



FISCAL YEAR 2022

Annual Report



CANOPY GROWTH
UNLEASHING THE POWER OF CANNABIS

CANOPY GROWTH

Letter from our CEO

Dear Shareholders,

When we set our vision of unleashing the power of cannabis to improve lives, we committed Canopy Growth to a journey of evolution and innovation. This was intentional, as we knew our industry would face a wide range of shifts and changes through the first few years since its inception. As it has evolved, so have we, and our ability to adapt to meet the opportunities of today and of tomorrow serves as a source of confidence as we look to what is ahead.

The past fiscal year has been pivotal as we strengthened Canopy's foundation as a premium brand-focused cannabis consumer packaged goods (CPG) company. Guided by an understanding of the immense opportunity ahead, this year we undertook steps to right-size the organization, solidify our U.S. THC strategy, and progress our path to profitability in Canada. Despite industry-wide challenges on both sides of the border, our efforts are unlocking tangible results, including attaining and maintaining the #1 position in the Canadian premium flower category, growing our market share in mainstream flower, while also driving record growth for our CPG brands including Storz & Bickel and BioSteel.

In Canada, we enhanced our cultivation strategy to deliver flower with a focus on delivering quality products with in-demand attributes. This shift strengthened our positioning in the highly competitive premium flower market, buoyed by the success of DOJA, our premium brand born on the West Coast and 7ACRES, one of Canada's leading premium brands with a loyal consumer following and commitment to creating high end cannabis with better aroma and flavour. Through the introduction of premium strains, including the nationally expanded DOJA 91K, Canopy is delighting consumers and reinforcing our leadership position in this critical segment. The progress in premium flower is just one example of the results born from a focused commitment to our strategy. We are applying the same focus and innovative spirit to our entire portfolio and will be judicious in ensuring that all investments drive similarly tangible progress against our priorities.

This focus has also created a halo effect for our mainstream brands, resulting in Tweed doubling our market share in mainstream flower following a successful rebranding and new product offerings. We further strengthened our beverages and edibles portfolio introducing new flavours which helped push our infused hero brand, Deep Space, to the #2 ranking in the beverage category, and we launched new XPRESS gummies under the brand to deliver the high-THC products that consumers are seeking.

Finally, we continue to engage directly and through our Canadian industry association to encourage the Federal government to complete its update of beverage regulations in Canada to support larger pack sizes. We also see the upcoming Cannabis Act review as a critical opportunity to make common sense changes for the benefit of the industry including revising potency limits for infused edibles, adjusting the excise tax regime, and evolving regulations around marketing and advertising.

Advancing on our strategy to build a premium house of brands, we continue to drive traction and brand affinity through our CPG portfolio. BioSteel, our disruptive sport hydration brand, took the next leap in its brand origin story by displacing a long-standing competitor as the NHL league-wide hydration sponsor.

Thanks to its unique positioning as a “better for you” sports hydration drink that was born in the locker room – designed by athletes, for athletes – BioSteel has been competing and gaining ground on the titans of the segment. With a growing presence on shelves at retailers, including Walmart and Publix, and the support of a roster of partnerships that includes an NHL league sponsorship, six NBA teams and superstar athletes Patrick Mahomes, Connor McDavid, Luka Dončić and Christen Press, BioSteel is delivering double digit growth and continues to gain momentum with athletes and consumers alike. We believe these efforts are collectively capable of supporting our ambition for taking BioSteel from a top 8 sports beverage¹ to a top 4 brand competing with the heavyweights of this category.

Continuing its legacy as the standard bearer and leader in premium vaporizers, Storz & Bickel saw increased consumer demand for its products, including the recently launched VOLCANO ONYX and MIGHTY+, which propelled the brand to its 22nd consecutive year of growth and a 21% increase in revenue YoY in Q4. As an impactful and well-loved global brand, Storz & Bickel will continue to be an instrumental component of Canopy’s commitment to innovation and industry leadership.

With the strong performance of our CPG offering helping to drive brand affinity and awareness in the U.S. marketplace, we continue to make investments to strengthen our U.S. THC strategy. To capitalize on the incredible opportunity presented by the largest cannabis market in the world, we took steps to strengthen our premium focused house of brands with an agreement to acquire Wana Brands, the #1 cannabis edibles brand in North America, and, subsequent to fiscal year-end, our investment in the option to acquire Jetty Extracts, the leader in solventless vape technology and a top 10 cannabis brand in California. We are also actively exploring avenues through which we could bring the Jetty brand and its innovative product lineup into the Canadian recreational market as we work towards realizing the full cross-border potential of our leading house of brands. These actions are in addition to our existing relationships with multi-state operators, Acreage Holdings and TerrAscend who are demonstrating profitable growth and are uniquely positioned in the fast-growing Northeastern states.

While we are encouraged by the progress made this year, we also recognize the challenging nature of the industry and the broader economy. As the economic picture evolves, we have taken prudent steps to position Canopy on strong footing, and I am confident in our ability to navigate an evolving economic landscape with agility, focus, and a disciplined commitment to our strategy. Further, we believe that cannabis represents an affordable luxury and something that consumers will continue to purchase, even during a recession or economic downturn.

Seizing the potential that cannabis presents is a once-in-a-generation opportunity and, while it has neither been easy nor simple, the space between potential and full permissibility continues to close, and we are ready to capitalize on the massive opportunity and take our position as the leading North American, brand-driven cannabis company.

Fiscal Year 2022 Accomplishments

Canopy generated net revenue of \$520M in FY2022, representing a 5% decrease versus the prior year; however, this decrease is largely attributable to our decision to shift our product mix to focus more on higher margin premium and mainstream products in the Canadian recreational market.

Key to the Company’s financial advancement was improvement in the Canadian flower market. Throughout FY2022, Canopy maintained the #1 share of premium flower, driven by the performance of

¹ According to Information Resources, Inc. (“IRI”) data.

DOJA, 7ACRES, and 7ACRES Collective brands. Complementing the momentum achieved in the premium segment, the Company also improved market share performance in the mainstream flower category in Q4 FY2022 as a result of the Tweed rebrand, new Tweed product offerings in flower and beverages, and expanded product lines within Deep Space.

Regarding our CPG portfolio, a focus on improved distribution through new partnerships with retailers like Walmart and Kroger helped drive 56% year-over-year revenue growth for BioSteel hydration products. Bolstering the prospects for this fast-growing challenger brand, BioSteel recently announced that Bruce Jacobson, a beverage industry veteran with more than 17 years of experience building brands, has joined as President to guide the continued growth of this high-potential brand.

Canopy also saw an impressive performance in FY2022 from Storz & Bickel, the global gold standard in vaping hardware. The well-loved brand celebrated 22 years of consecutive revenue growth this fiscal year, helped by strong consumer demand for new products, including the VOLCANO ONYX and MIGHTY+, as well as sustained demand for its full lineup of vaporizer devices.

To further address expenses and drive additional operational efficiencies, Canopy also announced a series of initiatives to reduce costs and enhance executional excellence that are accelerating our path to profitability. Subsequent to the end of FY2022, we announced savings initiatives that management expects to generate cost of goods sold (COGS) savings of \$30 – \$50M and selling, general & administrative (SG&A) expense reductions of \$70 – \$100M, both within 12 to 18 months. Canopy remains confident that these strategic changes coupled with the performance of key brands will continue to fuel positive progress against the Company's financial goals including profitability.

Building the Leading Brand-Driven Cannabis Company

To realize our vision of unleashing the power of cannabis to improve lives, Canopy must continue to prioritize the initiatives and efforts that will empower the Company to occupy the mantle as the preeminent brand-driven cannabis company in North America.

To achieve this, we have set forth four distinct operational priorities including:

- Achieving profitability in our global cannabis business by leveraging a robust brand portfolio of high-quality products to win in the Canadian premium segments, improving margins through the implementation of a more flexible production environment, and undertaking decisive actions to reduce SG&A expenses and generate COGS savings;
- Driving gains in our high-growth CPG brands including BioSteel, Storz & Bickel, and This Works, by investing to increase distribution, brand activations and new product development;
- Adapting our U.S. CBD business by prioritizing a direct-to-consumer retail model with select key account partners – an approach that is currently winning with Martha Stewart CBD; and
- Strengthening our North American THC ecosystem by investing in plans to acquire leading companies, with established brands and the ability to scale across North America in core growth categories that will power the industry's growth – premium flower, edibles and vape.

