CANOPY GROWTH CORPORATION

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

FOR THE YEAR ENDED MARCH 31, 2022

MAY 31, 2022

This document (this "MD&A") contains information under the heading "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" which has been excerpted from our Annual Report on Form 10-K for the year ended March 31, 2022 (the "Annual Report") filed concurrently with this MD&A on the date hereof on our profile on SEDAR at www.sedar.com and on EDGAR at www.sec.gov. This MD&A should be read in conjunction with our Annual Report, including the consolidated financial statements and the related notes thereto included in Item 8, as well as Part I, and Item 1 "Business", Part I, Item 1A "Risk Factors", and incorporates by reference herein Item 1A "Risk Factors" from our Annual Report. Defined terms used herein but otherwise not defined have the meaning ascribed to them in the Annual Report.

Special Note Regarding Forward-Looking Statements; Risk Factor Summary

This Annual 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 amount or frequency of impairment losses, including as a result of the write-down of intangible assets, including goodwill;
- expectations related to our announcement of certain restructuring actions (the "Restructuring Actions") and any progress, challenges and effects related thereto as well as changes in strategy, metrics, investments, costs, operating expenses, employee turnover and other changes with respect thereto;
- 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, including the occurrence or waiver (at our discretion) of the Triggering Event and the satisfaction or waiver of the conditions to closing the acquisition of Acreage;
- the Wana Agreements, including the occurrence or 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 Canopy Notes held by the CBI Group;
- expectations regarding the use of proceeds of equity financings, including the proceeds from the CBI Group Investments;
- the legalization of the use of cannabis for medical or recreational in jurisdictions outside of Canada, the related timing and impact thereof and our intentions to participate in such markets, if and when such use is legalized;
- our ability to execute on our strategy and the anticipated benefits of such strategy;

- the ongoing impact of the legalization of additional cannabis product types and forms for recreational use in Canada, including federal, provincial, territorial and municipal regulations pertaining thereto, the related timing and impact thereof and our intentions to participate in such markets;
- the ongoing impact of developing provincial, territorial and municipal regulations pertaining to the sale and distribution of cannabis, the related timing and impact thereof, as well as the restrictions on federally regulated cannabis producers participating in certain retail markets and our intentions to participate in such markets to the extent permissible;
- the 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 (“R&D”) 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 Annual 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, our limited operating history; the risks that our Restructuring Actions will not result in the expected cost-savings, efficiencies and other benefits or will result in greater than anticipated turnover in personnel; risks that we may be required to write down intangible assets, including goodwill, due to impairment; 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; inflation risks; 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; the implementation and effectiveness of key personnel changes; risks associated with jointly owned investments; risks relating to our current and future operations in emerging markets; risks relating to inventory write downs; 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 manufacturing risks; 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 this 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 Annual 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.

Risk Factor Summary

- We have a limited operating history and our growth strategy may not be successful.
- We may not be able to achieve or maintain profitability and may continue to incur losses in the future.
- We have been and may in the future be required to write down intangible assets, including goodwill, due to impairment.
- Our products are new; there is limited long-term data with respect to the efficacy, side effects and safety of our products; and our products have been and may be in the future subject to recalls.
- We are subject to extensive regulation and licensing and may not successfully comply with all applicable laws and regulations.
- The production and distribution of our products are subject to disruption, the risks of an agricultural business and the risk that third party suppliers and distributors may not perform their obligations to us.
- Our entry into new markets is subject to risks normally associated with the conduct of business in foreign countries.
- Our business has been and may continue to be adversely affected by the COVID-19 pandemic.
- Our businesses face highly competitive conditions.
- Intellectual property is key to our growth strategy and we may be unable to obtain or enforce our intellectual property rights.
- CBI has significant influence over us and may acquire 143,896,933 additional common shares.
- The price of our common stock has been and may continue to be highly volatile.
- We are subject to other risks generally applicable to our industry and the conduct of our businesses.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Introduction

This Management's Discussion and Analysis ("MD&A"), which should be read in conjunction with our consolidated financial statements and the notes thereto as at and for the year ended March 31, 2022 included in Item 8 of this Annual Report (the "Financial Statements"), provides additional information on our business, current developments, financial condition, cash flows and results of operations. It 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 (1) fiscal 2022 in comparison to fiscal 2021; and (2) fiscal 2021 in comparison to fiscal 2020.
- *Part 3 - Financial Liquidity and Capital Resources.* This section provides an analysis of our cash flows and outstanding debt and commitments. Included in this analysis is a discussion of the amount of financial capacity available to fund our ongoing operations and future commitments.
- *Part 4 - Critical Accounting Policies and Estimates.* This section identifies those accounting policies that are considered important to our results of operations and financial condition, require significant judgment and involve significant management estimates. Our significant accounting policies, including those considered to be critical accounting policies, are summarized in Note 3 of the Financial Statements.

We prepare and report our Financial Statements in accordance with U.S. GAAP. Our 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.

In addition to historical data, this discussion contains forward-looking statements about our business, operations and financial performance based on current expectations that involve risks, uncertainties and assumptions. Our actual results may differ materially from those in this discussion as a result of various factors, including but not limited to those discussed in Part 1, Item 1A, "Risk Factors" in this Annual Report.

Part 1 - Business Overview

Canopy Growth is a world-leading cannabis CPG company which produces, distributes, and sells a diverse range of cannabis, hemp, and CPG products. Cannabis products are principally sold for 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. Canopy Growth is also active in the cannabis accessory, hemp-derived CBD, skin care and wellness, and sports performance beverage categories. Our core operations are in Canada, the United States, and Germany.

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) The 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 of the 2018 Farm Bill in December 2018, we began building our hemp supply chain in the United States through our investment in processing, extraction and finished goods manufacturing facilities. In the United States, we currently offer (i) a line of premium quality, hemp-derived wellness gummies, oils, softgels and topicals under the Martha Stewart CBD brand; (ii) a line of premium, ready-to-drink CBD-infused sparkling waters under the Quatreau brand; and (iii) whisl, a CBD vape.

In June 2019, we implemented the Original Acreage Arrangement pursuant to the Acreage Arrangement Agreement with Acreage, a U.S. multi-state cannabis operator. In September 2020, we entered into the Acreage Amending Agreement and implemented the Acreage Amended Arrangement. Pursuant to the Acreage Amended Arrangement, following the occurrence or waiver (at our discretion) of 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") providing us with the right, upon 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 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, and across Canada. Until such time as we exercise our right to acquire Wana, we will have no economic or voting interest in Wana, and we and Wana will continue to operate independently.

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 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.

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 COVID-19

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 Annual 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.

While the COVID-19 pandemic, including government measures to limit the spread of COVID-19, adversely affected our operations in fiscal 2022, the impact was not material to our results of operations. 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 continue to affect our results of operations into fiscal 2023.

We believe we have sufficient liquidity available from cash and cash equivalents and short-term investments on hand of $776.0 million and $595.7 million, respectively, as of March 31, 2022, and from available capacity under our revolving debt facility to enable us to meet our working capital and other operating requirements, fund growth initiatives and capital expenditures, settle our liabilities, and repay scheduled principal and interest payments on debt. Refer to "Part 3 – Financial Liquidity and Capital Resources" for further information.

Recent Developments

Divestiture of C^3 Cannabinoid Compound Company

On January 31, 2022, we completed the divestiture of all of our interest in C^3 Cannabinoid Compound Company GmbH ("C^3") to a European pharmaceutical company headquartered in Germany (the "C^3 Divestiture"). C^3 develops and manufactures cannabinoid-based pharmaceutical products for distribution in Germany and certain other European countries. In connection with the C^3 Divestiture, 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. Refer to Note 30 of our Financial Statements for further information regarding the C^3 Divestiture.

Restructuring Actions

On April 26, 2022, we announced a series of restructuring actions aligned to our strategic review of our business, which included (i) reducing cultivation costs in the Canadian recreational cannabis business through cultivation-related efficiencies and facility improvements; (ii) implementing a flexible manufacturing platform, including contract manufacturing for certain product formats; (iii) right-sizing indirect costs and generating efficiencies across our supply chain and procurement; (iv) aligning general and administrative costs with short-term business expectations; (v) further streamlining the organization to drive process-related efficiencies; and (vi) a reduction of approximately 250 full-time positions. Charges associated with these restructuring actions, along with charges resulting from previous restructuring initiatives undertaken by us, are detailed below under "Part 2 – Results of Operations".

Plan to Acquire Jetty

On May 18, 2022, we and Jetty, a California-based producer of high-quality cannabis extracts and clean vape technology, announced that we entered into the Jetty Agreements providing us, by way of a wholly-owned subsidiary, the right to acquire, upon federal permissibility of THC in the U.S. or earlier at our election, up to 100% of the outstanding capital stock of Jetty.

Under the Jetty Agreements, we will make aggregate upfront payments in the amount of approximately US$69.0 million, payable through a combination of cash and our common shares, a majority of which will be in our common shares, in exchange for approximately 75% of the equity interests in Jetty, subject to certain adjustments. Upon exercise of the rights to acquire up to 100% of the equity interests in Jetty covered by the first option agreement, we will make an additional payment pursuant to the terms of the Jetty Agreements, also to be satisfied through a combination of cash and our common shares.

Until such time as we elect to exercise our rights to acquire Jetty, we will have no direct or indirect economic or voting interests in Jetty, we will not directly or indirectly control Jetty, and we and Jetty will continue to operate independently of one another.

Factors Impacting our Business

We believe our future success will primarily depend on the following factors:

Competition in Canadian recreational market. We face competition in the Canadian recreational cannabis market. The principal factors on which we compete with other Canadian license holders are the quality and variety of cannabis products, the speed with which our product offerings are brought to market, brand recognition, pricing, and product innovation. We believe our focus on becoming a leading consumer insights, analytics and product development company that matches products and consumer preferences in the cannabis market, will enable us to provide better quality consumer products, grow our Canadian business and capture increased market share in Canada.

Product innovation. We believe a significant opportunity exists to expand our total addressable market and create new consumer categories by continuing to develop innovative new recreational products that include cannabis and cannabinoids as ingredients. Accordingly, we have been focused on expanding our portfolio of innovative, premium-focused recreational cannabis products across Canada, including (i) inhalable cannabis (whole and pre-rolled flower, vape and concentrates); (ii) ingestible cannabis (e.g., edible formats like gummies and beverages), and (iii) cannabis extracts (predominantly oils and softgels). In November 2021, we expanded our premium flower portfolio with new offerings with higher THC potency from sought-after strains, and also expanded our THC-infused beverage and gummie offerings. In the United States, we launched our Martha Stewart CBD line of premium quality, hemp-derived wellness gummies, oils and softgels in September 2020, and in January 2022 we expanded our product offering to include CBD wellness topicals designed for muscle recovery, better sleep and stress management. With respect to delivery devices, in September, Storz & Bickel released three new vaporizer updates, including the Volcano Onyx, the Crafty+ and the Mighty+

We believe our success will depend on market acceptance of these products, our ability to execute on introducing our products to market, our ability to position our differentiated products as premium offerings in order to capture a higher relative gross margin, and our ability to continually develop and introduce new products that delight our consumers.

Activities in the United States. Through our investments in, and agreements with, Acreage and Wana (as described above) and other multi-state operators such as TerrAscend, we are focused on building a robust THC ecosystem in preparation for entry into the United States THC market when federally permissible. Additionally, as highlighted above, we initially launched our Martha Stewart CBD line of products in September 2020 and launched our first line of CBD-infused beverages, under the Quatreau brand, in the United States market in the fourth quarter of fiscal 2021. Additionally, we have continued to bring new products to market in the United States under the This Works and BioSteel brands, some of which have been infused or blended with hemp-derived CBD isolate. We believe our success will depend on our ability to distribute our CBD-based products in the U.S. and bring them to market through best-in-class sales execution on our e-commerce platform and into retail points of sale, our ability to position, market and differentiate our products in the highly-fragmented U.S. CBD market, and our ability to continually develop and introduce new products.

Increasing access to medical cannabis products in Canada and select European markets. Our success will depend on our ability to leverage our position as a trusted leader in the medical cannabis markets in Canada and select European countries, including Germany, by offering a wide range of cannabis products across a variety of brands, formats and strains that serve the needs of our customers. In Canada, we have continued to broaden our brand and product portfolio throughout fiscal 2022. We have also introduced new medical cannabis delivery devices to our medical customers, including the Storz & Bickel Volcano Medic 2 vaporizer that was issued a license by Health Canada for medical use. In Europe, we are focused on providing a diverse portfolio of medically-validated cannabis products and education and support programs to medical customers and healthcare practitioners, with our primary focus being Germany. Expansion may come in the form of acquisitions or organic growth, either of which will require expenditure of capital that may negatively impact our profitability as we seek to scale the reach of our business in these markets.

