarter of fiscal 2021, relative to an increase of approximately 2% in Acreage’s share price during that same period.
- Increase in non-cash income of $261.3 million related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI (as defined in Note 27 of the Interim Financial Statements). The decrease of $67.3 million in the fair value of the warrant derivative liability (resulting in non-cash income) in the third quarter of fiscal 2022 is primarily attributable to a decrease of approximately 37% in our share price during the third quarter of fiscal 2022, further impacted by a shorter expected time to maturity of the warrants. Comparatively, the increase of $194.0 million in the fair value of the warrant derivative liability in the third quarter of fiscal 2021 was primarily attributable to an increase of approximately 64% in our share price during the third quarter of fiscal 2021, partially offset by changes during the quarter in certain other assumptions used to value the liability, including the risk-free rate.
- Increase in non-cash income of $76.1 million related to the non-cash fair value changes on the Notes, from an expense amount of $75.5 million in the third quarter of fiscal 2021 to an income amount of $0.6 million in the third quarter of fiscal 2022. The year-over-year change is primarily due to the decrease of approximately 37% in our share price in the third quarter of fiscal

2022, as compared to an increase of approximately 64% during the third quarter of fiscal 2021, along with year-over-year changes in credit spreads.

- Change of $350.0 million related to non-cash fair value changes on our other financial assets, from an income amount of $281.4 million in the third quarter of fiscal 2021 to an expense amount of $68.7 million in the third quarter of fiscal 2022. The current quarter expense amount is primarily attributable to fair value decreases 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 $13.0 million), driven largely by (i) a decrease of approximately 12% in TerrAscend's share price in the third quarter of fiscal 2022; and (ii) re-assessments of the probability and timing of changes in federal laws in the United States regarding the permissibility of the cultivation, distribution or possession of marijuana in the third quarter of fiscal 2022. Comparatively, in the third quarter of fiscal 2021 the income amount was primarily attributable to fair value increases relating to our investments in the TerrAscend exchangeable shares ($210.0 million), and the TerrAscend Canada secured debentures and TerrAscend Warrants (totaling $87.1 million), driven largely by an increase of approximately 120% in TerrAscend's share price in the third quarter of fiscal 2021 and a re-assessment 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. Partially offsetting these fair value increases in the third quarter of fiscal 2021 was a fair value decrease of $15.0 million representing the difference between the US$50 million loan advanced to a wholly-owned subsidiary of Acreage ("Acreage Hempco") pursuant to a debenture and the debenture's estimated fair value measured using a discounted cash flow model.
- Increase in interest expense of $25.4 million, from $1.0 million in the third quarter of fiscal 2021 to $26.4 million in the third quarter of fiscal 2022. The year-over-year increase is primarily attributable to the US$750 million debt financing that occurred in the fourth quarter of fiscal 2021.

<u>Income tax recovery</u>

Income tax recovery in the third quarter of fiscal 2022 was $0.2 million, compared to an income tax recovery of $15.6 million in the third quarter of fiscal 2021. In the third quarter of fiscal 2022, income tax recovery consisted of a deferred income tax expense of $2.4 million (compared to a recovery of $16.6 million in the third quarter of fiscal 2021) and current income tax recovery of $2.6 million (compared to an expense of $1.0 million in the third quarter of fiscal 2021).

The change of $19.0 million from a deferred income tax recovery to an expense is primarily a result of changes in the third quarter of fiscal 2022 being less than changes in the third quarter of fiscal 2021 in respect of 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. In connection with certain deferred tax assets, mainly with respect to losses for tax purposes, where the accounting criteria for recognition of an asset has yet to be satisfied and it is not probable that they will be used, the deferred tax asset has not been recognized.

The change of $3.5 million from current income tax expense to a recovery 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 of prior years' return to provision tax recovery.

Net Loss

The net loss in the third quarter of fiscal 2022 was $115.5 million, as compared to a net loss of $829.3 million in the third quarter of fiscal 2021. The year-over-year decrease in the net loss is primarily attributable to the year-over-year decreases in (i) asset impairment and restructuring costs; (ii) selling, general and administrative expenses; (iii) expected credit losses on financial assets and related charges; and (iv) share-based compensation expense, and the year-over-year increase in other income (expense), net. These changes, contributing to a decrease in the net loss, were partially offset by the year-over-year decrease in our gross margin and income tax recovery. These variances are described above.

Adjusted EBITDA (Non-GAAP Measure)

Our "Adjusted EBITDA" is a non-GAAP measure used by management that is not defined by U.S. GAAP and may not be comparable to similar measures presented by other companies. Management calculates Adjusted EBITDA as the reported net income (loss), adjusted to exclude income tax 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 December 31, 2021 and 2020:

(in thousands of Canadian dollars)	Three months ended December 31, 2021	Three months ended December 31, 2020	$ Change	% Change
Net loss	$ (115,496)	$ (829,251)	$ 713,755	86%
Income tax recovery	(183)	(15,600)	15,417	99%
Other (income) expense, net	(34,282)	290,567	(324,849)	(112%)
Loss on equity method investments	-	671	(671)	(100%)
Share-based compensation[1]	6,777	19,963	(13,186)	(66%)
Acquisition-related costs	1,617	3,095	(1,478)	(48%)
Depreciation and amortization[1]	30,017	32,385	(2,368)	(7%)
Asset impairment and restructuring costs	36,439	400,422	(363,983)	(91%)
Expected credit losses on financial assets and related charges	-	13,735	(13,735)	(100%)
Restructuring costs recorded in cost of goods sold	4,554	15,637	(11,083)	(71%)
Charges related to the flow-through of inventory step-up on business combinations	3,147	-	3,147	-
Adjusted EBITDA	$ (67,410)	$ (68,376)	$ 966	1%

[1] From Statements of Cash Flows.