These priorities further our long-standing commitments to develop best-in-class products and brands, while creating new opportunities to realize growth in the markets and categories of greatest value and where the Company has already demonstrated a capacity to win.

Pioneering the Future of Cannabis

As we advance our aspirations of pioneering the future of cannabis, our robust portfolio of brands will lead the way. Our premium portfolio is anchored by brands that already command strong consumer recognition like DOJA, 7ACRES, and Deep Space which will collectively continue to set new standards in quality and experience, while brands like Tweed will perpetually redefine what can be expected in the mainstream segment through a high impact brand that consumers have known since the beginning of legal recreational cannabis in Canada.

Through our CPG brands we will continue to define what category excellence looks like. We expect that BioSteel will continue climbing the performance hydration ladder by powering athletes to achieve their best, and Storz & Bickel will remain the standard for high-quality innovative products in the vaporizer segment.

Finally, our focus is clear on the greatest prize of all – U.S. THC - and we have built and will continue to strengthen Canopy's U.S. THC ecosystem with leading brands like Wana, Jetty, and through our relationships with Acreage and TerrAscend. While the final formula for legalization remains to be set, Canopy is well positioned to lead in the categories and areas of greatest potential in U.S. THC.

As we move forward, each step, each decision, and each investment along the way, will drive us to achieve profitability and capitalize on the massive opportunities before us.

Thank you for your continued role in supporting the success and evolution of Canopy Growth.

David Klein, CEO



**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 001-38496

Canopy Growth Corporation
(Exact name of registrant as specified in its charter)

Canada

(State or other jurisdiction of
incorporation or organization)

1 Hershey Drive

Smiths Falls, Ontario

(Address of principal executive offices)

N/A

(I.R.S. Employer
Identification No.)

K7A 0A8

(Zip Code)

Registrant's telephone number, including area code: (855) 558-9333

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common shares, no par value	CGC	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately \$5.5 billion as of September 30, 2021 (the last business day of the registrant's most recently completed second fiscal quarter), based on the closing sale price of the common shares on The Nasdaq Global Select Market on that date.

As of May 26, 2022, there were 402,858,012 common shares of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this annual report on Form 10-K incorporates certain information by reference from the registrant's definitive proxy statement with respect to its 2022 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the close of the registrant's fiscal year.

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Unless otherwise noted or the context indicates otherwise, references in this Annual Report on Form 10-K (the “Annual Report”) to the “Company”, “Canopy Growth”, “we”, “us” and “our” refer to Canopy Growth Corporation, its direct and indirect wholly owned subsidiaries and, if applicable, its joint ventures and investments accounted for by the equity method; the term “cannabis” means the plant of any species or subspecies of genus *Cannabis* and any part of that plant, including all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers; and the term “U.S. hemp” has the meaning given to term “hemp” in the U.S. Agricultural Improvement Act of 2018 (the “2018 Farm Bill”), including hemp-derived cannabidiol (“CBD”).

This report contains references to our trademarks and trade names and to trademarks and trade names belonging to other entities. Solely for convenience, trademarks and trade names referred to in this report may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that their respective owners will not assert, to the fullest extent under applicable law, their rights thereto. We do not intend our use

or display of other companies' trademarks or trade names to imply a relationship with, or endorsement or sponsorship of us or our business by, any other companies.

All currency amounts in this Annual Report are stated in Canadian dollars, which is our reporting currency, unless otherwise noted. All references to "dollars" or "CDN\$" are to Canadian dollars and all references to "US\$" are to U.S. dollars.

PART I

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 (as defined below), including the occurrence or waiver (at our discretion) of the Triggering Event (as defined below) and the satisfaction or waiver of the conditions to closing the acquisition of Acreage (as defined below);
- the Wana Agreements (as defined below), including the occurrence 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 (as defined below) 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 1. Business.

Introduction

Canopy Growth is a world-leading cannabis consumer packaged goods (“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*, SC 2018, c 16 (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.

We intend to maintain a leading position in the cannabis and related industries, as well as expand the reach of our products in our core markets. From product and process innovation to market execution and everything in between, we are driven by a passion for leadership, a commitment to drive the industry forward, and above all else, providing our consumers the best possible experiences based on our vision of unleashing the power of cannabis to improve lives.

Using a consumer-driven approach, and supported by industry-leading R&D, we provide a portfolio of differentiated products that offer unique experiences and effects to our consumers. We believe that this will establish a dominant business in our core markets, with the potential to generate a significant and sustained return on invested capital over the long-term. Our distinct cannabis brands include Tweed, 7ACRES, DOJA, Vert, Deep Space, and Ace Valley in the recreational channel, with Spectrum Therapeutics, as our medical brand, and Martha Stewart, Quatreau, and whisl as part of our collection of health and wellness hemp-derived CBD products. Our curated cannabis product formats include dried flower, oil, softgel capsules, edibles, vapes and beverages as well as a wide range of cannabis accessories. In addition, our consumer products brands which include Storz & Bickel GmbH (“Storz & Bickel”), This Works Products Ltd. (“This Works”), and BioSteel Sports Nutrition Inc. (“BioSteel”) provide complementary and innovative product offerings.

As a responsible corporate citizen, we maintain initiatives designed to help patients and consumers safely, effectively and responsibly use cannabis in addition to advancing community engagement and social justice initiatives aimed at undoing the harms of prohibition. Our initiatives have included activities such as a partnership with National Expungement Works, the only organization of its kind in the United States that provides locale-specific record-clearing services, including wrap-around services, to those who have been adversely impacted by the enforcement of the justice system for cannabis-related incidents, and a three-way partnership with the University of British Columbia and British Columbia Ministry of Mental Health and Addictions to create the Canopy Growth Professorship of Cannabis Science in response to the need for novel substance use interventions in the overdose crisis.

Canopy Growth was incorporated pursuant to the provisions of the *Canada Business Corporations Act* on August 5, 2009 under the name LW Capital Pool Inc. The Company changed its name to Tweed Marijuana Inc. on March 26, 2014, and later to Canopy Growth Corporation on September 17, 2015. Prior to completing our qualifying transaction on April 3, 2014, Canopy Growth was a “capital pool company” under Policy 2.4 of the TSX Venture Exchange (“TSXV”) Corporate Finance Manual. As a capital pool company, Canopy Growth had no assets other than cash and did not carry on any operations. On July 26, 2016, Canopy Growth graduated from the TSXV to the Toronto Stock Exchange (the “TSX”). On February 1, 2017, the trading symbol for our common shares on the TSX was changed to “WEED”. On May 24, 2018, our common shares commenced trading on the New York Stock Exchange (the “NYSE”) with the trading symbol “CGC.” On the close of business on November 13, 2020, our common shares ceased trading on the NYSE and on November 16, 2020, our common shares commenced trading on The NASDAQ Global Select Market (“NASDAQ”) at market open with the trading symbol “CGC”.

Our principal executive offices are located at 1 Hershey Drive, Smiths Falls, Ontario, K7A 0A8. We conduct our business both through our wholly-owned subsidiaries as well as through a variety of joint ventures and other entities.

Business Segments

The Company reports its financial results for the following two operating segments, which are also its reportable segments:

- (1) 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
- (2) Other consumer products, which encompasses the production, distribution and sale of consumer products by Storz & Bickel, This Works, BioSteel, and other ancillary revenue sources.

In the fourth quarter of the year ended March 31, 2022, the Company changed the composition of its reporting units within the global cannabis segment as a result of (i) the completion of the C³ Divestiture (defined below); and (ii) a strategic shift in the Company's KeyLeaf Life Sciences ("KeyLeaf") business to focus on non-cannabis extraction activities. There were no changes to the reporting units included in the Company's other consumer products segment in the year ended March 31, 2022.