Part 2 - Results of Operations

Discussion of Fiscal 2022 Results of Operations

The following table presents selected consolidated financial information for the years ended March 31, 2022 and 2021:

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Years ended March 31, 2022	Years ended March 31, 2021	$ Change	% Change
Selected consolidated financial information:				
Net revenue	$ 520,325	$ 546,649	$ (26,324)	(5%)
Gross margin percentage	(37%)	12%	-	(4,900) bps
Net loss	$ (320,485)	$ (1,670,820)	$ 1,350,335	81%
Net loss attributable to Canopy Growth Corporation	$ (302,181)	$ (1,744,920)	$ 1,442,739	83%
Basic loss per share[1]	$ (0.77)	$ (4.69)	$ 3.92	84%

[1]For the year ended March 31, 2022, the weighted average number of outstanding common shares, basic and diluted, totaled 391,324,285 (year ended March 31, 2021 - 371,662,296).

Net 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 years ended March 31, 2022 and 2021:

Revenue by Channel *(in thousands of Canadian dollars)*	Years ended March 31, 2022	Years ended March 31, 2021	$ Change	% Change
Canadian recreational cannabis net revenue				
Business-to-business[1]	$ 143,732	$ 163,585	$ (19,853)	(12%)
Business-to-consumer	61,570	66,016	(4,446)	(7%)
	205,302	229,601	(24,299)	(11%)
Canadian medical cannabis net revenue[2]	52,608	55,448	(2,840)	(5%)
	257,910	285,049	(27,139)	(10%)
International and other revenue				
C[3]	36,113	62,335	(26,222)	(42%)
Other[3]	43,193	31,296	11,897	38%
	79,306	93,631	(14,325)	(15%)
Global cannabis net revenue	337,216	378,680	(41,464)	(11%)
Other consumer products				
Storz & Bickel	85,410	80,998	4,412	5%
This Works	32,296	33,314	(1,018)	(3%)
BioSteel[4]	44,626	28,530	16,096	56%
Other	20,777	25,127	(4,350)	(17%)
Other consumer products revenue	183,109	167,969	15,140	9%
Net revenue	$ 520,325	$ 546,649	$ (26,324)	(5%)

[1] Reflects excise taxes of $56,666 and other revenue adjustments, representing our determination of returns and pricing adjustments, of $7,300 for the year ended March 31, 2022 (year ended March 31, 2021 - excise taxes of $54,928 and other revenue adjustments of $14,000).

[2] Reflects excise taxes of $5,227 for the year ended March 31, 2022 (year ended March 31, 2021 - $5,621).

[3] Reflects other revenue adjustments of $4,288 for the year ended March 31, 2022 (year ended March 31, 2021 - $717)

[4] Reflects other revenue adjustments of $9,876 for the year ended March 31, 2022 (year ended March 31, 2021 - $9,218)

Revenue by Form	Years ended March 31,			
(in thousands of Canadian dollars)	2022	2021	$ Change	% Change
Canadian recreational cannabis				
Dry bud[1]	$ 211,673	$ 238,021	$ (26,348)	(11%)
Oils and softgels[1]	25,528	28,761	(3,233)	(11%)
Beverages, edibles, topicals and vapes[1]	32,067	31,747	320	1%
Other revenue adjustments	(7,300)	(14,000)	6,700	48%
Excise taxes	(56,666)	(54,928)	(1,738)	(3%)
	205,302	229,601	(24,299)	(11%)
Medical cannabis and other[2]				
Dry bud	45,355	40,479	4,876	12%
Oils and softgels	71,229	101,875	(30,646)	(30%)
Beverages, edibles, topicals and vapes	20,557	12,346	8,211	67%
Excise taxes	(5,227)	(5,621)	394	7%
	131,914	149,079	(17,165)	(12%)
Global cannabis net revenue	337,216	378,680	(41,464)	(11%)
Other consumer products				
Storz & Bickel	85,410	80,998	4,412	5%
This Works	32,296	33,314	(1,018)	(3%)
BioSteel[2]	44,626	28,530	16,096	56%
Other	20,777	25,127	(4,350)	(17%)
Other consumer products revenue	183,109	167,969	15,140	9%
Net revenue	$ 520,325	$ 546,649	$ (26,324)	(5%)

[1] Excludes the impact of other revenue adjustments.

[2] Includes the impact of other revenue adjustments.

Net revenue was $520.3 million in fiscal 2022, as compared to $546.6 million in fiscal 2021. The year-over-year decrease is attributable to a revenue decline of 11% 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. The revenue decline in this segment was only partially offset by growth of 9% in our other consumer products segment, which was primarily driven by the growth in our BioSteel business.

Global cannabis

Net revenue from our global cannabis segment was $337.2 million in fiscal 2022, as compared to $378.7 million in fiscal 2021.

Canadian recreational cannabis net revenue was $205.3 million in fiscal 2022, as compared to $229.6 million in fiscal 2021.

- Net revenue from the business-to-business channel was $143.7 million in fiscal 2022, as compared to $163.6 million in fiscal 2021. The year-over-year decrease is primarily attributable to the continuing impacts of (i) an 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) 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 $36.0 million in fiscal 2022.
- Revenue from the business-to-consumer channel was $61.6 million in fiscal 2022, as compared to $66.0 million in 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 $52.6 million in fiscal 2022, as compared to $55.4 million in fiscal 2021. We continued to be impacted in 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 $79.3 million in fiscal 2022, as compared to $93.6 million in fiscal 2021.

- C^3 contributed revenue of $36.1 million in fiscal 2022, a year-over-year decrease of $26.2 million driven by (i) the completion of the C^3 Divestiture on January 31, 2022, as described in "Recent Developments" above; (ii) increased competition in the synthetic cannabinoid market in Germany, and price compression for C^3's products; and (iii) a limitation on sales activities associated with COVID-19 restrictions, particularly in the first and third quarters of fiscal 2022.
- Other cannabis revenue was $43.2 million in fiscal 2022, a year-over-year increase of $11.9 million primarily attributable to (i) the growth in our U.S. CBD business, which was driven by the introduction of our whisl CBD vapes and Quatreau CBD beverages; and (ii) opportunistic bulk cannabis sales to Israel in the amount of $8.0 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; (ii) cannabis supply constraints; and (iii) a limitation on sales activities associated with COVID-19 restrictions in Germany, particularly in the first and third quarters of fiscal 2022.

<u>Other consumer products</u>

Revenue from our other consumer products segment was $183.1 million in fiscal 2022, as compared to $168.0 million in fiscal 2021.

- Revenue from Storz & Bickel was $85.4 million in fiscal 2022, a year-over-year increase of $4.4 million due primarily to (i) sales of new vaporizers launched late in the second quarter of fiscal 2022; (ii) an increased capability to meet demand resulting from the investments made in production capacity expansion at our facilities; and (iii) the impact of the stronger Canadian dollar relative to the prior year.
- Revenue from This Works was $32.3 million in fiscal 2022, a year-over-year decrease of $1.0 million due primarily to (i) the comparable period had benefited from the sale of certain items produced by This Works, including sanitizer, at the beginning of the COVID-19 pandemic; and (ii) the impact of the stronger Canadian dollar relative to the prior year.
- Revenue from BioSteel was $44.6 million, a year-over-year increase of $16.1 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 beverages 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 years ended March 31, 2022 and 2021:

(in thousands of Canadian dollars except where indicated)	Years ended March 31, 2022	Years ended March 31, 2021	$ Change	% Change
Net revenue	$ 520,325	$ 546,649	$ (26,324)	(5%)
Cost of goods sold	$ 713,379	$ 479,689	$ 233,690	49%
Gross margin	(193,054)	66,960	(260,014)	(388%)
Gross margin percentage	(37%)	12%	-	(4,900) bps

Cost of goods sold was $713.4 million in fiscal 2022, as compared to $479.7 million in fiscal 2021. Our gross margin was $(193.1) million in fiscal 2022, or (37%) of net revenue, as compared to a gross margin of $67.0 million and gross margin percentage of 12% of net revenue in fiscal 2021. The year-over-year decrease in the gross margin percentage was primarily attributable to:

- Restructuring charges totaling $123.7 million relating to inventory write-downs and other charges resulting primarily from strategic changes to our business. Comparatively, our gross margin in fiscal 2021 was impacted by restructuring charges totaling $26.0 million, relating primarily to the closure of certain Canadian and international production facilities. These charges are described below in "Restructuring, Asset Impairment and Related Costs"; and
- Inventory write-downs recorded in the second and fourth quarters of fiscal 2022 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 fiscal 2022 was also impacted by:

- 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 fiscal 2022;
- The impact of the under-absorption of costs for our U.S. CBD business, and higher third-party shipping, distribution and warehousing costs across North America which primarily impacted BioSteel;
- A shift in the business mix resulting from a decrease in the proportionate revenue contribution from C^3 relative to fiscal 2021;
- 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; and
- Charges totaling $11.8 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 fiscal 2021, which were associated with fiscal 2020 business combinations.

Our gross margin in fiscal 2022 benefited from payroll subsidies in the amount of $24.4 million received from the Canadian government, pursuant to a COVID-19 relief program. This compares to subsidies received of $5.7 million in fiscal 2021.

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 years ended March 31, 2022 and 2021:

	Years ended March 31,			
(in thousands of Canadian dollars except where indicated)	2022	2021	$ Change	% Change
Global cannabis segment				
Cost of goods sold	$ 588,451	$ 371,635	$ 216,816	58%
Gross margin	(251,235)	7,045	(258,280)	(3666%)
Gross margin percentage	(75%)	2%		(7,700) bps
Other consumer products segment				
Cost of goods sold	$ 124,928	$ 108,054	$ 16,874	16%
Gross margin	58,181	59,915	(1,734)	(3%)
Gross margin percentage	32%	36%		(400) bps

Global cannabis

Gross margin for our global cannabis business was $(251.2) million in fiscal 2022, or (75%) of net revenue, as compared to $7.0 million in fiscal 2021, or 2% of net revenue. The year-over-year decrease in the gross margin percentage was primarily attributable to:

- Restructuring charges totaling $123.7 million relating to inventory-write-downs and other charges resulting from strategic changes to our business, as compared to restructuring charges totaling $26.0 million in fiscal 2021;
- Inventory write-downs recorded in the second and fourth quarters of fiscal 2022 primarily in relation to excess Canadian cannabis inventory;
- The factors impacting the gross margin for C^3, our Canadian recreational cannabis business, and our U.S. CBD business, as described in our analysis of "Cost of Goods Sold and Gross Margin" on a consolidated basis above;
- 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 fiscal 2021; and
- Charges totaling $11.8 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 fiscal 2021, which were associated with fiscal 2020 business combinations.

Our gross margin in fiscal 2022 benefited from payroll subsidies in the amount of $24.4 million received from the Canadian government, pursuant to a COVID-19 relief program. This compares to subsidies received of $5.7 million in fiscal 2021.

Other consumer products

Gross margin for our other consumer products segment was $58.2 million in fiscal 2022, or 32% of net revenue, as compared to $59.9 million in fiscal 2021, or 36% of net revenue. The year-over-year decrease in the gross margin percentage was primarily attributable to (i) the year-over-year increase in revenue from the lower-margin BioSteel business, and the resulting shift in the business mix; and (ii) higher third-party shipping, distribution and warehousing costs across North America which primarily impacted BioSteel.

Operating Expenses

The following table presents operating expenses for the years ended March 31, 2022 and 2021:

(in thousands of Canadian dollars)	Years ended March 31, 2022	2021	$ Change	% Change
Operating expenses				
General and administrative	$ 128,883	$ 238,305	$ (109,422)	(46%)
Sales and marketing	239,280	194,395	44,885	23%
Research and development	32,344	57,582	(25,238)	(44%)
Acquisition-related costs	11,060	13,522	(2,462)	(18%)
Depreciation and amortization	61,189	71,585	(10,396)	(15%)
Selling, general and administrative expenses	472,756	575,389	(102,633)	(18%)
Share-based compensation	39,534	83,013	(43,479)	(52%)
Share-based compensation related to acquisition milestones	7,991	8,136	(145)	(2%)
Share-based compensation expense	47,525	91,149	(43,624)	(48%)
Expected credit losses on financial assets and related charges	-	109,480	(109,480)	(100%)
Asset impairment and restructuring costs	369,339	534,398	(165,059)	(31%)
Total operating expenses	$ 889,620	$ 1,310,416	$ (420,796)	(32%)

Selling, general and administrative expenses

Selling, general and administrative expenses were $472.8 million in fiscal 2022, as compared to $575.4 million in fiscal 2021.

General and administrative expense was $128.9 million in fiscal 2022, as compared to $238.3 million in fiscal 2021. The year-over-year decrease is due primarily to:

- A reduction in costs attributable to the restructuring actions that were initiated in the fourth quarter of fiscal 2020 and continued through fiscal 2021 and fiscal 2022. These restructuring actions, resulting from an organizational and strategic review of our business, and the associated charges recognized in fiscal 2022, fiscal 2021 and fiscal 2020 are detailed below in “Restructuring, Asset Impairments and Related Costs". We realized reductions relative to fiscal 2021 primarily related to (i) compensation costs, including employee bonuses, for finance, information technology, legal and other administrative functions; (ii) third-party costs associated with administrative functions; (iii) professional consulting fees; and (iv) facilities costs; and
- We received payroll subsidies in the amount of $42.9 million from the Canadian government in fiscal 2022, pursuant to a COVID-19 relief program; as compared to $11.0 million received in fiscal 2021.
- The above 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 acquisitions of Supreme Cannabis in the first quarter of fiscal 2022.