The Adjusted EBITDA loss in the third quarter of fiscal 2022 was $67.4 million, relatively consistent with the Adjusted EBITDA loss of $68.4 million in the third quarter of fiscal 2021.

Discussion of Results of Operations for the Nine Months Ended December 31, 2021

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Nine months ended December 31, 2021	Nine months ended December 31, 2020	$ Change	% Change
Selected consolidated financial information:				
Net revenue	$ 408,555	$ 398,210	$ 10,345	3%
Gross margin percentage	(8%)	14%	-	(2,200) bps
Net income (loss)	$ 258,128	$ (1,054,125)	$ 1,312,253	124%
Net income (loss) attributable to Canopy Growth Corporation	$ 272,435	$ (1,044,942)	$ 1,317,377	126%
Basic earnings (loss) per share[1]	$ 0.70	$ (2.83)	$ 3.53	125%
Diluted earnings (loss) per share[1]	$ 0.43	$ (2.83)	$ 3.26	115%

[1]For the nine months ended December 31, 2021, the weighted average number of outstanding common shares, basic and diluted, totaled 390,423,083 and 410,986,802, respectively. For the nine months ended December 31, 2020, the weighted average number of outstanding common shares, basic and diluted, totaled 369,418,037.

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 nine months ended December 31, 2021 and 2020:

Revenue by Channel	Nine months ended December 31,			
(in thousands of Canadian dollars)	2021	2020	$ Change	% Change
Canadian recreational cannabis net revenue				
Business-to-business[1]	$ 117,902	$ 120,286	$ (2,384)	(2%)
Business-to-consumer	48,473	48,263	210	-
	166,375	168,549	(2,174)	(1%)
Canadian medical cannabis net revenue[2]	39,504	41,745	(2,241)	(5%)
	205,879	210,294	(4,415)	(2%)
International and other revenue				
C[3]	33,005	46,567	(13,562)	(29%)
Other	32,357	20,543	11,814	58%
	65,362	67,110	(1,748)	(3%)
Global cannabis net revenue	271,241	277,404	(6,163)	(2%)
Other consumer products				
Storz & Bickel	63,786	63,103	683	1%
This Works	26,308	24,789	1,519	6%
BioSteel	31,147	14,918	16,229	109%
Other	16,073	17,996	(1,923)	(11%)
Other consumer products revenue	137,314	120,806	16,508	14%
Net revenue	$ 408,555	$ 398,210	$ 10,345	3%

[1] Reflects excise taxes of $43,501 and other revenue adjustments, representing our determination of returns and pricing adjustments, of $4,000 for the nine months ended December, 2021 (nine months ended December 31, 2020 - excise taxes of $37,423 and other revenue adjustments of $10,900).

[2] Reflects excise taxes of $4,039 for the nine months ended December 31, 2021 (nine months ended December 31, 2020 - $4,190).

Revenue by Form	Nine months ended December 31,			
(in thousands of Canadian dollars)	2021	2020	$ Change	% Change
Canadian recreational cannabis				
Dry bud[1]	$ 169,772	$ 170,234	$ (462)	-
Oils and softgels[1]	19,995	22,034	(2,039)	(9%)
Beverages, edibles, topicals and vapes[1]	24,109	24,604	(495)	(2%)
Other revenue adjustments	(4,000)	(10,900)	6,900	63%
Excise taxes	(43,501)	(37,423)	(6,078)	(16%)
	166,375	168,549	(2,174)	(1%)
Medical cannabis and other				
Dry bud	31,689	30,766	923	3%
Oils and softgels	59,615	76,369	(16,754)	(22%)
Beverages, edibles, topicals and vapes	17,601	5,910	11,691	198%
Excise taxes	(4,039)	(4,190)	151	4%
	104,866	108,855	(3,989)	(4%)
Global cannabis net revenue	271,241	277,404	(6,163)	(2%)
Other consumer products				
Storz & Bickel	63,786	63,103	683	1%
This Works	26,308	24,789	1,519	6%
BioSteel	31,147	14,918	16,229	109%
Other	16,073	17,996	(1,923)	(11%)
Other consumer products revenue	137,314	120,806	16,508	14%
Net revenue	$ 408,555	$ 398,210	$ 10,345	3%

[1] Excludes the impact of other revenue adjustments.

Net revenue was $408.6 million in the nine months ended December 31, 2021, as compared to $398.2 million in the nine months ended December 31, 2020. The year-over-year increase is attributable to growth of 14% in our other consumer products segment, which was primarily due to the growth in our BioSteel business. The growth in this segment was partially offset by a decrease of 2% in our global cannabis segment, as declines across our organic Canadian recreational and medical cannabis businesses were only partially offset by net revenue attributable to the acquisitions, in the first quarter of fiscal 2022, of Supreme Cannabis and Ace Valley.

Global cannabis

Net revenue from our global cannabis segment was $271.2 million in the nine months ended December 31, 2021, as compared to $277.4 million in the nine months ended December 31, 2020.

Canadian recreational cannabis net revenue was $166.4 million in the nine months ended December 31, 2021, as compared to $168.5 million in the nine months ended December 31, 2020.