Strategy

Our vision is to unleash the power of cannabis to improve lives. We will achieve this by harnessing the power of the plant, building a best-in-class CPG company, and fostering a purpose-driven atmosphere. Our approach involves operating with integrity, intention and values, with a business focus on insights, innovation and brands. To achieve this, we are dedicated to:

- Becoming a relentlessly consumer-centric organization by continuing to build world-class consumer insights and analytic capability, coupled with focused, leading-edge R&D and innovation to produce a differentiated product portfolio that will delight consumers. We intend to bring these products to our consumers through best-in-class sales execution.
- Focusing on markets and product categories with the highest and most tangible profit opportunities in the near term. Core markets are Canada, the United States and Germany, with industry focus on recreational and medical channels. Further, in the United States, in addition to our hemp-derived CBD product offerings, we are also focused on building a robust U.S. THC ecosystem in preparation for entry into the market when federally permissible.
- Driving quality in all aspects of our operation to be positioned to deliver the right product, at the right time and at the right price from the right facility.
- Continuing to lead the industry and set industry standards. This includes initiating the next phase of the cannabis industry evolution and shaping how the industry evolves. We continue to give back to neighbours and communities through ongoing initiatives such as our partnerships with record-clearing and expungement organizations in Canada and the United States that provide record-clearing and ancillary services to those who have been disproportionately impacted by the enforcement of the justice system for cannabis-related incidents.
- Capturing future opportunities in emerging markets and categories outside the core, where we deploy an asset-light approach that leverages local and/or regional suppliers for raw materials in jurisdictions and at times that are appropriate.

The CBI Group Investments

In November 2017, June 2018, November 2018 and May 2020, we completed certain transactions with the CBI Group, whereby the CBI Group invested CDN\$245 million, CDN\$200 million, CDN\$5.079 billion and CDN\$245 million, respectively (the "CBI Group Investments"). As part of certain governance rights granted to the CBI Group in connection with certain of the CBI Group Investments, the CBI Group is entitled to, and has nominated, four directors to our board and has partnered with us as CBI's exclusive global cannabis partner. The CBI Group Investments provided Canopy Growth with significant funding needed to build scale in countries pursuing federally permissible medical cannabis programs, while establishing the foundation needed to supply new recreational markets as cannabis becomes legal in markets around the world. See "The CBI Group Investments" below for more information on the CBI Group Investments and related agreements.

Credit Facility

On March 18, 2021, Canopy Growth and its direct, wholly owned subsidiary 11065220 Canada, Inc. (together with Canopy Growth, the "Borrowers") entered into a credit agreement (the "Credit Agreement") with the lenders party thereto (the "Lenders") and

Wilmington Trust, National Association, as administrative agent and collateral agent for the Lenders. The Credit Agreement provides for a five-year senior secured term loan facility in an aggregate principal amount of US\$750 million (the “Credit Facility”). Canopy Growth also has the ability to obtain up to an additional US\$500 million of incremental senior secured debt pursuant to the Credit Agreement. The obligations of the Borrowers 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. The Credit Agreement contains representations and warranties, and affirmative and negative covenants, including a financial covenant requiring minimum liquidity of US\$200 million at the end of each fiscal quarter. The gross proceeds, net of fees and expenses, will be used by Canopy Growth for working capital and general corporate purposes, including without limitation, growth investments, acquisitions, capital expenditures, and strategic initiatives. Please refer to “Part 1 – Business Overview - Recent Developments” under Item 7 of this Annual Report for more information on the Credit Agreement.

Supreme Acquisition

On June 22, 2021, Canopy Growth and The Supreme Cannabis Company, Inc. (“Supreme Cannabis”) completed an arrangement (the “Supreme Arrangement”) pursuant to which we acquired 100% of the issued and outstanding common shares of Supreme Cannabis (the “Supreme Shares”). Supreme Cannabis is a producer of recreational, wholesale and medical cannabis products, with a diversified portfolio of distinct cannabis companies, products and brands. The Supreme Arrangement added premium brands to our portfolio, namely Supreme Cannabis’ premium brands 7ACRES and 7ACRES Craft Collective, which complement our current consumer offering and strengthen our brand portfolio. Supreme Cannabis’ Blissco and Truverra brands also added breadth to our market presence in both the recreational and medical markets. Lastly, Supreme Cannabis’ hybrid-greenhouse cultivation facility at Kincardine, Ontario has a demonstrated capability of consistently producing premium flower from sought-after strains at low cost with significant potential for scaling.

Canada

Recreational and Medical Cannabis Markets

We have aligned our infrastructure to match market growth projections and we are focused on leveraging our capabilities and scale to achieve profitability in the medium term. Our strategy in Canada includes:

- Continuing the launch of our portfolio of innovative, consumer-centric, premium-focused recreational cannabis products, specifically: inhalable cannabis (whole and pre-rolled flower, vape & concentrates), ingestible cannabis (e.g. edible formats like gummies and beverages), and cannabis extracts (predominantly oils and softgels) across Canada.
- Strengthening our connection with our consumers by offering brands and products that delight, and driving consumer loyalty. We continue to leverage consumer insights, our intellectual property and product innovation capability, and our cultivation and manufacturing infrastructure to consistently develop the highest-quality products at each price segment. Our goal is to educate consumers and normalize the use of cannabis on a variety of occasions, build brand awareness and recognition, and establish direct connections with our consumers.
- Increasing our medical cannabis network and solidifying our position as a trusted leader in the Canadian medical cannabis market by offering a wide range of cannabis products across a variety of brands, formats and strains that serve the needs of medical patients through Spectrum Therapeutics, our medical cannabis brand, distributed through an e-commerce shop.

Retail Store Strategy

The *Cannabis Act* provides provincial, territorial and municipal governments in Canada with the authority to prescribe regulations regarding retail and distribution of recreational cannabis. As such, the distribution model for recreational cannabis is prescribed by provincial and territorial regulations and differs in each jurisdiction. Some provinces have government-run retailers, while others have government-licensed retailers, and some have a combination of the two. All of our recreational sales are conducted according to the applicable provincial and territorial legislation and through applicable local agencies. We continue to monitor the developing legislation to identify opportunities for our brands.

As of May 26, 2022, we have over 90 cannabis retail stores operating under the Tweed or Tokyo Smoke banner, of which 33 are corporate-owned stores and the balance are independently operated by our strategic partners pursuant to certain strategic partnership agreements. Tweed has 20 corporate-owned brick and mortar locations selling cannabis across Alberta, Manitoba, Newfoundland and Labrador and Saskatchewan and has a branded e-commerce presence in Manitoba, Nunavut and Saskatchewan. Tokyo Smoke operates 13 corporate-owned retail cannabis stores in Alberta and Manitoba and an e-commerce platform in Manitoba. Please refer to “Risk Factors” under Item 1A and “Part 1 – Business Overview—Update on COVID-19” under Item 7 of this Annual Report for further discussion.

In Ontario, we have entered into multi-year master strategic partnership agreements to enable our development partners to expand our Tokyo Smoke and Tweed branded retail footprints. Our strategic partners currently operate over 60 retail stores across the province.

European Medical Cannabis Market

Our primary strategy in the European medical cannabis market is to increase access to our medical cannabis products for medical customers in countries where it is federally permissible to do so, and to position ourselves as a trusted market leader in those countries.

Our Spectrum Therapeutics medical brand 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. Through our Spectrum Therapeutics brand, our strategy encompasses our medical channel in Germany, Poland, and the Czech Republic.

On December 15, 2021, we entered into an agreement to divest all of our interest in C3 Cannabinoid Compound Company GmbH (“C³”) to a European pharmaceutical company headquartered in Germany (the “C³ Divestiture”). C³ develops and manufactures cannabinoid-based pharmaceutical products, including dronabinol, for distribution in Germany and certain other European countries. The C³ Divestiture was completed on January 31, 2022. As a result of the C³ Divestiture, we expect to avoid future operational complexities associated with C³ and significantly reduce short-term capital investment requirements related to C³.