Sales and marketing expense was $239.3 million in fiscal 2022, as compared to $194.4 million in fiscal 2021. The year-over-year increase is primarily due to:

- A return to more normal advertising and promotional spending in fiscal 2022. 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.
- Relative to fiscal 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, and our Tweed brand re-launch in Canada and campaigns for other Canadian brands; (iii) professional consulting fees associated with our selling, advertising and marketing strategies; (iv) higher digital advertising spending, particularly for BioSteel and This Works; and (v) increased sales and marketing costs associated with our acquisitions of Supreme Cannabis and Ace Valley in the first quarter of fiscal 2022.
- The above increases in sales and marketing expense were partially offset by cost reductions attributable to the previously-noted restructuring actions beginning in the fourth quarter of fiscal 2020 and continuing through fiscal 2021 and fiscal 2022, resulting in lower compensation costs as compared to fiscal 2021.

Research and development expense was $32.3 million in fiscal 2022, as compared to $57.6 million in fiscal 2021. The year-over-year decrease is primarily attributable to a reduction in costs attributable to the previously-noted restructuring actions beginning in the fourth quarter of fiscal 2020 and continuing through fiscal 2021 and fiscal 2022. We continued to realize 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 $11.1 million in fiscal 2022, as compared to $13.5 million in fiscal 2021. In fiscal 2022, costs were incurred primarily in relation to (i) entering into the Wana Agreements; (ii) the acquisitions of Supreme Cannabis and Ace Valley; and (iii) evaluating other potential acquisition opportunities. Comparatively, in fiscal 2021, our primary mergers and acquisitions activity related to (i) entering into, and implementing, the Acreage Amended Arrangement; and (ii) entering into the plan of arrangement (the "RIV Arrangement") with RIV Capital, which was completed on February 23, 2021. Additionally, costs were incurred in relation to completing the acquisition of Ace Valley and entering into the Supreme Arrangement, both of which were completed in the first quarter of fiscal 2022, and evaluating other potential acquisition opportunities.

Depreciation and amortization expense was $61.2 million in fiscal 2022, as compared to $71.6 million in fiscal 2021. The year-over-year decrease is primarily attributable to (i) operational changes announced in December 2020, which were part of the previously-noted restructuring actions and which resulted in the abandonment or impairment of certain of our Canadian production facilities and intangible assets; (ii) the impairment of certain intangible assets in fiscal 2021 associated with the rationalization of our research and development activities; and (iii) the completion of the C^3 Divestiture in the fourth quarter of fiscal 2022, resulting in two fewer months of depreciation and amortization expense recorded relative to 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, and our acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

Share-based compensation expense

Share-based compensation expense was $39.5 million in fiscal 2022, as compared to $83.0 million in fiscal 2021. The year-over-year decrease is primarily attributable to:

- The completion of vesting, prior to fiscal 2022, of a significant number of stock options that were granted in previous fiscal years; and
- The impact of the previously-noted restructuring actions beginning in the fourth quarter of fiscal 2020 and continuing through fiscal 2021 and fiscal 2022, which resulted in 8.2 million stock option forfeitures in fiscal 2021 and 3.2 million stock option forfeitures in fiscal 2022.

Share-based compensation expense related to acquisition milestones was $8.0 million in fiscal 2022, relatively consistent with the amount of $8.1 million recognized in fiscal 2021.

Expected credit losses on financial assets and related charges

In fiscal 2021, we recorded expected credit losses on financial assets and related charges in the amount of $109.5 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. No such expected credit losses and related charges were recognized in fiscal 2022. These expected credit losses and related charges recognized in fiscal 2021 included:

- $62.0 million related to expected credit losses associated with financing provided by RIV Capital to PharmHouse, and which we determined may not be recoverable. These amounts included (i) $40.0 million of secured debt financing advanced pursuant to a shareholder loan; (ii) $9.3 million advanced under a debtor-in-possession, non-revolving credit facility; (iii) a total of $3.7 million advanced under secured and unsecured demand 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 financial guarantee they provided with respect to PharmHouse's $90.0 million credit agreement. 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 us to PharmHouse that were determined to be unrecoverable.

Additionally, in fiscal 2021, 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). Refer to Note 6 of our Financial Statements for further information regarding the RIV Arrangement, and Note 26 of our Financial Statements for further information regarding PharmHouse.

Asset impairment and restructuring costs

Asset impairment and restructuring costs recorded in operating expenses in fiscal 2022 were $369.3 million, as compared to $534.4 million in fiscal 2021. In fiscal 2022, these costs included charges of $302.5 million related to restructuring actions and charges of $66.8 million related to other asset impairments. Comparatively, in fiscal 2021, these costs included charges of $527.8 million related to restructuring actions and charges of $6.6 million related to other asset impairments. These charges are detailed below under "Restructuring, Asset Impairments and Related Costs".

Other

The following table presents loss from equity method investments, other income (expense), net, and income tax recovery (expense) for the years ended March 31, 2022 and 2021:

	Years ended March 31,			
(in thousands of Canadian dollars)	2022	2021	$ Change	% Change
Loss from equity method investments	$ (100)	$ (52,629)	$ 52,529	100%
Other income (expense), net	753,341	(387,876)	1,141,217	294%
Income tax recovery	8,948	13,141	(4,193)	(32%)

Loss from equity method investments

The loss from equity method investments was $0.1 million in fiscal 2022, as compared to $52.6 million in fiscal 2021. The year-over-year decrease in the loss is primarily attributable to impairment charges totaling $44.1 million recognized in fiscal 2021, including charges of (i) $32.4 million relating to PharmHouse (see "Expected credit losses on financial assets and related charges" above); (ii) $10.3 million recognized relating to More Life Growth Company ULC ("More Life"), which were associated with our previously-noted fiscal 2021 restructuring actions; and (iii) $1.4 million related to Agripharm Corp. ("Agripharm"). Additionally, in fiscal 2021 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 fiscal 2022.

Other income (expense), net

Other income (expense), net, was an income amount of $753.3 million in fiscal 2022, as compared to an expense amount of $387.9 million in fiscal 2021. The year-over-year change of $1.1 billion, from an expense amount to an income amount, is primarily attributable to:

- Increase in non-cash income of $952.8 million related to fair value changes on the liability arising from the Acreage Arrangement, from an expense amount of $399.8 million in fiscal 2021 to an income amount of $553.0 million in 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 fiscal 2022, associated with a decrease in the liability arising from the Acreage Arrangement, is primarily attributable to a decrease of approximately 77% in our share price during fiscal 2022, relative to a decrease of approximately 53% in Acreage's share price during the same period. As a result, the model at March 31, 2022 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 fiscal 2021 was primarily attributable to an increase of approximately 97% in our share price during fiscal 2021; as a result, the model at March 31, 2021 reflected a higher estimated value of the Canopy Growth shares expected to be issued upon a Triggering Event, relative to the estimated amount of the Acreage shares expected to be acquired at that time.
- Increase in non-cash income of $881.7 million related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI. The decrease of $588.7 million in the fair value of the warrant derivative liability (resulting in non-cash income) in fiscal 2022 is primarily attributable to a decrease of approximately 77% in our share price during fiscal 2022, further impacted by a shorter expected time to maturity of the Tranche B Warrants. Comparatively, the increase of $293.1 million in the fair value of the warrant derivative liability in fiscal 2021 was primarily attributable to an increase of approximately 97% in our share price during that period, partially offset by a shorter expected time to maturity of the Tranche B Warrants.
- Increase in non-cash income of $239.3 million related to fair value changes on the Canopy Notes, from an expense amount of $162.5 million in fiscal 2021 to an income amount of $76.8 million in fiscal 2022. The year-over-year change is primarily due to the decrease of approximately 77% in our share price during fiscal 2022 relative to the increase in our share price of approximately 97% during fiscal 2021, and year-over-year changes in credit spreads.
- Change of $791.2 million related to non-cash fair value changes on our other financial assets, from an income amount of $435.1 million in fiscal 2021 to an expense amount of $356.1 million in fiscal 2022. The fiscal 2022 expense amount is primarily attributable to fair value decreases relating to our investments in the exchangeable shares ("TerrAscend Exchangeable Shares") in the capital of TerrAscend Corp. ("TerrAscend") ($156.0 million), and the secured debentures issued by TerrAscend Canada Inc. ("TerrAscend Canada") and Arise Bioscience, Inc. and associated warrants issued by TerrAscend (the "TerrAscend Warrants") (totaling $115.9 million), driven largely by (i) a decrease of approximately 44% in TerrAscend's share price during 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 fiscal 2022. Finally, the fair value of our investment in the Wana financial instrument decreased $74.6 million from the date of investment (October 14, 2021) to March 31, 2022, due primarily to changes in expectations of the future cash flows to be generated by Wana. Comparatively, in fiscal 2021, the income amount was primarily attributable to fair value increases relating to our investments in the TerrAscend Exchangeable Shares ($338.0 million) and the TerrAscend Canada secured debentures and TerrAscend Warrants (totaling $149.9 million), driven largely by (i) an increase of approximately 414% in TerrAscend's share price during fiscal 2021; and (ii) 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.

- Increase in interest expense of $95.5 million, from $8.5 million in fiscal 2021 to $103.9 million in fiscal 2022. The year-over-year increase is primarily attributable to the US$750.0 million debt financing that occurred in the fourth quarter of fiscal 2021.
- Decrease of $35.2 million in non-cash income related to fair value changes on acquisition related contingent consideration, from $39.6 million in fiscal 2021 to $4.4 million in fiscal 2022. In fiscal 2021, 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. For fiscal 2022, we recorded fair value changes related to the estimated deferred payments associated with our investment in Wana (the "Wana Deferred Payments"), which are described in Note 12 of our Financial Statements. These fair value changes were primarily related to changes in expectations of the future cash flows to be generated by Wana.

<u>Income tax recovery</u>

Income tax recovery in fiscal 2022 was $8.9 million, as compared to an income tax recovery of $13.1 million in fiscal 2021. In fiscal 2022, the income tax recovery consisted of a deferred income tax recovery of $6.6 million (compared to a recovery of $34.5 million in fiscal 2021) and current income tax recovery of $2.4 million (compared to an expense of $21.4 million in fiscal 2021).

The change of $28.0 million in the deferred income tax recovery is primarily a result of current year changes being less than prior year 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 in respect of losses for tax purposes, where the accounting criteria for recognition of an asset has yet to be satisfied and it is not probable that they will be used, the deferred tax asset has not been recognized.

The change of $23.8 million from current income tax expense to a recovery arose primarily in connection with divestitures, and 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.

Restructuring, Asset Impairments and Related Costs

Fiscal 2022

Total restructuring, asset impairments and related costs of $496.6 million were recognized in fiscal 2022, comprised of property, plant and equipment and intangible asset impairment charges, asset abandonment costs, inventory write-downs and other charges, contractual and other settlement costs, employee-related costs and other restructuring costs, and share-based compensation expense totaling $429.8 million associated with:

- The strategic review of our business conducted in the first quarter of fiscal 2022 as a result of acquisitions completed during that period, which resulted in the closure of our Niagara-on-the-Lake, Ontario and Langley, British Columbia facilities;
- Restructuring actions in the fourth quarter of fiscal 2022 aligned to our ongoing strategic review of our business, as described in the "Recent Developments" section above;
- Changes in the estimated fair value of certain of our Canadian sites that were closed in December 2020, and costs associated with those sites. Refer to discussion below for restructuring actions in fiscal 2021; and
- Inventory write-downs and associated restructuring charges of $123.7 million related primarily to (i) the aforementioned strategic changes to our business, including the shift to a contract manufacturing model for certain product formats and the closure of certain of our production facilities; and (ii) amounts deemed excess based on current and projected market demand.

Impairment charges totaling $66.8 million were recognized in relation to impairment losses identified during our annual impairment testing process, and consisted of (i) goodwill impairment losses totaling $40.7 million, of which $22.3 million relates to our KeyLeaf Life Sciences ("KeyLeaf") reporting unit and $18.4 million relates to our This Works reporting unit; and (ii) impairment charges of $26.1 million related to certain of our acquired brands and operating licenses.