- Net revenue from the business-to-business channel was $117.9 million in the nine months ended December 31, 2021, as compared to $120.3 million in the nine months ended December 31, 2020. The year-over-year decrease is primarily attributable to the impacts, in the nine months ended December 31, 2021, of (i) an insufficient supply of in-demand dried flower products, as described above in our analysis of revenue for the third quarter of fiscal 2022; (ii) 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 (iii) continued price compression resulting from increased competition in both the value-priced and mainstream dried flower category of the recreational market. These factors were partially offset by net revenue from the acquisitions of Supreme Cannabis and Ace Valley in the first quarter of fiscal 2022, which, together, contributed revenue of $29.6 million in the nine months ended December 31, 2021.
- Revenue from the business-to-consumer channel was $48.5 million in the nine months ended December 31, 2021, relatively consistent with revenue generated of $48.3 million in the nine months ended December 31, 2020.

Canadian medical cannabis net revenue was $39.5 million in the nine months ended December 31, 2021, a decrease of 5% as compared to the nine months ended December 31, 2020 due primarily to a year-over-year decrease in the total number of medical orders associated with the increase in the number of recreational cannabis retail stores across Canada, partially offset by an increase in the average order size.

International and other cannabis revenue was $65.4 million in the nine months ended December 31, 2021, as compared to $67.1 million in the nine months ended December 31, 2020.

- C^3 contributed revenue of $33.0 million in the nine months ended December 31, 2021, a year-over-year decrease of $13.6 million driven primarily by (i) increased competition in the synthetic cannabinoid market in Germany, and price compression for C^3's products; (ii) a limitation on sales activities associated with COVID-19 restrictions, particularly in the first and third quarters of fiscal 2022; and (iii) the impact of the stronger Canadian dollar relative to the prior year.
- Other cannabis revenue was $32.4 million in the nine months ended December 31, 2021, a year-over-year increase of $11.8 million primarily attributable to (i) the growth in our U.S. CBD business, which was driven by the introduction of our whisl CBD vapes, the Martha Stewart CBD line of products, and Quatreau CBD beverages over the last twelve months; and (ii) opportunistic international bulk cannabis sales from Supreme Cannabis in the third quarter of fiscal 2022, in the amount of $4.2 million. Partially offsetting this was a year-over-year decrease associated with our German medical cannabis business, primarily related to (i) increased competition and price compression; and (ii) the impact of the stronger Canadian dollar relative to the prior year.

Other consumer products

Revenue from our other consumer products segment was $137.3 million in the nine months ended December 31, 2021, as compared to $120.8 million in the nine months ended December 31, 2020.

- Revenue from Storz & Bickel was $63.8 million in the nine months ended December 31, 2021, relatively consistent with revenue generated in the nine months ended December 31, 2020 of $63.1 million.
- Revenue from This Works was $26.3 million in the nine months ended December 31, 2021, a year-over-year increase of $1.5 million driven primarily by the expansion of third-party e-commerce channels over the last year.
- Revenue from BioSteel was $31.1 million, a year-over-year increase of $16.2 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; (iii) higher international sales of ready-to-drink products and beverages mixes; and (iv) the adverse impact on revenue in the nine months ended December 31, 2020 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 nine months ended December 31, 2021 and 2020:

	Nine months ended December 31,			
(in thousands of Canadian dollars except where indicated)	2021	2020	$ Change	% Change
Net revenue	$ 408,555	$ 398,210	$ 10,345	3%
Cost of goods sold	$ 442,367	$ 341,050	$ 101,317	30%
Gross margin	(33,812)	57,160	(90,972)	(159%)
Gross margin percentage	(8%)	14%	-	(2,200) bps

Cost of goods sold was $442.4 million in the nine months ended December 31, 2021, as compared to $341.1 million in the nine months ended December 31, 2020. Our gross margin was $(33.8) million in the nine months ended December 31, 2021, or (8%) of net revenue, as compared to a gross margin of $57.2 million and gross margin percentage of 14% of net revenue in the nine months ended December 31, 2020. The year-over-year decrease in the gross margin percentage was primarily attributable to the inventory write-downs recorded in the second quarter of fiscal 2022. These write-downs were primarily related to excess Canadian cannabis inventory, resulting from underperformance relative to forecast as well as declines in expected near-term demand.

Our gross margin in the nine months ended December 31, 2021 was also impacted by the items described above in our analysis of "Cost of Goods Sold and Gross Margin" for the third quarter of fiscal 2022 relating to (i) the shift in the business mix relative to the nine months ended December 31, 2020, and (ii) the factors impacting the gross margins for our Canadian recreational cannabis business, C^3, our U.S. CBD business, and BioSteel in the nine months ended December 31, 2021. We were also impacted by:

- Charges totaling $7.7 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 $1.5 million in the nine months ended December 31, 2020, which were associated with fiscal 2020 business combinations; and

- Restructuring charges totaling $4.6 million relating to inventory write-downs resulting from strategic changes to our business, including the closure of our facility in Langley, British Columbia. Comparatively, our gross margin in the third quarter of fiscal 2021 was impacted by restructuring charges totaling $15.6 million relating primarily to the closure of several of our production facilities in Canada in December 2020.

Our gross margin in the nine months ended December 31, 2021 benefited from payroll subsidies in the amount of $20.8 million received from the Canadian government, pursuant to a COVID-19 relief program.