Australian Cannabis Market

We continue to develop the Australian market by focusing on an asset-light model which emphasizes use of third-party licenses. Through our global Spectrum Therapeutics brand, our consumer product brands such as BioSteel and This Works, our Storz & Bickel line of medically approved vaporizers, our strategy encompasses continuing the medical sales that began in Australia in May 2019 and supporting Australian patients through imports that are compliant with local regulations providing Australian prescribers with the option of cannabis products including oils, soft gels and flower.

Commercialization Activities in the United States

The key elements of our U.S. commercialization strategy include:

- In June 2019, we implemented a plan of arrangement (the “Original Acreage Arrangement”) pursuant to an arrangement agreement dated April 18, 2019, as amended on May 15, 2019, with Acreage (the “Acreage Arrangement Agreement”), a leading United States multi-state cannabis operator. In September 2020, following receipt of all required approvals, we entered into a second amendment to the Acreage Arrangement Agreement (the “Acreage Amending Agreement”) and implemented an amended and restated plan of arrangement (the “Acreage Amended Arrangement”). Pursuant to the the Acreage Amended Arrangement, following the occurrence or waiver (at our discretion) of changes in U.S. federal law to permit the general cultivation, distribution, and possession of marijuana or to remove the regulation of such activities from the federal laws of the United States 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 an immediate pathway into cannabis markets in the United States; in the interim, Canopy Growth and Acreage will continue to operate as independent companies until completion of the Acreage Amended Arrangement. See “—U.S. Regulatory Framework—The Acreage Arrangement.”
- In December 2019, we launched a line of hemp-derived CBD oils and softgels under the First + Free brand in certain U.S. states where not prohibited under state law. In April 2020, we launched our first line of hemp-derived topical CBD products in certain U.S. states where not prohibited under state law.
- In September 2020, we launched a line of hemp-derived CBD oils, softgels and edibles under the licensed Martha Stewart brand in certain U.S. states where permissible under state law.
- In October 2020, BioSteel announced the expansion of the company’s U.S. footprint with industry leading distributors, Manhattan Beer and Reyes Beer Division for its ready-to-drink beverages available for sale across the United States.

- Following the successful launch of Martha Stewart CBD, we launched Martha Stewart CBD for Pet in January 2021 for sale in certain U.S. states where permissible under state law. The Martha Stewart CBD for Pet product portfolio includes oil drops and soft-baked chews in three gourmet flavour combinations and formulas – Wellness, Calm and Mobility – designed to support pet mental and physical well-being.
- In February 2021, we launched SurityPro - A New Generation of CBD Products for Dogs in certain U.S. states where permissible under state law. The new generation of advanced pet specialty CBD products include soft chews and oil drops that support calm behavior, joint health and flexibility, healthy aging, and overall physical and mental well-being in dogs.
- In March 2021, we launched our first line of hemp-derived CBD beverages, under the Quatreau brand in certain U.S. states where not prohibited under state law. Following the launch of Quatreau, we executed a master distribution agreement in April 2021 with Southern Glazer's Wine & Spirits, a pre-eminent distributor of beverage alcohol in the United States, as a distribution partner for our U.S. portfolio of hemp-derived CBD-infused beverages and Martha Stewart branded CBD products.
- In September 2021, we launched a nicotine-free CBD wellness vape, whisl, for sale in states where not prohibited under state law.
- Building recognition of our Tweed and Tokyo Smoke brands in advance of the potential future permissibility of cannabis in the United States. In connection with the Acreage Arrangement Agreement, Canopy Growth and Acreage executed a licensing agreement which provides Acreage with a license to use Canopy Growth's intellectual property, on a no-fee basis. In accordance with this licensing agreement, in December 2019, Acreage began selling certain Tweed-branded cannabis products at select dispensaries in Illinois, Maine, Massachusetts and Oregon. The licensing agreement was amended and restated by the A&R Acreage License (as defined below) on June 24, 2020 pursuant to which the licensors and Canopy Growth granted Acreage a non-exclusive right to use and sublicense certain systems, trademarks and intellectual property within the United States. See "—U.S. Regulatory Framework—The Acreage Arrangement." Any products sold by Acreage under the Tweed brand in the United States are cultivated and processed by Acreage at its facilities in the respective states in the United States where permissible under state laws.
- On October 14, 2021, Canopy Growth and Mountain High Products, LLC, Wana Wellness, LLC and The Cima Group, LLC (collectively, "Wana" and each, a "Wana Entity") entered into definitive agreements (the "Wana Agreements") providing us with the right, upon the occurrence or waiver (at our discretion) of the Triggering Event (as defined below), to acquire 100% of the outstanding membership interests of Wana (collectively, the "Wana Purchase Option"). 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. Wana currently has a footprint in 13 U.S. states as well as in Puerto Rico, and across Canada. Wana expects to have license agreements in place in up to a total of 20 U.S. states, including in future adult-use markets in New York and New Jersey, prior to the end of calendar 2022. Until such time as we exercise our right to acquire each Wana Entity, we will have no economic or voting interest in Wana, we will not control Wana, and we and Wana will continue to operate independently.
- On May 18, 2022, Canopy Growth and Lemurian, Inc. ("Jetty"), a California-based producer of high-quality cannabis extracts and clean vape technology, announced that they entered into definitive agreements (the "Jetty Agreements") providing Canopy Growth, by way of a wholly-owned subsidiary ("Canopy Sub"), 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.

Developing Intellectual Property and Innovative New Products

We have long believed that a significant opportunity exists to expand our total addressable market and create new consumer segments by developing innovative new recreational products that include cannabis and cannabinoids as ingredients catered to consumer need-states, such as sleep and relaxation, and consumption occasions. We have been continuously focused on conducting R&D of intellectual property related to:

- Innovation and new product development, including our portfolio of innovative second phase of recreational cannabis products, specifically, ingestible cannabis, cannabis extracts and cannabis topical products ("Cannabis 2.0") that have been or will be rolled-out across Canada and other markets where it is federally permissible.
- Creating novel applications for CBD. With the acquisition of BioSteel and This Works, we have added a platform that can be leveraged for infusing CBD, in the case of BioSteel, in sports nutrition and hydration beverages, and, in the case of This Works, in beauty, wellness, and sleep products, all in accordance with applicable state laws. BioSteel presently has a range of CBD-infused sports nutrition products in certain U.S. states, available through shopcanopy.com and other third-party retailers. This Works has also launched sleep, stress and skincare line extensions infused with CBD through its "deep sleep", "stress check", "morning expert" and "my wrinkles" product franchises.
- Creating evidence-based, protectable product formulations and driving these products through robust clinical and consumer studies towards the creation of new cannabis-based products, cannabis formulations and dose delivery systems.

Our intellectual property portfolio includes 195 issued patents and 233 patent applications as of May 26, 2022, covering plant genetics, post-growth processing (e.g. extraction, isolation and purification), equipment,

synthetic chemistry (e.g. new chemical entities and synthetic pathways), formulations, human and animal health, edibles, packaging and vape devices.

Our Products

Cannabis Products

We produce and sell various cannabis products, including dried cannabis flower, extracts and concentrates, beverages, gummies, and vapes in Canada and other locations where federally permissible. Our cannabis products are sold both in the direct-to-patient markets for medicinal use, as well as in the recreational market following the enactment of the *Cannabis Act* and the amendments thereto which provided for the legalization and regulation of Cannabis 2.0 products such as beverages, gummies, and vapes. Our cannabis products are sold under a variety of brand names described under “Brand Portfolio” below and are intended to position us as a leader in both the medical and recreational markets.