A summary of the pre-tax charges recognized in fiscal 2022 in connection with our restructuring actions described above is as follows:

	Year ended March 31, 2022		
	Restructuring and other charges	Other impairments	Total
Costs recorded in cost of goods sold:			
Inventory write-downs and other charges	$ 123,669	$ -	$ 123,669
Costs recorded in operating expenses:			
Impairment and abandonment of property, plant and equipment	224,726	-	224,726
Impairment and abandonment of intangible assets	41,404	26,065	67,469
Impairment of goodwill	-	40,748	40,748
Contractual and other settlement obligations	6,610	-	6,610
Employee-related and other restructuring costs	29,786	-	29,786
Asset impairment and restructuring costs	302,526	66,813	369,339
Acceleration of share-based compensation expense related to acquisition milestones	3,615	-	3,615
Share-based compensation expense	3,615	-	3,615
Total restructuring, asset impairments and related costs	$ 429,810	$ 66,813	$ 496,623

Fiscal 2021

Total restructuring, asset impairments and related costs of $570.7 million were recognized in fiscal 2021, comprised of property, plant and equipment and intangible asset impairment charges, asset abandonment costs, inventory write-downs, contractual and other settlement costs, employee-related costs and other restructuring costs, and impairment charges related to certain of our equity method investments totaling $564.0 million associated with:

- The restructuring actions commenced in the third quarter of fiscal 2021 and continuing into the fourth quarter of fiscal 2021 as the partial outcome of an ongoing end-to-end strategic review of our operations designed to streamline our operations and further improve gross margins. This resulted in the closure of our sites in St. John's, Newfoundland and Labrador; Fredericton, New Brunswick; Edmonton, Alberta; Bowmanville, Ontario; our outdoor grow operations in Saskatchewan; and the abandonment or impairment of certain of its production facilities and intangible assets and a reduction of approximately 220 full-time positions;
- Completing the sale of our production facilities in Aldergrove and Delta, British Columbia in December 2020 and January 2021, respectively for combined proceeds of $40.7 million, the resulting adjustments to the net book value of these production facilities from March 31, 2020 to reflect their selling prices, and costs associated with the remediation of damages caused by the fire at the Delta facility in November, the closure of the facilities, and their sale;
- Completing certain of the restructuring actions that we commenced in the fourth quarter of fiscal 2020, including the exit of our operations in South Africa and Lesotho and our strategy shift in Latin America, and recording final adjustments related to changes in certain estimates recorded at March 31, 2020;
- Costs related to rationalizing our marketing organization and certain research and development activities in the first and second quarters of fiscal 2021, respectively; and
- Costs associated with rationalizing certain licensing arrangements, including (i) the impairment of our equity method investment in More Life; (ii) the difference between the termination payment made by us to More Life and the remaining minimum royalty obligations owing to More Life that were derecognized; and (iii) charges associated with terminating a licensing agreement with a third party.

Impairment charges totaling $6.6 million related to licensed brand intangible assets, which were identified during our annual impairment testing process.

A summary of the pre-tax charges recognized in fiscal 2021 in connection with our restructuring actions described above is as follows:

	Year ended March 31, 2021		
	Restructuring and other charges	Other impairments	Total
Costs recorded in cost of goods sold:			
Inventory write-downs	$ 25,985	$ -	$ 25,985
Costs recorded in operating expenses:			
Impairment and abandonment of property, plant and equipment	426,748	-	426,748
Impairment and abandonment of intangible assets	54,511	6,634	61,145
Contractual and other settlement obligations	22,352	-	22,352
Employee-related and other restructuring costs	24,153	-	24,153
Asset impairment and restructuring costs	527,764	6,634	534,398
Costs recorded in loss from equity method investments:			
Impairment of equity method investments	10,300	-	10,300
Total restructuring, asset impairments and related costs	$ 564,049	$ 6,634	$ 570,683

Fiscal 2020

Total restructuring, asset impairments and related costs of $843.3 million were recognized in fiscal 2020, comprised of:

- Property, plant and equipment and intangible asset impairment charges, asset abandonment costs, inventory write-downs, contractual and other settlement costs, employee-related costs and other restructuring costs, share-based compensation expense, and impairment charges related to certain of our equity method investments totaling $742.9 million associated with the organizational and strategic review of our business that commenced in the fourth quarter of fiscal 2020. This review resulted in the following actions designed to improve organizational focus, streamline operations and align our production capability with projected demand: (i) the closure of certain of our greenhouses as they are no longer essential to our Canadian cannabis cultivation footprint; (ii) exiting non-strategic geographies, including South Africa and Lesotho and our hemp farming operations in New York, and shifting our strategy in Colombia; and (iii) rationalizing certain marketing and research and development activities. These actions also resulted in the elimination of approximately 600 full-time positions.
- Impairment charges totaling $100.3 million, including (i) $60.0 million related to contractual and other settlement costs and brand and license impairments, which were identified during our annual impairment testing process; and (ii) $40.3 million related to certain of our equity method investments.

A summary of the pre-tax charges recognized in fiscal 2020 in connection with our restructuring actions described above is as follows:

	Year ended March 31, 2020		
	Restructuring and other charges	Other impairments	Total
Costs recorded in cost of goods sold:			
Inventory write-downs	$ 132,089	$ -	$ 132,089
Costs recorded in operating expenses:			
Impairment and abandonment of property, plant and equipment	334,964	-	334,964
Impairment and abandonment of intangible assets	192,987	54,020	247,007
Contractual and other settlement obligations	18,712	6,000	24,712
Employee-related and other restructuring costs	16,583	-	16,583
Asset impairment and restructuring costs	563,246	60,020	623,266
Acceleration of share-based compensation expense related to acquisition milestones	32,694	-	32,694
Share-based compensation expense	32,694	-	32,694
Costs recorded in loss from equity method investments:			
Impairment of equity method investments	14,900	40,326	55,226
Total restructuring, asset impairments and related costs	$ 742,929	$ 100,346	$ 843,275

Net Loss

Net loss in fiscal 2022 was $320.5 million, as compared to a net loss of $1.7 billion in fiscal 2021. The year-over-year decrease in the net loss 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; (iii) selling, general and administrative expenses; and (iv) share-based compensation. These changes, contributing to a decrease in the net loss, were partially offset by the year-over-year decrease in our gross margin. 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 impairment and restructuring costs; expected credit losses on financial assets and related charges; 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 years ended March 31, 2022 and 2021:

(in thousands of Canadian dollars)	Years ended March 31, 2022	2021	$ Change	% Change
Net loss	$ (320,485)	$ (1,670,820)	$ 1,350,335	81%
Income tax recovery	(8,948)	(13,141)	4,193	32%
Other (income) expense, net	(753,341)	387,876	(1,141,217)	(294%)
Loss on equity method investments	100	52,629	(52,529)	(100%)
Share-based compensation[1]	47,525	91,149	(43,624)	(48%)
Acquisition-related costs	11,060	13,522	(2,462)	(18%)
Depreciation and amortization[1]	114,418	127,118	(12,700)	(10%)
Asset impairment and restructuring costs	358,708	534,398	(175,690)	(33%)
Expected credit losses on financial assets and related charges	-	109,480	(109,480)	(100%)
Restructuring costs recorded in cost of goods sold	123,669	25,985	97,684	376%
Charges related to the flow-through of inventory step-up on business combinations	11,847	1,494	10,353	693%
Adjusted EBITDA	$ (415,447)	$ (340,310)	$ (75,137)	(22%)

[1] From Statements of Cash Flows.

The Adjusted EBITDA loss in fiscal 2022 was $415.4 million, as compared to an Adjusted EBITDA loss of $340.3 million in fiscal 2021. 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.

Discussion of Fiscal 2021 Results of Operations

The following table presents selected consolidated financial information for the years ended March 31, 2021 and 2020:

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Years ended March 31, 2021	Years ended March 31, 2020	$ Change	% Change
Selected consolidated financial information:				
Net revenue	$ 546,649	$ 398,772	$ 147,877	37%
Gross margin percentage	12%	(8%)	-	2,000 bps
Net loss	$ (1,670,820)	$ (1,387,440)	$ (283,380)	(20%)
Net loss attributable to Canopy Growth Corporation	$ (1,744,920)	$ (1,321,326)	$ (423,594)	(32%)
Basic and diluted loss per share[1]	$ (4.69)	$ (3.80)	$ (0.89)	(23%)

[1]For the year ended March 31, 2021, the weighted average number of outstanding common shares, basic and diluted, totaled 371,662,296 (year ended March 31, 2020 - 348,038,163).

Net 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 years ended March 31, 2021 and 2020:

Revenue by Channel *(in thousands of Canadian dollars)*	Years ended March 31, 2021	Years ended March 31, 2020	$ Change	% Change
Canadian recreational cannabis net revenue				
Business-to-business[1]	$ 163,585	$ 121,605	$ 41,980	35%
Business-to-consumer	66,016	52,044	13,972	27%
	229,601	173,649	55,952	32%
Canadian medical cannabis net revenue[2]	55,448	51,647	3,801	7%
	285,049	225,296	59,753	27%
International and other revenue				
C[3]	62,335	53,770	8,565	16%
Other[3]	31,296	15,869	15,427	97%
	93,631	69,639	23,992	34%
Global cannabis net revenue	378,680	294,935	83,745	28%
Other consumer products				
Storz & Bickel	80,998	48,329	32,669	68%
This Works	33,314	24,725	8,589	35%
BioSteel[4]	28,530	4,589	23,941	522%
Other	25,127	26,194	(1,067)	(4%)
Other consumer products revenue	167,969	103,837	64,132	62%
Net revenue	$ 546,649	$ 398,772	$ 147,877	37%

[1] Reflects excise taxes of $54,928 and other revenue adjustments, representing our determination of returns and pricing adjustments, of $14,000 for the year ended March 31, 2021 (year ended March 31, 2020 - excise taxes of $35,649 and other revenue adjustments of $51,500).

[2] Reflects excise taxes of $5,621 for the year ended March 31, 2021 (year ended March 31, 2020 - $5,205).

[3] Reflects other revenue adjustments of $717 for the year ended March 31, 2021 (year ended March 31, 2020 - $nil).

[4] Reflects other revenue adjustments of $9,218 for the year ended March 31, 2021 (year ended March 31, 2020 - $nil).

Revenue by Form	Years ended March 31,			
(in thousands of Canadian dollars)	2021	2020	$ Change	% Change
Canadian recreational cannabis				
Dry bud[1]	$ 238,021	$ 238,099	$ (78)	-
Oils and softgels[1]	28,761	21,640	7,121	33%
Beverages, edibles, topicals and vapes[1]	31,747	1,059	30,688	2898%
Other revenue adjustments	(14,000)	(51,500)	37,500	73%
Excise taxes	(54,928)	(35,649)	(19,279)	(54%)
	229,601	173,649	55,952	32%
Medical cannabis and other[2]				
Dry bud	40,479	37,435	3,044	8%
Oils and softgels	101,875	89,056	12,819	14%
Beverages, edibles, topicals and vapes	12,346	-	12,346	-
Excise taxes	(5,621)	(5,205)	(416)	(8%)
	149,079	121,286	27,793	23%
Global cannabis net revenue	378,680	294,935	83,745	28%
Other consumer products				
Storz & Bickel	80,998	48,329	32,669	68%
This Works	33,314	24,725	8,589	35%
BioSteel[2]	28,530	4,589	23,941	522%
Other	25,127	26,194	(1,067)	(4%)
Other consumer products revenue	167,969	103,837	64,132	62%
Net revenue	$ 546,649	$ 398,772	$ 147,877	37%

[1] Excludes the impact of other revenue adjustments.

[2] Includes the impact of other revenue adjustments.

Net revenue was $546.6 million in fiscal 2021, as compared to $398.8 million in fiscal 2020. The year-over-year increase was attributable to:

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

<u>Global cannabis</u>

Net revenue from our global cannabis segment was $378.7 million in fiscal 2021, as compared to $294.9 million in fiscal 2020.

Canadian recreational cannabis net revenue was $229.6 million in fiscal 2021, as compared to $173.6 million in fiscal 2020.

- Net revenue from the business-to-business channel was $163.6 million in fiscal 2021, as compared to $121.6 million in fiscal 2020. Net revenue from this channel in fiscal 2020 was impacted by other revenue adjustments in the amount of $51.5 million related to our determination, primarily in the first two quarters of fiscal 2020, of returns and pricing adjustments associated primarily with the risk of over-supply of certain oil and softgel products. Comparatively, other revenue adjustments declined to $14.0 million in fiscal 2021. We also benefited in fiscal 2021 from an overall increase in demand resulting from the opening of a total of 945 new retail stores across Canada in fiscal 2021, and the revenue growth associated with the introduction, late in the fourth quarter of fiscal 2020, of our portfolio of Cannabis 2.0 product offerings. However, we were impacted in fiscal 2021 by an unfavorable product mix due primarily to an increase in the volume of value-priced dried flower product sold compared to the prior year, and price compression resulting from increased competition in the value-priced dried flower category of the recreational market.
- Revenue from the business-to-consumer channel was $66.0 million in fiscal 2021, as compared to $52.0 million in fiscal 2020. The year-over-year increase was primarily attributable to (i) the build-out of our retail store platform across Canada to 33 corporate-owned Tweed and Tokyo Smoke retail stores at March 31, 2021, an increase from 22 stores at March 31, 2020; and (ii) the continued broadening of our brand and product offerings at our retail locations to include new value-priced dried flower products, vapes, and cannabis-infused beverages, and the benefit of holiday promotional campaigns held in fiscal 2021. Partially offsetting these increases was (i) the adverse impact, predominantly in the first quarter of fiscal 2021, of the temporary closure of our retail stores in response to the COVID-19 pandemic and their re-opening, beginning in mid-April, with reduced hours and under a "click-and-collect" model with curbside pickup or delivery; and (ii) decreased traffic at our corporate-owned

retail stores in the fourth quarter of fiscal 2021, which was partly attributable to measures implemented by certain Canadian provincial governments to limit the spread of COVID-19.

Canadian medical cannabis net revenue was $55.4 million in fiscal 2021, as compared to $51.6 million in fiscal 2020. The year-over-year increase was due primarily to the continued broadening of our brand and medical cannabis product offerings available on the Spectrum Therapeutics online store in response to medical customer demand, including the introduction of pre-rolled joints, vapes and cannabis-infused chocolates, and certain premium dry flower brands.