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 nine months ended December 31, 2021 and 2020:

	Nine months ended December 31,			
(in thousands of Canadian dollars except where indicated)	2021	2020	$ Change	% Change
Global cannabis segment				
Cost of goods sold	$ 351,673	$ 264,806	$ 86,867	33%
Gross margin	(80,432)	12,598	(93,030)	(738%)
Gross margin percentage	(30%)	5%		(3,500) bps
Other consumer products segment				
Cost of goods sold	$ 90,694	$ 76,244	$ 14,450	19%
Gross margin	46,620	44,562	2,058	5%
Gross margin percentage	34%	37%		(300) bps

Global cannabis

Gross margin for our global cannabis segment was $(80.4) million in the nine months ended December 31, 2021, or (30%) of net revenue, as compared to $12.6 million in the nine months ended December 31, 2020, or 5% of net revenue. The year-over-year decrease in the gross margin percentage was primarily attributable to the inventory write-downs recorded in the second quarter of fiscal 2022 in relation to excess Canadian cannabis inventory. Additionally, we recorded:

- Charges totaling $7.7 million in the nine months ended December 31, 2021 related to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis; and
- Restructuring charges totaling $4.6 million relating to inventory write-downs resulting from strategic changes to our business. Comparatively, our gross margin in the nine months ended December 31, 2020 was impacted by restructuring charges totaling $15.6 million relating primarily to inventory write-downs associated with the closure of several of our production facilities in Canada in December 2020.

Our gross margin in the nine months ended December 31, 2021 benefited from payroll subsidies in the amount of $20.8 million received from the Canadian government pursuant to a COVID-19 relief program.

Other consumer products

Gross margin for our other consumer products segment was $46.6 million in the nine months ended December 31, 2021, or 34% of net revenue, as compared to $44.6 million in the nine months ended December 31, 2020, or 37% of net revenue. The year-over-year decrease in the gross margin percentage was primarily attributable to the year-over-year increase in revenue for our BioSteel business, as discussed above in our analysis of “Net Revenue” for the nine months ended December 31, 2021, and the resulting 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 nine months ended December 31, 2021 and 2020:

(in thousands of Canadian dollars)	Nine months ended December 31, 2021	Nine months ended December 31, 2020	$ Change	% Change
Operating expenses				
General and administrative	$ 96,643	$ 186,507	$ (89,864)	(48%)
Sales and marketing	179,464	134,824	44,640	33%
Research and development	23,616	41,782	(18,166)	(43%)
Acquisition-related costs	9,788	7,961	1,827	23%
Depreciation and amortization	45,654	55,649	(9,995)	(18%)
Selling, general and administrative expenses	355,165	426,723	(71,558)	(17%)
Share-based compensation	31,480	66,775	(35,295)	(53%)
Share-based compensation related to acquisition milestones	4,376	5,857	(1,481)	(25%)
Share-based compensation expense	35,856	72,632	(36,776)	(51%)
Expected credit losses on financial assets and related charges	-	108,480	(108,480)	(100%)
Asset impairment and restructuring costs	128,198	459,579	(331,381)	(72%)
Total operating expenses	$ 519,219	$ 1,067,414	$ (548,195)	(51%)

Selling, general and administrative expenses

Selling, general and administrative expenses were $355.2 million in the nine months ended December 31, 2021, as compared to $426.7 million in the nine months ended December 31, 2020.

General and administrative expense was $96.6 million in the nine months ended December 31 2021, as compared to $186.5 million in the nine months ended December 31, 2020. The year-over-year decrease is due primarily to a reduction in costs attributable to the previously-noted restructuring actions, resulting from an organizational and strategic review of our business. As a result of these restructuring actions, we continued to realize reductions relative to the prior year primarily related to (i) compensation and third-party costs for finance, information technology, legal and other administrative functions; (ii) professional consulting fees; and (iii) facilities costs. Additionally, we received payroll subsidies in the amount of $33.9 million from the Canadian government in the nine months ended December 31, 2021, pursuant to a COVID-19 relief program. These cost reductions were partially offset by an increase in general and administrative expenses associated with the growth in our business, particularly in relation to our acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

Sales and marketing expense was $179.5 million in the nine months ended December 31, 2021, as compared to $134.8 million in the nine months ended December 31, 2020. The year-over-year increase is primarily due to a return to more normal advertising and promotional spending in the nine months ended December 31, 2021. In the first half 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. Additionally, relative to the nine months ended December 31, 2021, we incurred (i) higher sponsorship fees associated with BioSteel's partnership deals; (ii) increased advertising and promotion expenses associated with new product launches for BioSteel and our U.S. CBD business; (iii) professional consulting fees associated with our selling, advertising and marketing strategies; and (iv) increased sales and marketing costs associated with our acquisitions of Supreme Cannabis and Ace Valley in the first quarter of fiscal 2022. These increases in sales marketing expense were partially offset by cost reductions attributable to the previously-noted restructuring actions, resulting in lower compensation costs as compared to the nine months ended December 31, 2020.

Research and development expense was $23.6 million in the nine months ended December 31, 2021, as compared to $41.8 million in the nine months ended December 31, 2020. 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. We realized reductions in compensation costs and concluded or curtailed certain research and development projects as we rationalized our initiatives to focus on opportunities outside of pharmaceutical drug development. We also 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 $9.8 million in the nine months ended December 31, 2021, as compared to $8.0 million in the nine months ended December 31, 2020. In the nine months ended December 31, 2021, costs were incurred primarily in relation to the plan to acquire Wana and the divestiture of C^3, both of which are described in the "Recent Developments" section above, the acquisitions of Supreme Cannabis and Ace Valley, and evaluating other potential acquisition opportunities. Comparatively, in the nine months ended December 31, 2020, costs were primarily incurred in relation to entering into, and implementing, the Acreage Amended Arrangement, and the RIV Arrangement.

Depreciation and amortization expense was $45.7 million in the nine months ended December 31, 2021, as compared to $55.6 million in the nine months ended December 31, 2020. The year-over-year decrease is primarily due to (i) operational changes announced in December 2020, which resulted in the abandonment or impairment of certain of our Canadian production facilities and intangible assets; (ii) the impairment of certain intangible assets associated with the rationalization of our research and development activities; and (iii) the termination of a licensing agreement with a third party in the fourth quarter of fiscal 2021. These decreases were partially offset by an increase in depreciation expense associated with the build-out of our production infrastructure in the United States.