Our cannabis products include:

- **Dried Flower:** We pride ourselves on growing high quality cannabis, which is packaged for sale as dried flower and pre-rolled joints. We sell dried flower in both the medical and recreational markets.
- **Extracts and Concentrates:** Using high-quality inputs, we produce cannabis extracts using state-of-the-art supercritical fluid CO2 extraction technologies to create cannabis extract products with different ratios of THC and CBD in order to meet the unique needs of our customers. This category includes softgel capsules which offer a convenient, precise, and discrete dosing solution for those interested in consuming their cannabis in pill form, and are available in a variety of concentrates, from micro to full doses.
- **Cannabis-infused beverages,** which are being produced in our licensed beverage facility in Smiths Falls, Ontario. Through our extensive R&D efforts, we have developed a process that distills whole flower cannabis into a clear liquid that we refer to as “Distilled Cannabis,” which is used as an active ingredient in our THC and CBD infused beverages. We offer our beverages in a variety of flavours and sizes under the Tweed, Quatreau, Ace Valley and Deep Space brands. We believe that cannabis-infused beverages that offer sophisticated taste and dose control with a rapid onset and shorter duration can be tailored to meet specific outcomes across a variety of consumption occasions.
- **Cannabis-infused gummies,** which are produced in our factory in Smiths Falls, Ontario as well as through various contract manufacturers. These cannabis-infused gummies are made using sativa and/or indica-dominant cannabis distillate, various minor cannabinoids and other simple ingredients. Current products in our gummies portfolio are sold with one to ten gummies per pack, each gummie containing up to 10 milligrams of THC or up to 20 milligrams of CBD, offering a discreet and dosable cannabis experience. We offer our gummies in a variety of flavours and sizes under the Tweed Xpress, Twd., Deep Space Xpress and Ace Valley brands.
- **Cannabis vapes** are designed to bring effective and reliable technology to the vaping category. Our “510” vape concentrate cartridges are available in a variety of Tweed, Twd., DOJA and Ace Valley strains, and with a range of THC and CBD levels. In addition to the “510” cartridges, we offer Ace Valley branded all-in-one vape pens. We also offer our proprietary Tokyo Smoke Luma closed loop pod system through our Spectrum Therapeutics medical channel.

Recent reports on vape safety in North America underscore the importance of Canadian federal regulation for vape pen devices. Our vape cartridges are tested to the FDA standard for leachability to ensure the reduction of heavy metal poisoning and contaminants leaching into the extract. Our vape products are produced using UL 8139 Certified Safe Manufacturing standards, meaning that each component of our hardware has been certified by Underwriters Laboratories (“UL”), or undergoing the review process with certification expected in advance of product on-sale dates. UL 8139 evaluates the safety of the integrated systems of a vape device and safety features and mechanisms that protect the user from harm when using the device. UL also has a standard for battery cells in isolation known as UL 1642. All of our battery cells are certified UL 1642. Further, our vapes are tamper-resistant and adhere to Health Canada’s regulations. We are continually reviewing and testing all inputs to ensure the highest quality and reliability of cannabinoids, terpenes, and tamper-resistance features.

Hemp-Derived CBD Human Products

Our branded, hemp-derived CBD products that have been brought to market in certain U.S. states where not prohibited under state law include: (i) our Martha Stewart line of hemp-derived CBD isolate products, including confections, oils, and softgels launched in September 2020, (ii) our Quatreau line of hemp-derived CBD isolate sparkling water launched in March 2021, (iii) First + Free line of hemp-derived CBD optimized

spectrum products, (iv) BioSteel’s line of “CBD for Sport” nutrition products; and (v) This Works’ range of clinically-proven and 98% natural skincare boosters expertly blended with 1% pure hemp-derived CBD isolate, available for purchase at shopcanopy.com.

Developed as a result of our investments in technology and testing, these CBD products were created by extracting and isolating derivatives from the hemp plant to produce consistent CBD formulations that are packaged in easy-to-use formats. Our Martha Stewart, Quatreau, First + Free, and BioSteel hemp-derived CBD products are manufactured in the United States, contain 99% pure CBD isolate and less than 0.3% THC. This Works’ Boosters CBD is extracted from high purity CBD isolate and is tested at three stages throughout our product development process, which ensures the product is pure, legal and highly effective. We are committed to selling high quality, tested and reliable products, and ensuring we make no claims unless clinically validated. This means selling our products only in U.S. states where we believe such sales are permissible under state law in order to ensure compliance with state consumer protection mandates and following the most stringent state laws regarding the sale of CBD.

Hemp-Derived Broad Spectrum CBD Pet Products

Our branded, hemp-derived broad spectrum CBD pet products that have been brought to market in certain U.S. states where not prohibited under state law include: (i) our Martha Stewart line of hemp-derived broad spectrum CBD dog chews launched in January 2021, and (ii) our SurityPro line of hemp-derived broad spectrum CBD dog chews launched in January 2021.

As the leader in pet CBD research and science, Canopy Growth has conducted many studies into the safety and effects of cannabinoids in dogs and cats. Our studies demonstrate that the products are well-tolerated and can safely be used towards achieving positive health effects. To address the various needs in dogs, Canopy Growth has developed the Martha Stewart and SurityPro product lines. These products are made in the U.S., backed by science, and endorsed by the industry’s leading authority on non-pharmaceutical animal health products, the National Animal Supplement Council (“NASC”). We follow all NASC guidelines – which require independent lab testing to confirm CBD concentration and ensure products comply with quality standards, including testing of pesticide, solvent, microbe, and heavy metal levels, as these can be detrimental to a pet’s health.

Devices and Delivery Technology

In addition to the vape pens and cartridge products that we offer in the legal cannabis market in Canada, through Storz & Bickel we manufacture and sell medical herbal vaporizer devices. Storz & Bickel has developed a factory that is certified internationally for the production of medical devices, and exports medically approved vaporizers and other similar devices to over 100 markets around the world. In May 2019, Health Canada issued a medical device license for Storz & Bickel’s “Volcano Medic 2,” an advanced vaporizer device for medical use. In May 2021, Storz & Bickel received the medical device license for their Mighty+ Medic, a battery powered vaporizer for medical use. This license permits distribution of the Volcano Medic 2 and Mighty+ Medic to medical institutions, clinics, and patients in Canada, including distribution through Spectrum Therapeutics in Australia and Germany.

Brand Portfolio

Our diverse brand portfolio makes it possible for us to effectively reach different audiences of consumers who newly or consistently use cannabis for a variety of needs and occasions throughout their day. Our brands

include brands that we own, as well as brands that we license from others, referred to as our “Affiliated Brands” below:

Global Cannabis		Other Consumer Products
<ul style="list-style-type: none"> • Tweed • 7ACRES • 7ACRES Craft Collective • DOJA • Ace Valley • Quatreau • Deep Space • First + Free • Surity Pro • Spectrum Therapeutics • Vert • Tokyo Smoke • Twd. • HiWay • Simple Stash • whisl • Truverra 	Affiliated Brands	<ul style="list-style-type: none"> • BioSteel • Storz & Bickel • This Works
	<ul style="list-style-type: none"> • Martha Stewart CBD • DNA Genetics 	

Global Cannabis

Tweed – Tweed is our flagship cannabis brand. Tweed products include dried flower, pre-rolls, vapes, oils, soft gels, edibles and beverages.

7ACRES – 7ACRES is a premium flower brand with superior strain variety and genetics, hang dried and hand finished for premium aroma and flavour. Offerings include premium flower, pre-rolls, vape and concentrates.

7ACRES Craft Collective – 7ACRES Craft Collective is a cannabis brand that brings together some of the most sought-after cultivars, with a focus on high THC and quality, from Canada’s most talented craft producers.

DOJA – Doja is a premium brand that is grown with care for a superior smoking experience. Doja products include dried flower and pre-rolls.

Ace Valley – Ace Valley is a cannabis brand focused on ready-to-enjoy products. We offer a range of well-designed pre-rolls, vapes and gummies across Canada.

Quatreau – Quatreau is a line of refreshing, naturally-flavoured, infused sparkling water beverages, offering THC and CBD options in Canada, and hemp-derived CBD-only options in the U.S.

Deep Space – Deep Space is a line of full-flavoured cannabis-infused classic soft drink beverages with a higher dose of THC than other offerings across our portfolio, with 10 milligrams of THC per serving in a 222-milliliter mini can. Deep Space Xpress gummies are cannabis-infused gummies with the maximum potency of 10mg THC per gummie, currently in two soft drink inspired flavours.

First + Free – First + Free is a pure CBD extract supplement brand that provides functional wellness solutions in oil and softgel formats.

SurityPro – SurityPro is a line of CBD products, soft chews and oil drops for dogs, combining CBD and known active ingredients to support key functional concerns of mobility, calmness and healthy aging.