International and other cannabis revenue was $93.6 million in fiscal 2021, as compared to $69.6 million in fiscal 2020. C^3 (acquired in April 2019) contributed revenue of $62.3 million in fiscal 2021, a year-over-year increase of $8.6 million. In addition to the full twelve months of revenue contribution in fiscal 2021, revenue growth was driven by an expansion of C^3's customer base relative to the prior year. Other cannabis revenue was $31.3 million in fiscal 2021, a year-over-year increase of $15.4 million primarily attributable to (i) the growth in our U.S. CBD business, attributable primarily to the introduction of the Martha Stewart CBD line of products in September 2020; (ii) the growth in our international medical cannabis business resulting from the resolution of supply constraints we had experienced early in fiscal 2020 that impacted our German medical cannabis business.

Other consumer products

Revenue from our other consumer products segment was $168.0 million in fiscal 2021, as compared to $103.8 million in fiscal 2020.

- Revenue from Storz & Bickel was $81.0 million in fiscal 2021, a year-over-year increase of $32.7 million due primarily to an expansion of our distribution network in the United States.
- This Works (acquired in May 2019) contributed revenue of $33.3 million in fiscal 2021, a year-over-year increase of $8.6 million. In addition to the full twelve months of revenue contribution in the current fiscal year, revenue growth was driven by the expansion of distribution to both direct-to-consumer and third-party e-commerce channels, and new product launches. These factors were partially offset by the impact of the temporary closure of brick-and-mortar retail stores and other measures to control the outbreak of the COVID-19 pandemic in the United Kingdom, largely in the first quarter, and late in the third quarter of fiscal 2021.
- Other revenue was $53.7 million in fiscal 2021, a year-over-year increase of $22.9 million due primarily to BioSteel (which was acquired in October 2019) contributing a full twelve months of revenue contribution in fiscal 2021, and also benefiting from an expansion and strengthening of their U.S. distribution channel in the fourth quarter of fiscal 2021.

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 years ended March 31, 2021 and 2020:

	Years ended March 31,			
(in thousands of Canadian dollars except where indicated)	2021	2020	$ Change	% Change
Net revenue	$ 546,649	$ 398,772	$ 147,877	37%
Cost of goods sold	$ 479,689	$ 430,456	$ 49,233	11%
Gross margin	66,960	(31,684)	98,644	311%
Gross margin percentage	12%	(8%)	-	2,000 bps

Cost of goods sold in fiscal 2021 was $479.7 million, as compared to $430.5 million in fiscal 2020. Our gross margin in fiscal 2021 was $67.0 million, or 12% of net revenue, as compared to gross margin of $(31.7) million and gross margin percentage of (8%) of net revenue in fiscal 2020. The year-over-year increase in the gross margin percentage was attributable to:

- A year-over-year decrease in restructuring and other charges recorded in cost of goods sold. We recorded restructuring charges totaling $26.0 million in fiscal 2021, relating primarily to the closure of certain Canadian and international production facilities as described above under “Restructuring, Asset Impairments and Related Costs”. Comparatively, we recorded restructuring and other charges totaling $132.1 million in fiscal 2020 in relation to (i) restructuring charges in the amount of $55.9 million relating to excess hemp inventories in the United States and the closure of our greenhouses in Canada; and (ii) inventory write-downs in the amount of $76.2 million primarily related to aged, obsolete or unsaleable cannabis inventories and packaging within Canada.
- In fiscal 2020 we recorded inventory write-downs totaling $29.0 million associated with (i) excess finished recreational cannabis inventory and trim inventory related primarily to our evaluation of the estimated on-hand provincial and territorial inventory levels compared to forecasted “sell-in” rates of certain oils and softgel products, which led to our conclusion that a portion of this inventory may not be sold within a reasonable timeframe; (ii) the impact on gross margin reflecting the returns and pricing adjustments relating primarily to the over-supply of certain oils and softgel products in the second quarter of fiscal 2020; and (iii) other adjustments related to excess inventory. Similar write-downs did not recur in fiscal 2021.

Excluding the items highlighted above, our adjusted gross margin percentage in fiscal 2021 was impacted by the following items as compared to our adjusted gross margin percentage in fiscal 2020:

- An increase in operating costs relating to facilities not yet cultivating or producing cannabis, not yet producing cannabis-related products or having under-utilized capacity. In fiscal 2021, these costs amounted to $60.7 million and primarily related to (i) start-up costs associated with our gummie production facility in Smiths Falls, our facilities in the United States, and our greenhouse in Denmark prior to its closure in the fourth quarter of fiscal 2021; and (ii) under-utilized capacity associated with our chocolate, beverage and vape production facilities in Smiths Falls, and our indoor facility in Newfoundland and Labrador prior to its closure in early December. Comparatively, in fiscal 2020 these costs amounted to $39.6 million and primarily related to start-up costs associated with our advanced manufacturing and beverage facilities in Smiths Falls, our greenhouse in Denmark, under-utilized capacity associated with our KeyLeaf extraction facility, and costs associated with our 2020 Canadian outdoor harvest.
- Lower production output, particularly in Canada, to align with expected market demand. Lower production output, coupled with our fixed costs representing a high proportion of our overall cultivation and manufacturing cost structure, resulted in the under-absorption of these fixed costs and an adverse impact on gross margin in the current fiscal year. In connection with these changes to our production strategy we also adjusted our cannabis production profile to focus on higher-potency strains which are more in-demand, resulted in the recognition of additional inventory charges, predominantly in the first quarter of fiscal 2021.
- An unfavorable product mix in fiscal 2021 due primarily to an increase in the volume of value-priced dried flower product sold in the Canadian recreational cannabis channel, compared to the prior year.

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 years ended March 31, 2021 and 2020:

	Years ended March 31,			
(in thousands of Canadian dollars except where indicated)	2021	2020	$ Change	% Change
Global cannabis segment				
Cost of goods sold	$ 371,635	$ 371,771	$ (136)	-
Gross margin	7,045	(76,836)	83,881	109%
Gross margin percentage	2%	(26%)		2,800 bps
Other consumer products segment				
Cost of goods sold	$ 108,054	$ 58,685	$ 49,369	84%
Gross margin	59,915	45,152	14,763	33%
Gross margin percentage	36%	43%		(700) bps

Global cannabis

Gross margin for our global cannabis segment was $7.0 million in fiscal 2021, or 2% of net revenue, as compared to $(76.8) million in fiscal 2020, or (26%) of net revenue. The year-over-year increase in the gross margin percentage was primarily due to the decrease in restructuring and other charges recorded in cost of goods sold, from $132.1 million in fiscal 2020 to $26.0 million in fiscal 2021, as discussed above in our analysis of cost of goods sold and gross margin on a consolidated basis. Excluding these items, our adjusted gross margin percentage in fiscal 2021 was impacted by (i) an increase in operating costs relating to facilities not yet cultivating or producing cannabis, not yet producing cannabis-related products or having under-utilized capacity; (ii) lower production output resulting in under-absorption of our fixed costs; (iii) the recognition of inventory charges associated with the shift in cannabis production profile; and (iv) an unfavorable product mix due primarily to an increase in the volume of value-priced dried flower product sold in the Canadian recreational cannabis channel, compared to the prior year.

Other consumer products

Gross margin for our other consumer products segment was $59.9 million in fiscal 2021, or 36% of net revenue, as compared to $45.2 million in fiscal 2020, or 43% of net revenue. The year-over-year decline in our gross margin percentage was primarily due to a shift in the business mix in fiscal 2021 towards increased contributions to our segment revenue from BioSteel, which currently has a lower margin relative to Storz & Bickel and This Works.

Operating Expenses

The following table presents operating expenses for the years ended March 31, 2021 and 2020:

(in thousands of Canadian dollars)	Years ended March 31, 2021	2020	$ Change	% Change
Operating expenses				
General and administrative	$ 238,305	$ 304,635	$ (66,330)	(22%)
Sales and marketing	194,395	242,831	(48,436)	(20%)
Research and development	57,582	61,812	(4,230)	(7%)
Acquisition-related costs	13,522	20,840	(7,318)	(35%)
Depreciation and amortization	71,585	63,619	7,966	13%
Selling, general and administrative expenses	575,389	693,737	(118,348)	(17%)
Share-based compensation	83,013	258,104	(175,091)	(68%)
Share-based compensation related to acquisition milestones	8,136	62,172	(54,036)	(87%)
Share-based compensation expense	91,149	320,276	(229,127)	(72%)
Expected credit losses on financial assets and related charges	109,480	-	109,480	-
Asset impairment and restructuring costs	534,398	623,266	(88,868)	(14%)
Total operating expenses	$ 1,310,416	$ 1,637,279	$ (326,863)	(20%)

Selling, general and administrative expenses

Selling, general and administrative expenses in fiscal 2021 were $575.4 million, as compared to $693.7 million in fiscal 2020.

General and administrative expense in fiscal 2021 was $238.3 million, as compared to $304.6 million in fiscal 2020. The year-over-year decrease is primarily attributable 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 the business. These restructuring actions and the associated charges recognized are detailed above in "Restructuring, Asset Impairments and Related Costs". Accordingly, as we exited non-strategic geographies and began streamlining our operations, we realized reductions related to (i) compensation costs and third-party professional fees associated with finance, legal and other administrative functions; (ii) facilities and insurance costs; and (iii) scaling-back on our expansion and business development initiatives. Partially offsetting these costs reductions were a year-over-year increase in third-party professional consulting fees associated with the organizational and strategic review of our business, and the growth in our business through the acquisitions of C^3, This Works and BioSteel in fiscal 2020, all of which contributed a full fiscal year to our operating results in fiscal 2021.
- Losses recorded in the second quarter of fiscal 2020 of $10.8 million related to a legal dispute with a third-party supplier, and $8.8 million associated with additional reserves on onerous lease obligations. These losses did not recur in fiscal 2021.
- Payroll subsidies in the amount of $11.0 million received from the Canadian government in fiscal 2021, pursuant to a COVID-19 relief program.

Sales and marketing expense in fiscal 2021 was $194.4 million, as compared to $242.8 million in fiscal 2020. The year-over-year decrease was primarily attributable to:

- A reduction of costs attributable to the previously-noted restructuring actions initiated in the fourth quarter of fiscal 2020 and continuing through fiscal 2021. This included the rationalization of our Canadian marketing organization in April 2020, and a reduction in (i) creative design, brand insights and product marketing and advertising campaign costs in preparation for the launch of our Cannabis 2.0 portfolio of products; and (ii) staffing costs associated with servicing our Canadian market.
- With measures established to contain the spread of COVID-19, we delayed or cancelled various product and brand marketing initiatives across our business, and incurred reduced travel costs associated with restrictions aimed at controlling the spread of COVID-19.
- The above factors were partially offset by (i) higher compensation costs and increased brand and advertisement agency spending in support of our United States CBD business, particularly with respect to the launch of the Martha Stewart CBD product line, CBD beverages and vape products; and (ii) an increase in sponsorship fees relating to BioSteel's partnership deals with National Basketball Association teams and players, and promotional and sales and marketing staff compensation costs supporting BioSteel's launch of ready-to-drink beverages across the United States through their distribution network.

Research and development expense in fiscal 2021 was $57.6 million, as compared to $61.8 million in fiscal 2020. The year-over-year decrease was primarily attributable to a reduction in costs due to the previously-noted restructuring actions initiated in the fourth quarter of fiscal 2020 and continuing throughout fiscal 2021. As we rationalized our research and development activities and reduced our clinical trials and other external laboratory research and testing for cannabinoid-based therapies, we realized reductions in compensation costs and curtailed certain research and development projects for which we had incurred costs in fiscal 2020.

Acquisition-related costs in fiscal 2021 were $13.5 million, as compared to $20.8 million in fiscal 2020. The year-over-year decrease was attributable to more mergers and acquisitions activity in fiscal 2020. In fiscal 2021, our primary mergers and acquisitions activity related to (i) entering into, and implementing, the Acreage Amended Arrangement; and (ii) entering into the RIV Arrangement with RIV Capital, which was completed on February 23, 2021. Additionally, costs were incurred in relation to completing the acquisition of Ace Valley and entering into the Supreme Arrangement, both of which occurred in April 2021, and evaluating other potential acquisition opportunities. Comparatively, in fiscal 2020, we incurred acquisition-related costs related to entering into and implementing the Original Acreage Arrangement, closing the acquisitions of C^3, This Works, BioSteel, and the unowned interest in Beckley Canopy Therapeutics (“BCT”), and the transaction to launch More Life. Additionally, costs were incurred in relation to evaluating other potential acquisition opportunities.

Depreciation and amortization expense was $71.6 million in fiscal 2021, as compared to $63.6 million in fiscal 2020. The year-over-year increase was primarily attributable to the impact of building-out of our infrastructure across Canada in previous fiscal years, the growth in our business over the past year with the acquisitions of C^3, BioSteel and This Works, the growth in our network of corporate-owned Tweed and Tokyo Smoke retail stores, the implementation of information technology, and our investment in infrastructure in Europe and the United States. These factors were partially offset by a reduction in depreciation and amortization expense associated with restructuring actions announced in December 2020, which were part of the previously-noted restructuring actions and which resulted in the closure of certain of our Canadian facilities.