Share-based compensation expense

Share-based compensation expense was $31.5 million in the nine months ended December 31, 2021, as compared to $66.8 million in the nine months ended December 31, 2020. The year-over-year decrease is primarily attributable to:

- The completion of vesting, prior to the nine months ended December 31, 2021, of a significant number of stock options that were granted in previous fiscal years; and
- 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 2.2 million forfeitures in the nine months ended December 31, 2021.

Share-based compensation expense related to acquisition milestones was $4.4 million in the nine months ended December 31, 2021, as compared to $5.9 million in the nine months ended December 31, 2020. The year-over-year decrease is primarily related to the completion of vesting, in prior quarters, of the share-based compensation associated with the acquisition of Spectrum Cannabis Denmark Aps, and the completion of vesting, during the third quarter of fiscal 2022, of the share-based compensation associated with the acquisitions of our clinic partners in fiscal 2017.

Expected credit losses on financial assets and related charges

In the nine months ended December 31, 2021, we recorded expected credit losses on financial assets and related charges in the amount of $108.5 million, in relation to PharmHouse. These expected credit losses were recognized through February 23, 2021, the date on which the RIV Arrangement was completed, and included:

- $61.0 million related to expected credit losses associated with financing provided by RIV Capital to PharmHouse, and which we determined may not be recoverable. The amounts included (i) $40.0 million of secured debt financing advanced pursuant to a shareholder loan; (ii) $8.3 million advanced pursuant to the DIP Financing; (iii) a total of $3.7 million advanced under secured and unsecured promissory notes; and (iv) associated interest receivable totaling $9.0 million;
- $32.5 million related to expected credit losses recognized for RIV Capital's contingent obligation to perform on the PharmHouse Financial Guarantee. The expected credit losses reflected the shortfall between the estimated recoverable amount of PharmHouse and RIV Capital's exposure under their financial guarantee of PharmHouse's credit agreement;
- $15.0 million related to certain advances provided by RIV Capital to PharmHouse that were determined to be unrecoverable.

Additionally, we determined that there was an other-than-temporary impairment on our equity investment in PharmHouse, and recognized an impairment charge for the full amount of the investment of $32.4 million (see "Loss from equity method investments" below).

Asset impairment and restructuring costs

Asset impairment and restructuring costs recorded in operating expenses were $128.2 million in the nine months ended December 31, 2021, as compared to $459.6 million in the nine months ended December 31, 2020.

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

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

- Incremental costs associated with the closure of these facilities.

The charges recognized in the nine months ended December 31, 2021, primarily representing the difference between the net book value of the associated long-lived assets and their estimated fair value.

Comparatively, in the nine months ended December 31, 2020, we recorded charges related to:

- Completing certain of the restructuring actions that had commenced in the previous fiscal year, and 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;
- In the second quarter of fiscal 2021, we recorded (i) adjustments related to changes in the estimated fair value of certain of our Canadian production facilities from March 31, 2020; and (ii) charges related to rationalizing certain research and development activities; and
- In the third quarter of fiscal 2021, we recorded charges related primarily to (i) the restructuring actions resulting in the closure of certain of our sites in Canada, with losses recognized for the difference between the net book value of the associated property, plant and equipment and intangible assets and their estimated salvage value or fair value; contractual and other settlement obligations; and employee-related and other restructuring costs; (ii) adjustments to the net book value of our production facilities in Aldergrove and Delta, British Columbia in order to reflect their selling prices, and other costs associated with the remediation of damages caused by the fire at the Delta facility in November 2020, the closure of the facilities in British Columbia, and their sale; and (iii) the completion of our strategy shift in Latin America that we commenced in the fourth quarter of fiscal 2020.

Other

The following table presents loss from equity method investments, other income (expense), net, and income tax recovery for the nine months ended December 31, 2021 and 2020:

	Nine months ended December 31,			
(in thousands of Canadian dollars)	2021	2020	$ Change	% Change
Loss from equity method investments	$ (100)	$ (40,851)	$ 40,751	100%
Other income (expense), net	810,769	(21,106)	831,875	3941%
Income tax recovery	490	18,086	(17,596)	(97%)

Loss from equity method investments

The loss from equity method investments was $0.1 million in the nine months ended December 31, 2021, as compared to $40.9 million in the nine months ended December 31, 2020. The year-over-year decrease in the loss is primarily attributable to impairment charges of $32.4 million recognized in the second quarter of fiscal 2021 relating to our equity investment in PharmHouse, as described above in "Expected credit losses on financial assets and related charges", within our discussion of our results of operations for the nine months ended December 31, 2021. Additionally, in the nine months ended December 31, 2020, we recognized losses associated with our equity investments in both PharmHouse and Agripharm; as these investments were substantially impaired in fiscal 2021, we recognized only a nominal impairment of our remaining investment in Agripharm in the nine months ended December 31, 2021.