Spectrum Therapeutics – Spectrum Therapeutics is our brand of medical cannabis products designed to optimize the therapeutic benefits of medical cannabis for pain, mood and sleep conditions. Branded products include cannabis oils, softgels and flower. Spectrum Therapeutics is also an e-commerce, multi-brand platform within the Canadian market.

Vert – Vert is a recreational cannabis brand, focused in the Canadian province of Quebec that delivers products to Quebec consumers. Vert products include dried flower, pre-rolls, and hash, a cannabis extract.

Tokyo Smoke – Tokyo Smoke is a retail and cannabis accessory brand delivering immersive experiences to consumers through best-in-class retail stores and offering a range of unique branded and designed cannabis products.

Twd. – Twd. is a value-forward brand that offers a lower price point without sacrificing quality. Twd. products include dried flower, pre-rolls, vapes, oils and edibles.

HiWay – HiWay is a value brand in the market that offers a variety of products (flower, pre-rolls, vapes and hash) at a convenient price point and level of trusted quality that our consumers rely on.

Simple Stash – Simple Stash is an ultra-value flower brand for the everyday consumer. Simple Stash products include dried flower and pre-rolls.

whisl - The whisl brand is a line of hemp-derived CBD vapes equipped with a sleek, rechargeable battery, crafted from lightweight aluminum.

Truverra – Truverra is a brand committed to providing innovated cannabis products in a variety of formats including oils, pre-rolls, whole flower, edibles, concentrates and vapes.

Affiliated Brands

Martha Stewart CBD – Combining gourmet flavours with state-of-the-art CBD, Martha Stewart's line includes wellness gummies, softgels and oils, and more recently as of 2021, a line of CBD soft baked chews for dogs.

DNA Genetics – DNA is a premium cannabis brand that offers superior genetics married with legacy market growing techniques. Products include dried flower and pre-rolls.

Other Consumer Products

BioSteel – BioSteel is a sports nutrition and hydration brand focused on quality ingredients. Originally formulated for professional athletes, BioSteel products are now used by athletes and active individuals everywhere.

Storz & Bickel – Based in Tuttlingen, Germany, Storz & Bickel are designers and manufacturers of medically approved herbal vaporizers, most notably the Volcano Medic and the Mighty Medic.

This Works – Founded in London, England, This Works offers a range of high-quality natural skincare and sleep solution products. Through a unique approach of formulating solutions that work in harmony with the 24-hour body clock, This Works has evolved its product lines beyond a traditional viewpoint to a more complete regimen.

Our Operations

Canadian Operations

Recreational

In fiscal 2022, we added a hybrid greenhouse cultivation and manufacturing facility in Kincardine, Ontario through the acquisition of Supreme Cannabis. This facility is purpose built for premium quality cannabis flower

cultivation at low-cost. The facility also has packaging and manufacturing conversion capabilities that are planned to be moved to our Smiths Falls manufacturing site in the second quarter of fiscal 2022. The Kincardine facility has now become one of our premiere cultivation spaces and a focal point of our premiumization strategy. As a result, we made the decision to close our Niagara-on-the-Lake greenhouse in December 2021.

Through our in-house manufacturing capabilities of recreational cannabis products, we can process bulk cannabis flower, whether internally or externally sourced, into high quality cannabis flower products as well as a full spectrum of Cannabis 2.0 products produced from our internal extraction capacity. Such extracted cannabis oil is either turned into distillate or isolate which in turn feeds our manufacturing process for existing products as well as our innovation pipeline. We are confident that our production and manufacturing capabilities and know-how are sufficient to meet the diverse needs of our recreational and medical cannabis consumers in Canada.

Our innovation pipeline continues to focus on insights driven, consumer focused products that in some cases represent net new offerings and line extensions to product formats already in the market.

As the Canadian cannabis market matures, we expect to see opportunities to outsource manufacturing. Excess capacity at other cannabis producers and processors presents Canopy Growth with an opportunity to accelerate speed to market, avoid capital investments until a critical sales volume is achieved, and provides us with surge capacity during peak periods. All of this resulting in a more streamlined, agile, and cost-effective supply chain.

Medical

Direct-to-Patient: Under the *Cannabis Act*, license holders are able to distribute medical cannabis through the mail to registered customers. Through the Spectrum Therapeutics website, customers who have successfully registered with Tweed in accordance with the *Cannabis Act* are able to purchase products online and have them shipped directly to the address indicated on their registration document.

Access: We have developed several programs to improve access to medical cannabis for authorized patients. First, we provide an income-tested Compassionate Pricing Program whereby eligible low-income patients may obtain a 20% discount off regular prices of medical cannabis. We also have multiple offerings for veterans of the Canadian Armed Forces, including: a group of customer care agents dedicated to assisting veterans with registration, ordering and insurance coverage; pre-approval and direct billing of Veterans Affairs Canada (“VAC”) to ensure uninterrupted access to medication; full coverage (through VAC) of all products offered in our online Spectrum Therapeutics medical shop, which means that veterans do not have to pay out of pocket for any product; special offers on our Storz & Bickel devices. We also provide support through our customer care team to help patients identify if their medication is covered under the growing number of private health plans that have a medical cannabis component.

Health Care Professional Engagement: A key focus for the medical business continues to be a multifaceted approach to reach doctors, nurse practitioners, and other key health care providers through direct and indirect outreach. We have established a presence at certain major medical conferences to share our proprietary research to further the understanding of how our products can be used to help improve quality of life for patients. We are committed to collaborating with the medical community to create and execute the highest quality medical education programs with broad appeal on topics like chronic pain control, opioid sparing, dosing and administration and integration of medical cannabis into clinical practice; and engaged regional, national, and international key opinion leaders through scientific webinars aimed at peer-to-peer education. By leveraging our investment in real world studies and other clinical trials, we continue to strengthen our relationships with many of the leading names in cannabinoid science and medical cannabis, which includes recruitment for our Global Chronic Pain Patient Registry that began in Canada in late 2020.

In our effort to promote brand recognition without advertising our products directly to the public, we work closely with patient educators of specialty medical cannabis clinics and continue to hold community events (to

the extent allowable within the regulatory environment), in order to build relationships and visibility for our brands.

Global Operations

In recent years, the actions of governments around the world have signaled a significant change in attitudes towards cannabis and have either formally legalized medical cannabis access or established government efforts to explore the legalization of medical cannabis access. Therefore, opportunities continue to exist for Canopy Growth to operate in jurisdictions where governments have established, or are actively moving towards, a legal framework. To support Canopy Growth's continued push toward profitability, operations across global incubator markets have been rationalized and realigned to support an asset-light model in those markets that are at an early stage of licensing cannabis-based products. Market entry will focus on supporting immediate revenue and establishing Canopy Growth in these markets as a leader in promoting a wellness focused lifestyle.

Europe

Our Spectrum Therapeutics medical brand continues to service the medical market in Europe with operations in Germany, UK, Poland and the Czech Republic. Our European medical cannabis business operates in accordance with the specific regulatory framework in place in the relevant jurisdictions including supplying Good Manufacturing Practices ("GMP") compliant pharmaceutical products. Further, the corporate offices and production facility of Storz & Bickel are located in Tuttlingen, Germany.

United States

We will only conduct business activities related to growing or processing cannabis in jurisdictions when it is federally permissible to do so. Canopy Growth is not considered a U.S. Marijuana Issuer (as defined in the Canadian Securities Administrators Staff Notice 51-352 – Issuers with U.S. Marijuana-Related Activities (the "Staff Notice")) nor do we have material ancillary involvement in the U.S. cannabis industry in accordance with the Staff Notice. While we have several arrangements with U.S.-based companies that may themselves participate in the U.S. cannabis market, these relationships do not violate the federal laws of the United States respecting cannabis and in no manner involve Canopy Growth in any activities in the United States respecting cannabis. Where a non-controlled affiliate has expressed an intent to enter the U.S. cannabis market, we have taken steps to insulate ourselves from all economic and voting interests until such time as there are changes to the federal laws of the United States related to cannabis related activities. See "—U.S. Regulatory Framework—The Acreage Arrangement" and "Other United States Holdings" for further discussion.