Share-based compensation expense

Share-based compensation was $83.0 million in fiscal 2021, as compared to $258.1 million in fiscal 2020. The year-over-year decrease was primarily attributable to:

- The implementation of a new “Total Rewards Program” for our employees in the first half of fiscal 2020 and associated modification of our share-based compensation program. As a result, 478,215 options were granted in fiscal 2021 at a weighted average price of $28.15, as compared to 22.1 million stock options in fiscal 2019 at a weighted average price of $51.49 per option, and 9.5 million options in fiscal 2020 at a weighted average price of $33.87. Accordingly, the significant number of stock options that were granted in previous years at relatively higher exercise prices impacted share-based compensation expense more significantly in previous periods; and
- The forfeiture or cancellation of 5.9 million stock options in fiscal 2020 and the forfeiture of another 8.2 million stock options in fiscal 2021 resulting primarily from the previously-noted restructuring actions commenced in the fourth quarter of fiscal 2020 and continuing through fiscal 2021. These forfeitures and cancellations also resulted in a year-over-year reduction in share-based compensation expense.

Share-based compensation related to acquisition milestones was $8.1 million in fiscal 2021, as compared to $62.2 million in fiscal 2020. The year-over-year decrease was primarily related to (i) the restructuring of our operations in Colombia in fiscal 2020, which resulted in the acceleration of share-based compensation expense totaling $32.7 million related to the unvested milestones associated with the acquisitions of Spectrum Cannabis Colombia S.A.S. (“Spectrum Colombia”), Canindica Capital Ltd. (“Canindica”) (as a result, there was no remaining share-based compensation expense to be recognized in association with the Spectrum Colombia acquisition and only a minimal amount was recognized in connection with the Canindica acquisition in fiscal 2021); and (ii) the achievement, in earlier quarters, of major milestones associated with the acquisitions of Spectrum Colombia, Canindica, and Spectrum Cannabis Denmark Aps, which had resulted in the recognition of share-based compensation expense at that time.

Expected credit losses on financial assets and related charges

In fiscal 2021, we recorded expected credit losses on financial assets and related charges in the amount of $109.5 million, in relation to PharmHouse. These expected credit losses and related charges were recognized through February 23, 2021, the date of completion of the RIV Arrangement and associated derecognition of RIV Capital’s consolidated assets and liabilities from our consolidated financial statements, and have been described above in our analysis of “Expected credit losses on financial assets and related charges” in our discussion of our fiscal 2022 results of operations above.

Asset impairment and restructuring costs

Asset impairment and restructuring costs recorded in operating expenses in fiscal 2021 were $534.4 million, as compared to $623.3 million in fiscal 2020. In fiscal 2021 these costs included charges of $527.8 million related to restructuring actions and charges of $6.6 million related to other asset impairments. Comparatively, in fiscal 2020 these costs included charges of $563.2 million related to restructuring actions and charges of $60.0 million related to other asset impairments. These charges are detailed above under “Restructuring, Asset Impairments and Related Costs”.

Other

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

(in thousands of Canadian dollars)	Years ended March 31, 2021	2020	$ Change	% Change
Loss from equity method investments	$ (52,629)	$ (64,420)	$ 11,791	18%
Other income (expense), net	(387,876)	224,329	(612,205)	(273%)
Income tax recovery	13,141	121,614	(108,473)	(89%)

Loss from equity method investments

The loss from equity method investments in fiscal 2021 was $52.6 million, as compared to $64.4 million in fiscal 2020. The year-over-year decrease in the loss was primarily attributable to a reduction in impairment charges recognized in relation to our equity method investments.

In fiscal 2021, we recognized impairment charges totaling $44.1 million, including charges of $32.4 million recognized in the second quarter of fiscal 2021 relating to PharmHouse (refer to our analysis of "Expected credit losses on financial assets and related charges" in our discussion of our fiscal 2022 results of operations above); charges of $10.3 million recognized in the fourth quarter of fiscal 2021 relating to More Life, which were associated with our previously-noted fiscal 2021 restructuring actions; and charges of $1.4 million related to Agripharm.

Comparatively, in fiscal 2020 we recognized impairment charges totaling $55.2 million. The charges included $14.9 million related to More Life, which were associated with our fiscal 2020 restructuring actions, and other impairments totaling $40.3 million associated with Agripharm ($29.2 million), CanapaR ($8.2 million), and other equity investments ($3.0 million).

Other income (expense), net

Other income (expense), net was an expense amount of $387.9 million in fiscal 2021, as compared to an income amount of $224.3 million in fiscal 2020. The year-over-year change of $612.2 million from an income amount to an expense amount was primarily attributable to:

- Change of $1.1 billion related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI, from an income amount of $795.1 million in fiscal 2020 to an expense amount of $293.1 million in fiscal 2021. The increase of $293.1 million in the fair value of the warrant derivative liability (resulting in non-cash expense) in fiscal 2021 was primarily attributable to an increase of approximately 97% in our share price from April 1, 2020 to March 31, 2021, partially offset by a shorter expected time to maturity of the Tranche B Warrants. Comparatively, the decrease of $795.1 million in the fair value of the warrant derivative liability in fiscal 2020 was primarily attributable to a decline of approximately 62% in our share price from June 27, 2019, when the terms of the Tranche B Warrants were amended, to March 31, 2020.
- Change of $347.3 million related to the non-cash fair value changes on the Canopy Notes, from an income amount of $184.7 million in fiscal 2020 to an expense amount of $162.5 million in fiscal 2021. The year-over-year change was primarily due to an increase of approximately 97% in our share price from April 1, 2020 to March 31, 2021, as compared to a decline of approximately 64% from April 1, 2019 to March 31, 2020.
- In fiscal 2020, we recognized gains of $61.8 million in relation to (i) our acquisition of the unowned interest in BCT, which increased our total ownership to 100% of BCT's issued and outstanding shares ($39.5 million); and (ii) our disposal of a previously-consolidated subsidiary in conjunction with the transaction completed to launch More Life ($22.3 million). Comparatively, in fiscal 2021 we recognized gains totaling $0.6 million in relation to the completion of the RIV Arrangement, and the disposition of certain of our other financial assets.
- A decrease in interest income of $45.0 million, from $66.3 million in fiscal 2020 to $21.4 million in fiscal 2021. While our cash and cash equivalents and short-term investment balance, on a combined basis, increased $322.7 million from March 31, 2020 to March 31, 2021, we received net proceeds of $877.1 million in March 2021 pursuant to the US$750.0 million debt financing that occurred in the fourth quarter of fiscal 2021. Excluding this cash inflow, our cash and cash equivalents and short-term investments balance decreased year-over-year and this was the primary driver of the decrease in interest income.
- Change of $679.1 million related to non-cash fair value changes on our other financial assets, from an expense amount of $244.0 million in fiscal 2020 to an income amount of $435.1 million in fiscal 2021. The income amount recognized in fiscal 2021 was primarily attributable to fair value increases relating to our investments in the TerrAscend Exchangeable Shares ($338.0 million), and the TerrAscend Canada secured debenture and the TerrAscend Warrants (totaling $149.9 million), driven largely by an increase of approximately 414% in TerrAscend's share price from April 1, 2020 to March 31, 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. Comparatively, the expense amount in fiscal 2020 was primarily driven by decreases of $113.0 million and $40.5 million in the fair value of our TerrAscend Exchangeable Shares and warrants in the capital of SLANG, respectively. Both companies have interests in cannabis-related businesses in the United States and the fair value decreases resulted primarily from declines of approximately 69% and 90%, respectively in their respective stock prices

during fiscal 2020. Additionally, the fair values of several of our other investments decreased during fiscal 2020 in-line with the broader decline in the Canadian cannabis market. Partially offsetting these year-over-year fair value increases was (i) a fair value decrease of $37.0 million representing the difference between the Hempco Debenture and the estimated fair value of the Hempco Debenture measured using a discounted cash flow model; and (ii) a fair value decrease of $7.2 million related to RIV Capital's investment in Agripharm pursuant to a royalty agreement, which was incurred prior to the completion of the RIV Arrangement on February 23, 2021.

- A decrease in non-cash expense of $245.3 million related to fair value changes on the liability arising from the Acreage Arrangement, from $645.2 million in fiscal 2020 to $399.8 million in fiscal 2021. 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 fiscal 2021 expense amount, associated with an increase in the liability arising from the Acreage Arrangement, was primarily attributable to an increase of approximately 97% in our share price from April 1, 2020 to March 31, 2021. As a result, the model at March 31, 2021 reflects a higher 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 amount of the Acreage shares expected to be acquired at that time. Comparatively, the expense amount of $645.2 million in fiscal 2020 was primarily attributable to an overall decline in both our and Acreage's share prices in fiscal 2020.
- An increase of $27.3 million in non-cash income related to fair value changes on acquisition related contingent consideration. In fiscal 2019 we acquired ebbu, and the consideration paid included contingent consideration related to the achievement, by ebbu, of certain scientific related milestones. The year-over-year change in the fair value of the acquisition related contingent consideration was primarily attributable to changes in our assessment of the probability and timing of ebbu achieving certain of these milestones.

Income tax recovery (expense)

Income tax recovery was $13.1 million in fiscal 2021, compared to income tax recovery of $121.6 million in fiscal 2020. In fiscal 2021, income tax recovery consisted of deferred income tax recovery of $34.5 million (compared to a recovery of $138.3 million in fiscal 2020) and current income tax expense of $21.4 million (compared to an expense of $16.7 million in fiscal 2020).

The decrease of $103.8 million in deferred income tax recovery was primarily a result of current year changes being less than prior year in respect of (i) deferred tax liabilities that arose in connection with the required revaluation of the accounting carrying value, but not the tax basis, of property, plant and equipment, intangible assets, and other financial assets; and (ii) the recognition of losses carried forward net of the use of losses carried forward from prior years for which a deferred tax asset had been recorded. In connection with certain deferred tax assets, mainly in respect to losses for tax purposes, where the accounting criteria for recognition of an asset has yet to be satisfied and it was not probable that they will be used, the deferred tax asset has not been recognized.

The increase of $4.7 million in current income tax expense arose primarily in connection with legal entities that generated income for tax purposes that could not be reduced by the group's tax attributes.

Net Loss

The net loss was $1.7 billion in fiscal 2021, as compared to $1.4 billion in fiscal 2020. The increase in the net loss was primarily attributable to the year-over-year change in other income (expense), net, the reduction in the income tax recovery, and expected credit losses on financial assets and related charges, and partially offset by the year-over-year improvement in gross margin and reductions in selling, general and administrative expenses, share-based compensation expense, and asset impairment and restructuring charges. These variances are discussed above in our discussion of our fiscal 2021 results of operations.

Adjusted EBITDA (Non-GAAP Measure)

The following table presents Adjusted EBITDA for the years ended March 31, 2021 and 2020:

(in thousands of Canadian dollars)	Years ended March 31, 2021	2020	$ Change	% Change
Net loss	$ (1,670,820)	$ (1,387,440)	$ (283,380)	(20%)
Income tax recovery	(13,141)	(121,614)	108,473	89%
Other (income) expense, net	387,876	(224,329)	612,205	273%
Loss on equity method investments	52,629	64,420	(11,791)	(18%)
Share-based compensation[1]	91,149	320,276	(229,127)	(72%)
Acquisition-related costs	13,522	20,840	(7,318)	(35%)
Depreciation and amortization[1]	127,118	125,013	2,105	2%
Asset impairment and restructuring costs	534,398	623,266	(88,868)	(14%)
Expected credit losses on financial assets and related charges	109,480	-	109,480	-
Restructuring costs recorded in cost of goods sold	25,985	132,089	(106,104)	(80%)
Charges related to the flow-through of inventory step-up on business combinations	1,494	4,687	(3,193)	(68%)
Adjusted EBITDA	$ (340,310)	$ (442,792)	$ 102,482	23%

[1] From Statements of Cash Flows.

The Adjusted EBITDA loss in fiscal 2021 was $340.3 million, as compared to an Adjusted EBITDA loss of $442.8 million in fiscal 2020. The year-over-year decrease in the Adjusted EBITDA loss was primarily attributable to the year-over-year reduction in our selling, general and administrative expenses, as 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 March 31, 2022, we had cash and cash equivalents of $776.0 million and short-term investments of $595.7 million, which are predominantly invested in liquid securities issued by financial institutions. Additionally, we have capacity of up to an additional US$500.0 million available under the Credit Facility (as defined below), and the full amount of $40.0 million under our revolving debt facility with Farm Credit Canada ("FCC"). In evaluating our capital requirements, including the impact, if any, on our business from the COVID-19 pandemic, and our ability to fund the execution of our strategy, we believe we have adequate available liquidity to enable us to meet our working capital and other operating requirements, fund growth initiatives and capital expenditures, settle our liabilities, and repay scheduled principal and interest payments on debt for at least the next twelve months.