Other income (expense), net

Other income (expense), net was an income amount of $810.8 million in the nine months ended December 31, 2021, as compared to an expense amount of $21.1 million in the nine months ended December 31, 2020. The year-over-year change of $831.9 million, from an expense amount to an income amount, is primarily attributable to:

- Increase in non-cash income of $746.8 million related to the non-cash fair value changes on the liability arising from the Acreage Arrangement, from an expense amount of $249.8 million in the nine months ended December 31, 2020 to an income amount of $497.0 million in the nine months ended December 31, 2021. The income amount recognized in the nine months ended December 31, 2021, associated with a decrease in the liability arising from the Acreage Arrangement, is primarily attributable to a decrease of approximately 73% in our share price from April 1, 2021 to December 31, 2021, relative to a decrease of approximately 59% in Acreage's share price during that same period. As a result, the model at December 31, 2021 reflects a lower estimated value of the Canopy Growth shares expected to be issued upon a Triggering Event, relative to the estimated value of the Acreage shares expected to be acquired at that time; this resulted in a reduction of the liability amount. Comparatively, the expense amount recognized in the nine months ended December 31, 2020 was primarily attributable to (i) an increase of approximately 53% in our share price from April 1, 2020 to December 31, 2020, resulting in the estimated value of the Canopy Growth shares expected to be issued upon a Triggering Event to be higher relative to the estimated value of the

Acreage shares to be acquired at that same time, partially offset by (ii) the implementation of the Acreage Amended Arrangement in September 2020, which included a reset of the exchange ratio and resulted in other changes to potential scenarios and outcomes associated with the Acreage Arrangement that had been considered in prior valuation models, and had resulted in higher liability balances at those times.

- Increase in non-cash income of $671.5 million related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI. The decrease of $578.1 million in the fair value of the warrant derivative liability (resulting in non-cash income) in the nine months ended December 31, 2021 is primarily attributable to a decrease of approximately 73% in our share price from April 1, 2021 to December 31, 2021, further impacted by a shorter expected time to maturity of the warrants. Comparatively, the increase of $93.5 million in the fair value of the warrant derivative liability in the nine months ended December 31, 2020 was primarily attributable to an increase of approximately 53% in our share price from April 1, 2020 to December 31, 2020, partially offset by a decrease in the risk-free rate and a shorter expected time to maturity of the warrants.
- Increase in non-cash income of $189.1 million related to the non-cash fair value changes on the Notes, from an expense amount of $107.8 million in the nine months ended December 31, 2020 to an income amount of $81.3 million in the nine months ended December 31, 2021. The year-over-year change is primarily due to the decline in our share price from April 1, 2020 to December 31, 2021 (73%) relative to the increase in our share price of approximately 53% from April 1, 2020 to December 31, 2020, and year-over-year changes in credit spreads.
- Change of $649.2 million related to non-cash fair value changes on our other financial assets, from an income amount of $385.2 million in the nine months ended December 31, 2020 to an expense amount of $263.9 million in the nine months ended December 31, 2021. The current quarter expense amount is primarily attributable to fair value decreases relating to our investments in the exchangeable shares in the capital of TerrAscend ($166.0 million), and the secured debentures issued by TerrAscend Canada and Arise Bioscience and the TerrAscend Warrants (totaling $89.3 million), driven largely by (i) a decrease of approximately 39% in TerrAscend's share price from April 1, 2021 to December 31, 2021; and (ii) re-assessments of the probability and timing of changes in federal laws in the United States regarding the permissibility of the cultivation, distribution or possession of marijuana in the second quarter of fiscal 2022. Comparatively, in the nine months ended December 31, 2020 the income amount was primarily attributable to fair value increases relating to our investments in the TerrAscend exchangeable shares ($277.0 million), and the TerrAscend Canada secured debentures and TerrAscend Warrants (totaling $164.3 million), driven largely by an increase of approximately 410% in TerrAscend's share price from April 1, 2020 to December 31, 2020.
- Increase in interest expense of $73.9 million, from $3.7 million in the nine months ended December 31, 2020 to $77.6 million in the nine months ended December 31, 2021. The year-over-year increase is primarily attributable to the US$750M debt financing that occurred in the fourth quarter of fiscal 2021.
- Decrease of $39.3 million in non-cash income related to fair value changes on acquisition related contingent consideration. In the nine months ended December 31, 2020, we recognized income attributable to changes in our assessment of the probability and timing of ebbu Inc. ("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.
- Decrease in interest income of $12.1 million, from $19.1 million in the nine months ended December 31, 2020 to $7.0 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable to the decrease in interest rates and the divestiture of our interest in RIV Capital in the fourth quarter of fiscal 2021.

<u>Income tax recovery</u>

Income tax recovery in the nine months ended December 31, 2021 was $0.5 million, compared to an income tax recovery of $18.1 million in the nine months ended December 31, 2020. In the nine months ended December 31, 2021, the income tax recovery consisted of a deferred income tax expense of $0.4 million (compared to a recovery of $19.8 million in the nine months ended December 31, 2020) and current income tax recovery of $0.9 million (compared to an expense of $1.7 million in the nine months ended December 31, 2020).

The change of $20.2 million from a deferred income tax recovery to an expense is primarily a result of current year changes being less than prior year in respect of deferred tax liabilities that arose in connection with the required revaluation of the accounting carrying value, but not the tax basis, of property, plant and equipment, intangible assets, and other financial assets. In connection with certain deferred tax assets, mainly in respect to losses for tax purposes, where the accounting criteria for recognition of an asset has yet to be satisfied and it is not probable that they will be used, the deferred tax asset has not been recognized.

The change of $2.6 million from current income tax expense to a recovery 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 of prior years' return to provision tax recovery.

Net Income (Loss)

Net income in the nine months ended December 31, 2021 was $258.1 million, as compared to a net loss of $1.1 billion in the nine months ended December 31, 2020. 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, and the year-over-year decreases in (i) asset impairment and restructuring costs; (ii) expected credit losses on financial assets and related charges; and (iii) selling, general and administrative expenses. These changes, contributing to an increase in net income, were partially offset by the year-over-year decrease in our gross margin. These variances are described above.