We have continued to expand our presence in the U.S. with licenses for hemp manufacturing in Modesto, California. In October 2020, we entered into a hemp operating agreement with the City of Modesto to operate an industrial hemp manufacturing facility.

United Kingdom

In May 2019, we acquired This Works, an England-based company offering a range of natural skincare and sleep solution products. In addition, in October 2019, Spectrum Therapeutics received the necessary government licenses to store and distribute medical cannabis products in the United Kingdom, reducing prescription delivery times and allowing the importation of medical cannabis from our European and global networks.

Australia

Early in fiscal 2018, we launched our Australian operations and Spectrum Therapeutics began selling medical cannabis to doctors prescribing its products. Spectrum Therapeutics continues to support Australian medical customers through imports.

Additionally, we have registered and listed the Storz & Bickel medical devices on the Australian Register of Therapeutic Goods, as well as the Web Assisted Notification of Devices database in New Zealand. Canopy Growth has also received a tax exception in Australia for the successful classification of a Storz & Bickel medical device.

Government Contracts

In Canada, we sell cannabis and cannabis products to cannabis control authorities in all of the provinces and territories in Canada (other than Saskatchewan), where each such cannabis control authority is the sole wholesale distributor and in certain provinces, the sole retailer, of cannabis and cannabis products in the relevant province. We sell these products to the various cannabis control authorities under supply agreements that are subject to terms that allow for renegotiation of sale prices and termination at the election of the applicable cannabis control authority. In particular, the cannabis control authorities may in the future choose to stop purchasing our products, may change the prices at which they purchase our products, may return our products to us and, in certain circumstances, may cancel purchase orders at any time including after products have been shipped. For the year ended March 31, 2022, we had approximately CDN\$201.7 million in sales to cannabis control authorities and no single one accounted for at least 10% of our net consolidated revenue.

Research and Development Activities and Intellectual Property

Intellectual Property

In addition to our medical and recreational brands as detailed above, the proprietary nature of, and protection for, our products, technologies and processes are a key aspect to our business. We rely on a combination of patents (utility and design), trademarks, copyrights and know-how to establish and protect our intellectual property. Our intellectual property portfolio includes 195 issued patents and 233 patent applications as of May 26, 2022 covering plant genetics, post-growth processing (e.g. extraction, isolation and purification), equipment, synthetic chemistry (e.g. new chemical entities and synthetic pathways), formulations, human and animal health, edibles, packaging and vape devices. We have established and will continue to build proprietary positions in all key aspects of our business. We invest heavily in our intellectual property and consider it to be one of the pillars of our value. The duration of the protection afforded by our registered intellectual property varies by the nature of the registration, but we manage renewals and notices on an on-going basis to ensure that our intellectual property is protected to the full extent possible under applicable law.

Clinical Trials

We conduct clinical research across several of our product segments in order to further develop and enhance our technical capacity and expertise.

Our human R&D division acts as a cannabis research incubator, focusing on developing and researching cannabis formulations and dose delivery systems. This division includes elements of product design and ingredient selection, formulation, safety, and efficacy testing for the support and development of standardized cannabis formulations and dose delivery systems across a range of products. Our R&D division is focused on furthering the science of cannabinoids, building upon our robust portfolio of intellectual property and providing evidence by way of clinical trials on what conditions cannabis can treat and what symptoms cannabis can improve. Studies focused on applications of our cannabis formulations include randomized placebo-controlled trials and observational studies of cannabinoid-based formulations for (i) reducing biological and psychological fear reactions to a laboratory-based breathing challenge known to elicit fear, (ii) improving recovery from delayed onset muscle soreness, (iii) improving sleep, (iv) affecting biomarkers of bone turnover in postmenopausal women, and (v) reducing musculoskeletal discomfort. Other studies include Phase 1 clinical trials of the safety, pharmacokinetics, and pharmacodynamics of understudied cannabinoids (e.g. cannabigerol). A large ongoing study of Spectrum Therapeutics product prescription patterns, use, effects, impact on concomitant medication use, and safety will provide valuable information about how Spectrum Therapeutics products are being used by pain patients in Canada and will help refine product offerings for maximal therapeutic benefits. Other ongoing studies include several third-party investigator-initiated trials of cannabinoid-based therapies and products.

Product Safety and Pharmacovigilance

In the interest of patient safety and good pharmacovigilance practices, we have implemented a unique global pharmacovigilance and product safety program to capture, document and evaluate adverse events reported from the worldwide use of our medical cannabis products and our various Canadian recreational cannabis brands, including Tweed, Tokyo Smoke, DOJA and our CBD product lines such as First + Free and Martha Stewart CBD, as well as products sold by our operating subsidiaries BioSteel, This Works and Storz & Bickel.

Pharmacovigilance, also known as drug safety, is the science and activities relating to the detection, assessment, understanding and prevention of adverse effects or any other drug-related problems. Our product safety team works to ensure that new products are developed with consumer safety in mind.

The global pharmacovigilance program ensures that all employees are trained on how to identify and report adverse events. Data collected from various sources (including, but not limited to, spontaneous reporting, clinical trials, literature and health authorities' databases) are processed and analyzed in a centralized global safety database by our pharmacovigilance team, in compliance with global and local regulatory requirements.

Collected data is then used to perform signal detection activities (routinely, monthly and quarterly) and prepare periodic aggregate safety reports to evaluate the benefit-risk profile of our products.

Government Regulation

Canadian Regulatory Framework

On October 17, 2018, the *Cannabis Regulations* under the *Cannabis Act* came into force (the "Cannabis Regulations"). The Cannabis Regulations set out the following classes of licenses that authorized activities in relation to cannabis:

- a license for cultivation;
- a license for processing;
- a license for analytical testing;
- a license for sale for medical purposes;
- a license for research; and
- a cannabis drug license.

Prior to October 17, 2018, cannabis was governed by the *Controlled Drug and Substances Act* (Canada) ("CDSA"). Under the CDSA, the Access to Cannabis for Medical Purposes Regulations ("ACMPR") set out a framework to provide individuals with access to cannabis for medical purposes and was the governing legislation in respect of the production, sale and distribution of medical cannabis and related oil extracts in Canada. Although the ACMPR were repealed, the regulatory framework applicable to cannabis for medical purposes was substantially reproduced within the *Cannabis Act* with minimal changes.

Pursuant to the transitional provisions outlined in the *Cannabis Act*, we transitioned all licenses held under the ACMPR regulatory framework to the new *Cannabis Act*; therefore, all licenses remain active due to the regulatory change that occurred on October 17, 2018.

At the end of each term of their respective licenses, a license holder must submit an application for renewal to Health Canada containing information prescribed by the *Cannabis Act*.

The *Cannabis Act* legalized recreational cannabis use nationwide in Canada. It creates a legal framework for controlling the production, distribution, sale and possession of cannabis across Canada for both medical and recreational purposes. Subject to provincial or territorial restrictions, adults who are 18 years of age or older are legally able to:

- possess up to 30 grams of legal cannabis, dried or equivalent in non-dried form in public;
- share up to 30 grams of legal cannabis, dried or equivalent in non-dried form with other adults;
- buy dried or fresh cannabis and cannabis oil from a provincially licensed retailer;
- grow, from licensed seed or seedlings, up to four cannabis plants per residence for personal use; and
- make cannabis products, such as food and drinks, at home as long as organic solvents are not used to create concentrated products.

In the initial stage of the regulated recreational cannabis market, products available for sale were the same as those permitted in the medical cannabis market (dried flowers, oils and softgels and dried cannabis products). On October 17, 2019, the second phase of recreational cannabis products, specifically, edible cannabis products, cannabis extracts, and cannabis topical products, were legalized pursuant to certain amendments to the regulations under the *Cannabis Act*. Edible cannabis products, cannabis extracts, and cannabis topical products, which are now available for sale, are subject to additional regulatory requirements that include supplemental marketing and advertising rules, further restrictions on labelling and packaging, rules relating to ingredients of edible cannabis products and cannabis extracts, limits on THC content, and added production facility requirements.