Our objective is to generate sufficient cash to fund our operating requirements and expansion plans. While we have incurred net losses on a GAAP basis and Adjusted EBITDA losses to date and our cash and cash equivalents have decreased $378.6 million from March 31, 2021 (and, together with short-term investments, decreased $927.6 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 party thereto 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 fiscal 2022, our purchases of and deposits on property, plant and equipment totaled $36.7 million, which we 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

The table below presents cash flows for the years ended March 31, 2022, 2021 and 2020:

	Years ended March 31,		
(in thousands of Canadian dollars)	2022	2021	2020
Net cash (used in) provided by:			
Operating activities	$ (545,811)	$ (465,729)	$ (772,635)
Investing activities	230,819	(884,105)	(347,654)
Financing activities	(45,533)	1,264,769	(57,161)
Effect of exchange rate changes on cash and cash equivalents	(18,123)	(63,458)	(204)
Net decrease in cash and cash equivalents	(378,648)	(148,523)	(1,177,654)
Cash and cash equivalents, beginning of period	1,154,653	1,303,176	2,480,830
Cash and cash equivalents, end of period	$ 776,005	$ 1,154,653	$ 1,303,176

Operating activities

Cash used in operating activities in fiscal 2022 totaled $545.8 million, as compared to cash used of $465.7 million in fiscal 2021. 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$750.0 million 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 working capital spending. These variances are described above.

Cash used in operating activities in fiscal 2021 totaled $465.7 million, as compared to cash used of $772.6 million in fiscal 2020. The decrease in the cash used in operating activities was primarily due to the year-over-year reduction in our working capital spending on inventory, which was primarily attributable to the lower production output in fiscal 2021 (as described in the "Cost of Goods Sold and Gross Margin" section in our discussion of our fiscal 2021 results of operations above), and a year-over-year reduction in our selling, general and administrative expenses as discussed above.

Investing activities

The cash provided by investing activities totaled $230.8 million in fiscal 2022. Purchases of property, plant and equipment were $36.7 million, and our investments related to our production infrastructure in the United States and an expansion of our Storz & Bickel facilities. The net cash outflow relating to acquisitions totaled $14.9 million. Our strategic investments in other financial assets were $379.4 million, and related primarily to the upfront payment made as consideration for entering into the Wana Agreements. Additional cash inflows related to (i) proceeds of $118.1 million from the sale of certain wholly-owned subsidiaries, most notably the completion of the C^3 Divestiture on January 31, 2022; and (ii) proceeds of $27.3 million from the sale of property, plant and equipment. Net redemptions of short-term investments were $546.0 million, and reflect the redemption of our short-term investments largely for the investing activities described above. Finally, other investing activities resulted in a cash outflow of $18.1 million, primarily related to the payment of acquisition-related liabilities, as we continue to draw-down on the amounts owing in relation to acquisitions completed in prior years.

The cash used in investing activities totaled $884.1 million in fiscal 2021. We invested $164.5 million, primarily in our production infrastructure in the United States and an expansion of our Storz & Bickel facilities. We did not complete any acquisitions in fiscal 2021; we did, however, complete strategic investments totaling $44.7 million, made payments of $49.8 million to Acreage shareholders upon implementation of the Acreage Amended Arrangement in September 2020, and advanced the loan of $67.0 million to Acreage Hempco. In the fourth quarter of fiscal 2021, we completed the RIV Arrangement and, as a result, made a cash payment in the amount of $115.0 million and derecognized RIV Capital’s cash balance of $37.8 million. Net purchases of short-term investments were $459.8 million, primarily related to our investment of the proceeds from CBI exercising their warrants in fiscal 2021 and the proceeds from the Credit Facility. Partially offsetting the aforementioned cash outflows were cash inflows related to proceeds of $45.9 million from the sale of property, plant and equipment, proceeds of $7.0 million from the sale of equity method investments, and proceeds of $18.3 million from the sale of a portfolio of patents in Germany. Finally, other investing activities resulted in a cash outflow of $7.0 million, primarily related to payments for acquisition-related liabilities, partially offset by a recovery of certain amounts related to construction financing.

The cash used in investing activities totaled $347.7 million in fiscal 2020. We invested $704.9 million in the construction of advanced manufacturing capability and a beverage facility at our Smiths Falls location, our U.S. supply chain infrastructure, and expanding our growing capacity in Denmark. The cash used for acquisitions was $498.8 million, with the most notable cash outflows relating to our acquisitions of C^3 ($342.9 million), This Works ($71.0 million), BioSteel ($47.7 million) and BCT ($37.2 million). We also completed strategic investments totaling $529.9 million in the form of equity instruments of certain entities, most notably pursuant to the Original Acreage Arrangement ($395.2 million). Partially offsetting these outflows of cash was the net redemption of short-term investments in the amount of $1.4 billion, with the cash proceeds primarily used for the purposes described above.

Financing activities

The cash used in financing activities totaled $45.5 million in fiscal 2022, as we made repayments of long-term debt in the amount of $50.8 million, primarily related to the term loan assumed upon the completion of the acquisition of Supreme Cannabis on June 22, 2021.

The cash provided by financing activities totaled $1.3 billion in fiscal 2021. We received net proceeds of $877.1 million pursuant to the Credit Facility, proceeds of $245.2 million in relation to CBI exercising 18.9 million warrants to purchase our common shares, and proceeds from the exercise of stock options were $156.9 million. These inflows were partially offset by scheduled repayments on long-term debt of $15.6 million.

The cash used in financing activities totaled $57.2 million in fiscal 2020. The primary outflow was the repayment of debt of $115.0 million, including the Alberta Treasury Board financing and related interest in the amount of $95.2 million, and other scheduled debt repayments.

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 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. The table below presents free cash flows for the years ended March 31, 2022, 2021 and 2020:

	Years ended March 31,		
(in thousands of Canadian dollars)	2022	2021	2020
Net cash used in operating activities	$ (545,811)	$ (465,729)	$ (772,635)
Purchases of and deposits on property, plant and equipment	(36,684)	(164,502)	(704,944)
Free cash flow[1]	$ (582,495)	$ (630,231)	$ (1,477,579)

[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 fiscal 2022 was an outflow of $582.5 million, as compared to an outflow of $630.2 million in fiscal 2021. 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, partially offset by the decrease in the cash used for operating activities, as described above.

Free cash flow for fiscal 2021 was an outflow of $630.2 million, as compared to an outflow of $1.5 billion for fiscal 2020. The year-over-year decrease in the outflow reflects the decrease in the cash used for operating activities, as described above, and the substantial completion of our cultivation and Cannabis 2.0 infrastructure build-out in fiscal 2021 and the shift to an asset-light model in certain markets.

Debt

Since our formation, we have financed our cash requirements primarily through the issuance of capital stock, including the $5.1 billion investment by CBI in the third quarter of fiscal 2019, and debt. Total debt outstanding as of March 31, 2022 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 Canopy Notes, was $1.6 billion at March 31, 2022, consistent with $1.5 billion at March 31, 2021.

Credit Facility

The Credit Agreement provides for the Credit Facility in the aggregate principal amount of US$750.0 million. We also have the ability to obtain up to an additional US$500.0 million of incremental senior secured debt pursuant to the Credit Agreement. The Credit Facility has no amortization payments, matures on March 18, 2026, has a coupon of LIBOR plus 8.50% and is subject to a LIBOR floor of 1.00%. Our obligations under the Credit Facility are guaranteed by material Canadian and U.S. subsidiaries of Canopy Growth. The Credit Facility is secured by substantially all of the assets, including material real property, of the borrowers and each of the guarantors thereunder. The Credit Agreement contains representations and warranties, and affirmative and negative covenants, including a financial covenant requiring minimum liquidity of US$200.0 million at the end of each fiscal quarter.

Convertible senior notes (“Canopy Notes”)

In June 2018, we issued the Canopy Notes with an aggregate principal amount of $600.0 million. The Canopy 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 Canopy Notes mature on July 15, 2023. Holders of the Canopy Notes may convert the Canopy Notes at their option at any time from January 15, 2023 to the maturity date. CBI owns $200.0 million of the Canopy 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 Supreme 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 replaces all previous loans with FCC and is secured by our property in Niagara-on-the-Lake, Ontario. The facility bears interest of 3.70%, or the FCC prime rate plus 1.0%, and matures on September 3, 2024. The outstanding balance at March 31, 2022 is $nil.

Further information regarding our debt issuances, including the conversion rights of the Canopy Notes, is included in Note 17 of the Financial Statements.

Contractual Obligations and Commitments

The table below presents information about our contractual obligations and commitments as of March 31, 2022, and the timing and effect that such obligations and commitments are expected to have on our liquidity and cash flows in future periods:

	Payments due by period				
(CDN $000's)	Total	Less than 1 year	1-3 years	3-5 years	Over 5 years
Long-term debt obligations	$ 1,578,065	$ 865	$ 610,730	$ 966,470	$ -
Interest payments on debt obligations	399,348	118,022	192,698	88,628	-
Operating leases[1]	71,507	12,004	22,325	19,417	17,761
Finance leases[1]	72,465	8,023	16,316	41,864	6,262
Purchase obligations	142,287	100,215	40,383	1,689	-
Other liabilities[2]	114,943	26,019	88,924	-	-
Other obligations[3]	193,516	30,238	65,912	39,593	57,773
	$ 2,572,131	$ 295,386	$ 1,037,288	$ 1,157,661	$ 81,796

[1] Refer to Note 32 of our Financial Statements for further information on our leases. Amounts include interest related to operating and finance leases of $1.7 million and $3.1 million, respectively.

[2] Refer to Note 18 of our Financial Statements for further information on our other liabilities.

[3] Includes future minimum royalty obligations, sponsorship agreements, and other commitments.

Transactions with Related Parties

Year ended March 31, 2022

None.

Year ended March 31, 2021

On February 23, 2021, we completed the RIV Arrangement with RIV Capital and RIV Capital Corporation. Refer to Note 6 of our Financial Statements for a description of the RIV Arrangement.

Concurrent with the execution of the Proposal Agreement, on June 24, 2020, we entered into the Second Consent Agreement with the CBI Group. See Part I, Item 1, Business for additional information on these transactions.

Part 4 – Critical Accounting Policies and Estimates

Our significant accounting policies are more fully described in Note 3 of the Notes to the Financial Statements. Certain of our accounting policies require the application of significant judgment by management and, as a result, are subject to an inherent degree of uncertainty. We believe that the following accounting policies and estimates are the most critical to fully understand and evaluate our reported financial position and results of operations, as they require our most subjective or complex management judgments. The estimates used are based on our historical experience, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. Actual results may vary from our estimates in amounts that may be material to the Financial Statements.

The following critical accounting policies and estimates are those which we believe have the most significant effect on the amounts recognized in the Financial Statements.

Inventory valuation

Critical judgment. Inventory is valued at the lower of cost and net realizable value. The valuation of our inventory balances involves calculating the estimated net realizable value of our inventory and assessing it against the cost. A component of this analysis therefore involves determining whether there is excess, slow-moving or obsolete inventory on hand.

Assumptions and judgment. When determining whether there is excess, slow-moving or obsolete inventory, management makes assumptions around future demand and production forecasts, which are then compared to current inventory levels. Management also makes assumptions around future pricing, and considers historical experience and the application of the specific identification method for identifying obsolete inventory.

Impact if actual results differ from assumptions. If the assumptions around future demand for our inventory are more optimistic than actual future results, the net realizable value calculated using these assumptions may be overstated, resulting in an overstatement of the inventory balance.

Estimated useful lives and depreciation and amortization of property, plant and equipment and intangible assets

Critical estimates. During the purchase or construction of our property, plant and equipment, and during the acquisition or purchase of intangible assets, amounts are capitalized onto the balance sheet. When the assets go into service, a useful life is assigned to determine the required quarterly depreciation and amortization expense. The useful lives are determined through the exercise of judgment. When an asset is abandoned or ceases to be used the carrying value of the asset is adjusted to its salvage value.

Assumptions and judgment. The useful lives are determined based on the nature of the asset. Management considers information from manufacturers, historical data, and industry standards to estimate the appropriate useful life and salvage value. In certain cases management may obtain third party appraisals to estimate salvage value.

Impact if actual results differ from assumptions. If actual useful lives differ from the estimates used, the timing of depreciation and amortization expense will be impacted. For example, a longer useful life will result in lower depreciation and amortization expense recorded each year, but will also increase the periods over which depreciation and amortization expense is taken. When an asset is abandoned, if the salvage value differs from the estimates used the abandonment cost will be impacted.

Impairment of property, plant and equipment and finite lived intangible assets

Critical estimates. Property, plant and equipment and finite lived intangible assets need to be assessed for impairment when an indicator of impairment exists. If an indicator of impairment exists, further judgement and assumptions will be required in determining the recoverable amount.

Assumptions and judgment. When determining whether an impairment indicator exists, judgement is required in considering the facts and circumstances surrounding these long-lived assets. Management considers whether events such as a change in strategic direction, changes in business climate, or changes in technology would indicate that a long-lived asset may be impaired. When an impairment indicator does exist, judgement and assumptions are required to estimate the future cash flows used in assessing the recoverable amount of the long-lived asset.

Impact if actual results differ from assumptions. If impairment indicators exist and are not identified, or judgement and assumptions used in assessing the recoverable amount change, the carrying value of long-lived assets can exceed the recoverable amount.