Adjusted EBITDA (Non-GAAP Measure)

The following table presents Adjusted EBITDA for the nine months ended December 31, 2021 and 2020:

	Nine months ended December 31,			
(in thousands of Canadian dollars)	2021	2020	$ Change	% Change
Net income (loss)	$ 258,128	$ (1,054,125)	$ 1,312,253	124%
Income tax recovery	(490)	(18,086)	17,596	97%
Other (income) expense, net	(810,769)	21,106	(831,875)	(3941%)
Loss on equity method investments	100	40,851	(40,751)	(100%)
Share-based compensation[1]	35,856	72,632	(36,776)	(51%)
Acquisition-related costs	9,788	7,961	1,827	23%
Depreciation and amortization[1]	83,929	98,190	(14,261)	(15%)
Asset impairment and restructuring costs	117,567	459,579	(342,012)	(74%)
Expected credit losses on financial assets and related charges	-	108,480	(108,480)	(100%)
Restructuring costs recorded in cost of goods sold	4,554	15,637	(11,083)	(71%)
Charges related to the flow-through of inventory step-up on business combinations	7,684	1,494	6,190	414%
Adjusted EBITDA	$ (293,653)	$ (246,281)	$ (47,372)	(19%)

[1] From Statements of Cash Flows.

The Adjusted EBITDA loss in the nine months ended December 31, 2021 was $293.7 million, as compared to the Adjusted EBITDA loss of $246.3 million in the nine months ended December 31, 2020. The year-over-year increase in the Adjusted EBITDA loss is primarily attributable to the year-over-year decrease in our gross margin, partially offset by the reduction in our total selling, general and administrative expense. These variances are described above.

Part 3 – Financial Liquidity and Capital Resources

We manage liquidity risk by reviewing, on an ongoing basis, our sources of liquidity and capital requirements. As of December 31, 2021, we had cash and cash equivalents of $615.1 million and short-term investments of $807.9 million, 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 $539.5 million from March 31, 2021 (and, together with short-term investments, decreased $876.2 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 provides 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 nine months ended December 31, 2021, our purchases of and deposits on property, plant and equipment totaled $36.6 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

	Nine months ended December 31,	
(in thousands of Canadian dollars)	2021	2020
Net cash (used in) provided by:		
Operating activities	$ (419,125)	$ (367,899)
Investing activities	(71,102)	(328,918)
Financing activities	(46,338)	269,140
Effect of exchange rate changes on cash and cash equivalents	(2,942)	(50,539)
Net decrease in cash and cash equivalents	(539,507)	(478,216)
Cash and cash equivalents, beginning of period	1,154,653	1,303,176
Cash and cash equivalents, end of period	$ 615,146	$ 824,960

Operating activities

Cash used in operating activities totaled $419.1 million in the nine months ended December 31, 2021, as compared to cash used of $367.9 million in the nine months ended December 31, 2020. The increase in the cash used in operating activities is primarily due to (i) the year-over-year decrease in our gross margin; and (ii) an increase in interest paid, associated with the US$750M debt financing that occurred in the fourth quarter of fiscal 2021. These factors were partially offset by the year-over-year reductions in our total selling, general and administrative expenses, and an improvement in our working capital spending. These variances are described above.

Investing activities

The cash used in investing activities totaled $71.1 million in the nine months ended December 31, 2021, as compared to cash used of $328.9 million in the nine months ended December 31, 2020.

In the nine months ended December 31, 2021, purchases of property, plant and equipment were $36.6 million, as compared to $138.0 million in the nine months ended December 31, 2020. Our investments in both nine-month periods related to our production infrastructure in the United States and an expansion of our Storz & Bickel facilities, with the year-over-year decrease reflecting the substantial completion of our infrastructure build-out.

In the nine months ended December 31, 2021, the net cash outflow relating to acquisitions totaled $14.9 million. In the nine months ended December 31, 2020, we did not complete any acquisitions. Our strategic investments in other financial assets in the nine months ended December 31, 2021 were $374.4 million, and related primarily to the upfront payment made as consideration for entering into the Wana Agreements. Comparatively, in the nine months ended December 31, 2020, we completed strategic investments totaling $151.1 million, including the payment of $49.8 million to Acreage shareholders upon implementation of the Acreage Amended Arrangement, and the loan advance of $67.0 million to Acreage Hempco.

Additional cash inflows during the nine months ended December 31, 2021 related to proceeds of $10.3 million from the sale of certain wholly-owned subsidiaries, and proceeds of $25.7 million from the sale of property, plant and equipment. Additional cash inflows during the nine months ended December 31, 2020 related to proceeds of $30.9 million from the sale of property, plant and equipment, proceeds of $18.3 million from the sale of a portfolio of patents in Germany, and proceeds of $7.0 million from the sale of equity method investments.

Net redemptions of short-term investments in the nine months ended December 31, 2021 were $340.2 million, as compared to net purchases of short-term investments of $83.6 million in the nine months ended December 31, 2020. The year-over-year change reflects the redemption of our short-term investments for the investing activities described above.

Finally, in the nine months ended December 31, 2021, other investing activities resulted in a cash outflow of $16.8 million, primarily related to the payment of acquisition-related liabilities. In the nine months ended December 31, 2021, other investing activities resulted in a cash inflow of $5.3 million, primarily related to a recovery of amounts related to construction financing partially offset by payments of acquisition-related liabilities.

Financing activities

The cash used in financing activities totaled $46.3 million in the nine months ended December 31, 2021, as compared to cash provided of $269.1 million in the nine months ended December 31, 2020. In the nine months ended December 31, 2021, we made repayments of long-term debt in the amount of $50.2 million, primarily related to the term loan assumed upon the completion of the acquisition of Supreme Cannabis on June 22, 2021. Comparatively, in the nine months ended December 31, 2020, 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 December 31,		Nine months ended December 31,	
(in thousands of Canadian dollars)	2021	2020	2021	2020
Net cash used in operating activities	$ (167,380)	$ (87,604)	$ (419,125)	$ (367,899)
Purchases of and deposits on property, plant and equipment	(962)	(47,782)	(36,620)	(137,977)
Free cash flow[1]	$ (168,342)	$ (135,386)	$ (455,745)	$ (505,876)

[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 third quarter of fiscal 2022 was an outflow of $168.3 million, as compared to an outflow of $135.4 million in the third 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, partially offset by the lower purchases of property, plant and equipment associated with the substantial completion of our infrastructure build-out.

Free cash flow in the nine months ended December 31, 2021 was an outflow of $455.7 million, as compared to an outflow of $505.9 million in the nine months ended December 31, 2020. The year-over-year decrease in the outflow reflects the lower purchases of property, plant and equipment associated with the substantial completion of our infrastructure build-out, with our ongoing investments primarily being made in the United States and in the expansion of our Storz & Bickel facilities, partially offset by the increase in the cash used for operating activities, as described above.

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 December 31, 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 $1.6 billion at December 31, 2021, as compared to $1.5 billion at March 31, 2021. The increase, from March 31, 2021 to December 31, 2021, is primarily due to the assumption of the Supreme Debentures and the Accretion Debentures as a result of the Supreme Arrangement (all terms as defined below).

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 (the "Accretion Debentures"). The principal amount began at $nil and accretes at a rate of 11.06% per annum based on the remaining principal amount of the Supreme Debentures of $36.5 million to a maximum of $13.5 million, compounding on a semi-annual basis commencing on September 9, 2020, and ending on September 9, 2023. The Accretion Debentures are payable in cash, but do not bear cash interest and are not convertible into Supreme Shares. The principal amount of the Accretion Debentures will amortize, or be paid, at 1.0% per month over the 24 months prior to maturity.

As a result of the arrangement (the "Supreme Arrangement") we completed with Supreme Cannabis on June 22, 2021 pursuant to which we acquired 100% of the issued and outstanding common shares of Supreme Cannabis (the "Supreme Shares"), the Supreme Debentures remain outstanding as securities of Supreme Cannabis, which, upon conversion will entitle the holder thereof to receive, in lieu of the number of Supreme Shares to which such holder was theretofore entitled, the consideration payable under the Supreme Arrangement that such holder would have been entitled to be issued and receive if, immediately prior to the effective time of the Supreme Arrangement, such holder had been the registered holder of the number of Supreme Shares to which such holder was theretofore entitled.

In connection with the Supreme Arrangement, we, Supreme Cannabis and Computershare Trust Company of Canada (the "Trustee") entered into a supplemental indenture whereby we agreed to issue common shares upon conversion of any Supreme Debenture. In addition, we may force conversion of the Supreme Debentures outstanding with 30 days' notice if the daily volume weighted average trading price of our common shares is greater than $38.59 for any 10 consecutive trading days. We, Supreme Cannabis and the Trustee entered into a further supplemental indenture whereby we agreed to guarantee the obligations of Supreme Cannabis pursuant to the Supreme Debentures and the Accretion Debentures.

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

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 December 31, 2021 is $nil.

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.

Impairment of goodwill

Goodwill needs to be tested for impairment annually at the measurement date of March 31, or sooner, if events or circumstances indicate that the carrying value of goodwill may not be recoverable. An entity may first perform a qualitative assessment of impairment, and a quantitative analysis is only required if the qualitative assessment is inconclusive.

As a result of the continued decline in the price of our common shares in the third quarter of fiscal 2022, we performed a quantitative interim goodwill impairment assessment for the cannabis operations reporting unit in the global cannabis segment as of December 31, 2021. The estimated fair value of the cannabis operations reporting unit was determined using the market valuation method, which is consistent with the methodology used for our annual impairment test conducted at March 31, 2021. The most significant assumption used in applying the market valuation methodology was the price of our common shares during the third quarter of fiscal 2022. We concluded that the estimated fair value of the cannabis operations reporting unit exceeded its carrying value at December 31, 2021 and, as a result, goodwill is not impaired. However, the fair value of the goodwill associated with our cannabis operations reporting unit only exceeded its carrying value by approximately 15% to 20%. Accordingly, our cannabis operations goodwill is at risk for impairment in future periods. The carrying value of goodwill associated with our cannabis operations reporting unit was $1.8 billion at December 31, 2021. To the extent we continue to experience declines in the price of our common shares, we may be required to perform a quantitative goodwill impairment assessment in future periods.

For the remaining reporting units, we do not believe that an event occurred or circumstances changed during the third quarter of fiscal 2022 that would, more likely than not, reduce the fair value of these reporting units below their carrying value. Therefore, we concluded that the quantitative goodwill impairment assessment was not required. The carrying value of goodwill associated with all other reporting units was $212.3 million at December 31, 2021.

We are required to perform the next annual goodwill impairment analysis on March 31, 2022.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Foreign currency risk

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

A hypothetical 10% change in the U.S. dollar against the Canadian dollar compared to the exchange rate at December 31, 2021, would affect the carrying value of net assets by approximately $63.9 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 December 31, 2021, would affect the carrying value of net assets by approximately $15.3 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 December 31, 2021, our cash and cash equivalents, and short-term investments consisted of $1.0 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**	
	December 31, 2021	**March 31, 2021**	**December 31, 2021**	**March 31, 2021**	**December 31, 2021**	**March 31, 2021**
Convertible Notes	$ 600,000	$ 600,000	$ 567,042	$ 687,414	$ (7,800)	$ (8,010)
Fixed interest rate debt	42,322	3,872	N/A	N/A	N/A	N/A
Variable interest rate debt	901,003	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.