Impairment of goodwill and indefinite lived intangible assets

Critical estimates. Indefinite lived intangible assets and goodwill need to be tested for impairment annually at the measurement date of March 31 or sooner, if events or circumstances indicate that the carrying amount of an asset may not be recoverable. An entity may first perform a qualitative assessment of impairment, and a quantitative assessment is only required if the qualitative assessment determines that it is more likely than not that the fair value of the reporting unit is less than its carrying amount.

Assumptions and judgment. When performing a qualitative assessment, judgment is required when considering relevant events and circumstances that could affect the fair value of the indefinite lived intangible asset or reporting unit to which goodwill is assigned. Management considers whether events and circumstances such as a change in strategic direction and changes in business climate would impact the fair value of the indefinite lived intangible asset or reporting unit to which goodwill is assigned. If a quantitative analysis is required, assumptions are required to estimate the fair value to compare against the carrying value.

Goodwill – we changed the structure of our internal management reporting in the fourth quarter of fiscal 2021, and accordingly, identified two operating and reportable segments: (i) global cannabis; and (ii) other consumer products. The reorganization of our reporting structure also changed the composition of our reporting units and required that goodwill be reassigned to the reporting units using a relative fair value allocation approach. Our reporting units with goodwill in the global cannabis segment included (i) cannabis operations; and (ii) C^3. Our reporting units with goodwill in the other consumer products segment include (i) Storz & Bickel; (ii) This Works; and (iii) BioSteel. In the fourth quarter of fiscal 2022, we further changed the composition of our reporting units within the global cannabis segment as a result of (i) the completion of the C^3 Divestiture (see "Recent Developments" above); and (ii) a strategic shift in our KeyLeaf business to focus on non-cannabis extraction activities. Accordingly, goodwill was reassigned to the KeyLeaf reporting unit from the cannabis operations reporting unit, using the relative fair value allocation approach.

At March 31, 2022, we performed our annual goodwill impairment analysis using the quantitative assessment. We concluded that the carrying values of the KeyLeaf and This Works reporting units were higher than their respective estimated fair values as determined using the income valuation method, and a goodwill impairment loss totaling $40.7 million was recognized in fiscal 2022. The goodwill impairment loss was comprised of (i) $22.3 million related to the KeyLeaf reporting unit, representing the entirety of the goodwill assigned to the KeyLeaf reporting unit; and (ii) $18.4 million related to the This Works reporting unit. Certain negative trends, including slower growth rates, resulted in updated long-term financial forecasts indicating lower forecasted revenue and cash flow generation for the KeyLeaf and This Works reporting units. No impairment was noted for any of our other reporting units, as the estimated fair value of each of the other reporting units with goodwill exceeded their carrying value.

The estimated fair value of the cannabis operations reporting unit in the global cannabis segment was determined using the market valuation method, with the most significant assumptions used in applying this method being (i) the price of our common shares; and (ii) the estimated control premium associated with ownership of our common shares. The estimated fair values of all other reporting units (KeyLeaf, This Works, BioSteel and Storz & Bickel) were determined using the income valuation method, with the most significant assumptions used in applying this method being (i) the discount rate; (ii) the expected long-term growth rate; and (iii) the annual cash flow projections. These methodologies are consistent with those used for our annual impairment test conducted at March 31, 2021, and for the quantitative interim goodwill assessment we conducted for the cannabis operations reporting unit at December 31, 2021.

The carrying value, at March 31, 2022, of the goodwill associated with our cannabis operations reporting unit was $1.7 billion. For the cannabis operations reporting unit, if all other assumptions were held constant and the estimated control premium was decreased by 500 basis points, the estimated fair value would decrease by 7% and result in an impairment charge. If all other assumptions were held constant and the share price decreased by 10%, the estimated fair value would decrease by 15% and result in an impairment charge.

The carrying value, at March 31, 2022, of the goodwill associated with our BioSteel reporting unit was $57.3 million. For the BioSteel reporting unit, if all other assumptions were held constant and the discount rate was increased by 50 basis points, the estimated fair value would decrease by 8%. If all other assumptions were held constant and the long-term growth rate was decreased by 50 basis points, the estimated fair value would decrease by 3%. If all other assumptions were held constant and the annual cash flow projections were decreased by 250 basis points, the estimated fair value would decrease by 5%.

The carrying value, at March 31, 2022, of the goodwill associated with our Storz & Bickel reporting unit was $79.0 million. For the Storz & Bickel reporting unit, if all other assumptions were held constant and the discount rate was increased by 50 basis points, the estimated fair value would decrease by 6%. If all other assumptions were held constant and the long-term growth rate was decreased by 50 basis points, the estimated fair value would decrease by 4%. If all other assumptions were held constant and the annual cash flow projections were decreased by 250 basis points, the estimated fair value would decrease by 3%.

At March 31, 2022, the fair value of the cannabis operations reporting unit to which goodwill is assigned exceeded its carrying value by approximately 5% to 10%. Accordingly, the goodwill assigned to the cannabis operations reporting unit is at risk for impairment in future periods. We may be required to perform a quantitative goodwill impairment assessment in future periods for the cannabis operations reporting unit, to the extent we continue to experience declines in the price of our common shares from March 31, 2022, reductions in the estimated control premium associated with ownership of our common shares, or if other indicators of impairment arise.

The carrying value, at March 31, 2022, of the goodwill associated with our This Works reporting unit was $2.3 million.

Indefinite lived intangible assets – if a quantitative analysis is required, our acquired intangible assets are evaluated for impairment by comparing the carrying value of the intangible assets to their estimated fair value. The estimated fair value of the acquired brand indefinite lived intangible assets is calculated based on an income approach using the relief-from-royalty method. The estimated fair value of the operating license indefinite life intangible assets is calculated based on a market valuation approach. In the fourth quarter of fiscal 2022, the global cannabis segment recognized a $26.1 million impairment loss in connection with certain of our acquired recreational cannabis brand intangible assets, and certain of our operating license intangible assets. Certain negative trends, including slower growth rates and increased competition, resulted in updated long-term financial forecasts indicating lower forecasted revenue and cash flow generation for the specific acquired recreational brands. This change in financial forecasts indicated it was more likely than not that the fair value of our indefinite lived intangible asset associated with the acquired brand might also be below its carrying value, and accordingly we performed a quantitative assessment for impairment. The most significant assumptions used in the relief-from-royalty method to determine the estimated fair value of intangible assets with indefinite lives are (i) the estimated royalty rate, (ii) the discount rate, (iii) the expected long-term growth rate, and (iv) the annual revenue projections.

Impact if actual results differ from assumptions. If the judgements relating to the qualitative or quantitative assessments performed differ from actual results, or if assumptions are different, the values of the indefinite lived intangible assets and goodwill can differ from the amounts recorded.

Acreage financial instrument fair value measurement

Critical estimates. The Acreage financial instrument is measured at fair value through net income (loss) using Level 3 inputs.

Assumptions and judgment. The valuation of the Acreage financial instrument is highly subjective and management applies a probability-weighted expected return model which considers a number of potential outcomes. We use judgment to make assumptions on the key inputs including the (i) probability of each scenario; (ii) number of common shares to be issued; (iii) probability and timing of U.S. legalization; (iv) estimated premium on U.S. legalization; (v) control premium; and (vi) market access premium.

Impact if actual results differ from assumptions. If the assumptions and judgments differ, the fair value calculation will be impacted. Information on the valuation technique and inputs used in determining fair values are disclosed in Note 24 of our Financial Statements.

Warrant derivative liability fair value measurement

Critical estimates. The warrant derivative liability is measured at fair value through net income (loss) using Level 3 inputs.

Assumptions and judgment. The valuation technique requires assumptions and judgement around the inputs to be used. Specifically, there is a high degree of subjectivity and judgement in evaluating the determination of the expected share price volatility inputs used in the Monte Carlo model for the warrant derivative liability. Historical, implied, and peer group volatility levels provide a range of possible expected volatility inputs and the fair value estimates are sensitive to the expected volatility inputs.

Impact if actual results differ from assumptions. An increase or decrease in the share price volatility will result in an increase or decrease in fair value.

TerrAscend Exchangeable Shares and TerrAscend Warrants fair value measurement

Critical estimates. The TerrAscend Exchangeable Shares and TerrAscend Warrants are measured at fair value through net income (loss) using Level 3 inputs.

Assumptions and judgment. The valuation of the TerrAscend Exchangeable Shares is based on a put option pricing model and the valuation of the TerrAscend Warrants is based on a Monte Carlo simulation model. We use judgment to make assumptions on the key input, being the probability and timing of U.S. legalization.

Impact if actual results differ from assumptions. If the assumptions and judgments differ, the fair value calculation will be impacted. Information on the valuation technique and inputs used in determining fair values are disclosed in Note 24 of our Financial Statements.

Wana financial instrument fair value measurement

Critical estimates. As a result of entering into the Wana Agreements, we recognized (i) the call option associated with the Wana Agreements (the "Wana Call Option"), which represents an option to purchase 100% of Wana for a payment equal to 15% of Wana's fair market value at the time the option is exercised; and (ii) the Wana Deferred Payments, which are additional deferred payments that we expect to make in respect of Wana as of the 2.5- and 5-year anniversaries of October 14, 2021, computed based on a pre-determined contractual formula. Refer to Note 12 of our Financial Statements for further details. The Wana Call Option and Wana Deferred Payments are measured at fair value through net income (loss) using Level 3 inputs.

Assumptions and judgment. The valuation of the Wana Call Option is measured using a discounted cash flow model, which requires assumptions and judgment to determine the expected future cash flows associated with Wana. The valuation of the Wana Deferred Payments is based on a Monte Carlo simulation model, and we are required to use judgment and make assumptions on the key inputs, being the probability and timing of U.S. legalization and volatility.

Impact if actual results differ from assumptions. If the assumptions and judgments differ, the fair value calculation will be impacted. Information on the valuation techniques and inputs used in determining fair valued are disclosed in Note 24 of our Financial Statements.

Other fair value measurements

Critical estimates. Some of our assets and liabilities are measured at fair value. In certain cases where Level 1 inputs are not available, valuation approaches using Level 2 and Level 3 inputs are required.

Assumptions and judgment. The valuation techniques require assumptions and judgment around the inputs to be used.

Impact if actual results differ from assumptions. If the assumptions and judgments differ, the fair value calculations will be impacted. Certain assumptions will have greater impact on the determination of fair value depending on the nature of the asset or liability. Information on the valuation techniques and inputs used in determining fair values are disclosed in Note 24 our Financial Statements.

Revenue recognition

Critical estimates. The determination of the reduction of the transaction price for variable consideration requires that we make certain estimates and assumptions that affect the timing and amounts of revenue recognized.

Assumptions and judgment. We estimate the variable consideration by taking into account factors such as historical information, current trends, forecasts, inventory levels, availability of actual results and expectations of customer and consumer behavior.

Impact if actual results differ from assumptions. A more optimistic outlook on future demand can result in lower expected returns and reduced likelihood of price adjustments necessary to sell the product. This outlook will reduce the provision against revenue.

Stock-based compensation

Critical estimates. We use the Black-Scholes option pricing model to calculate our share-based compensation expense.

Assumptions and judgment. The option pricing model relies on key inputs such as rate of forfeiture, expected life of the option, the volatility of our share price, and the risk-free interest rate used.

Impact if actual results differ from assumptions. If key inputs differ, the fair value of options will be impacted. A higher fair value of the options will result in higher share-based compensation expense over the vesting period of the option.

Income taxes

Critical estimates. Many of our normal course transactions may have uncertain tax consequences. We use judgment to determine income for tax purposes and this may impact the recognized amount of assets or liabilities, the disclosure of contingent liabilities or the reported amount of revenue or expense and may result in an unrealized tax benefit for transactions that have not yet been reviewed by tax authorities and that may in the future be under discussion, audit, dispute or appeal.

Assumptions and judgment. We use historical experience, current and expected future outcomes, third-party evaluations and various other assumptions believed to be reasonable in making judgements.

Impact if actual results differ from assumptions. An unrealized tax benefit will be recognized when we determine that it is more likely than not that the tax position is sustainable based on its technical merits. In any case, if the final outcome is different from our estimate this will impact our income taxes and cash flow.

Item 7A. 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 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 March 31, 2022, would affect the carrying value of net assets by approximately $33.5 million, with a corresponding impact to the foreign currency translation account within accumulated other comprehensive income or loss. A hypothetical 10% change in the euro against the Canadian dollar compared to the exchange rate at March 31, 2022, would affect the carrying value of net assets by approximately $46.6 million, with a corresponding impact to the foreign currency translation account within accumulated other comprehensive income or 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 March 31, 2022, our cash and cash equivalents, and short-term investments, consisted of $0.9 billion, as compared to $1.9 billion at March 31, 2021, in interest rate sensitive instruments.

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**	
	March 31, 2022	**March 31, 2021**	**March 31, 2022**	**March 31, 2021**	**March 31, 2022**	**March 31, 2021**
Convertible senior notes	$ 600,000	$ 600,000	$ 563,958	$ 687,414	$ (6,600)	$ (8,010)
Fixed interest rate debt	43,386	3,872	N/A	N/A	N/A	N/A
Variable interest rate debt	893,647	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 the Canopy 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 24 of the Financial Statements.