Further, the current regime for medical cannabis will continue to allow access to cannabis to people who have the authorization of their healthcare provider.

Under the *Cannabis Act*, license holders are only able to distribute medical cannabis through the mail to registered customers. The *Cannabis Act* also provides provincial and municipal governments with the authority to prescribe regulations regarding retail and distribution of recreational cannabis, as well as the ability to alter some of the existing baseline requirements, such as increasing the minimum age for purchase and consumption. As the distribution and sale of cannabis for recreational purposes is regulated under the individual authority of each provincial and territorial government, regulatory regimes vary from jurisdiction to jurisdiction. In each of the provinces and territories, except for Saskatchewan, a provincial distributor is responsible for purchasing cannabis from producers and selling products to its regulated retail distribution channels.

The *Cannabis Act* mandates that three years following its coming into force, the Minister will cause a review of the legislation and its administration and operation, including a review of the impact of the legislation on public health, on the health and consumption habits of young persons, the impact of cannabis on Indigenous persons and communities, and the impact of the cultivation of cannabis plants in a dwelling-house. No later than 18 months after the review begins, the Minister must cause a report on the review, including any finding or recommendations, to be laid before each House of Parliament.

In addition, in New Brunswick, Nova Scotia, Prince Edward Island, Quebec and Yukon, the provincial body is solely responsible for online sales. However, as a result of the COVID-19 pandemic, many retail cannabis stores across the country have been operating under COVID restrictions which vary province to province and range from reduced in store capacity to mandated curbside pick up, click and collect or delivery only, including all of our corporate-owned stores in Newfoundland and Labrador, Manitoba, Alberta, and Saskatchewan. Please refer to “Risk Factors” under Item 1A and “Part 1 – Business Overview—Update on COVID-19” under Item 7 of this Annual Report for further discussion.

With respect to retail sales of cannabis, other than online sales, the provincial and territorial regulations in Prince Edward Island, Nova Scotia, Quebec and New Brunswick allow only for government-run cannabis stores, while the provincial and territorial regulations in Ontario, Alberta, Newfoundland and Labrador, Northwest Territories, Nunavut, Yukon, Saskatchewan and Manitoba leave the retail sale of cannabis, other than online sales, to the private sector. In British Columbia, provincial and territorial regulations allow for a hybrid model in which both public and private stores can operate.

The Cannabis Act also includes several measures to help prevent youth from accessing cannabis, including both age restrictions and restrictions on the promotion of cannabis. Regulations under the *Cannabis Act* include the following labeling and branding requirements:

- plain packaging, including a standardized cannabis symbol on every label;
- mandatory health warning messages (including specifics regarding size, placement and appearance);
- a limit of one brand element aside from the brand name;
- no other image or graphic;
- the packaging and the label need to be a single, uniform color;
- use of fluorescent or metallic colors is prohibited;
- labels and packaging cannot have any embossing; and
- no inserts can be included.

The *Cannabis Act* also discourages youth cannabis use by prohibiting products that are appealing to youth, packaging or labeling cannabis in a way that makes it appealing to youth, selling cannabis through self-service displays or vending machines, or promoting cannabis, except in narrow circumstances, where young people cannot see the promotion. The new legislation also helps protect public health by creating strict safety and quality regulations.

In connection with the new framework for regulating cannabis in Canada, the Canadian federal government has introduced new penalties under the *Criminal Code* (Canada), including penalties for the illegal sale of cannabis, possession of cannabis over the prescribed limit, production of cannabis beyond personal cultivation limits, taking cannabis across the Canadian border, giving or selling cannabis to a youth and involving a youth to commit a cannabis-related offense.

Most recently, the Canadian federal government triggered a public consultation which would introduce the following three categories of amendments to the cannabis regulatory regime in Canada:

- Amend the *Cannabis Exemption (Food and Drugs Act) Regulations* to create an exemption from the application of the *Food and Drugs Act* for certain non-therapeutic research on cannabis authorized under the proposed regulations; such research would remain regulated under the *Cannabis Act* and the Cannabis Regulations. The amendments would also make a number of changes to the Cannabis Regulations.
- Introduce a series of amendments to the Cannabis Regulations designed to support testing activities with cannabis.
- Increase the quantity of cannabis beverage equivalent to 1 g of dried cannabis, which would have the effect of increasing the public possession limit for cannabis beverages from 2 100 g (2.1 L) to 17 100 g (17.1 L) by amending Schedule 3 to the *Cannabis Act*.

U.S. Regulatory Framework

On February 8, 2018, the Canadian Securities Administrators revised their previously released Staff Notice which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state's regulatory framework. All issuers with U.S. cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents.

In addition, on October 16, 2017, the TSX provided clarity regarding the application of Sections 306 (Minimum Listing Requirements) and 325 (Management) and Part VII (Halting of Trading, Suspension and Delisting of Securities) of the TSX Company Manual (collectively, the "TSX Requirements") to applicants and TSX-listed issuers with business activities in the cannabis sector. In TSX Staff Notice 2017-0009, the TSX notes that issuers with ongoing business activities that violate U.S. federal law regarding cannabis are not in compliance with the TSX Requirements. These business activities may include:

- direct or indirect ownership of, or investment in, entities engaging in activities related to the cultivation, distribution or possession of cannabis in the United States,
- commercial interests or arrangements with such entities,
- providing services or products specifically targeted to such entities, or
- commercial interests or arrangements with entities engaging in providing services or products to U.S. cannabis companies.

The TSX reminded issuers that, among other things, should the TSX find that a listed issuer is engaging in activities contrary to the TSX Requirements, the TSX has the discretion to initiate a delisting review.

Unlike in Canada, which has uniform federal legislation governing the cultivation, distribution, sale and possession of cannabis under the *Cannabis Act*, in the United States, cannabis is regulated at both the federal and state levels. Notwithstanding the permissive regulatory environment of cannabis in some states, cannabis continues to be categorized as a Schedule I controlled substance under the *Controlled Substances Act* ("CSA"), making it illegal under federal law in the United States to cultivate, distribute, or possess cannabis. This means that while state law in certain U.S. states may take a permissive approach to medical and/or recreational use of cannabis, the CSA may still be enforced by U.S. federal law enforcement officials against citizens and businesses of those states for activity that is legal under state law.

As a result of the conflicting views between state legislatures and the U.S. federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was first addressed in August 2013 when then Deputy Attorney General James Cole authored a memorandum (the "Cole Memorandum"), noting that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level.

In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the Department of Justice should be focused on addressing only the most significant threats related to cannabis. The Cole Memorandum was later rescinded by U.S. Attorney General Jeff Sessions under the Trump Administration.

On March 11, 2021, Merrick Garland was appointed as U.S. Attorney General. At his confirmation hearing, he said, "It does not seem to me a useful use of limited resources that we have, to be pursuing prosecutions in states that have legalized and that are regulating the use of marijuana, either medically or otherwise". He has not yet reissued the Cole Memorandum, however, or issued substitute guidance. In the fiscal 2022 omnibus spending bill, Congress included the Rohrabacher-Farr amendment which prohibits the Department of Justice from spending funds to interfere with the implementation of state medical cannabis laws until September 30, 2022. Please refer to "Risk Factors" under Item 1A of this Annual Report for further discussion.

Additionally, under U.S. federal law it may, under certain circumstances, be a violation of federal money laundering statutes for financial institutions to accept any proceeds from cannabis sales or any other Schedule I controlled substances. Certain Canadian banks are similarly reluctant to transact business with U.S. cannabis companies, due to the uncertain legal and regulatory framework characterizing the industry at present. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to U.S. cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan or any other service could be found guilty of money laundering or conspiracy. Despite these laws, in February 2014, the Financial Crimes Enforcement Network ("FCEN") of the U.S. Treasury Department issued a memorandum (the "FCEN Memo") providing instructions to banks seeking to provide services to cannabis-related businesses. The FCEN Memo states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA. It is unclear at this time whether the current administration will follow the guidelines of the FCEN Memo.

Multiple legislative reforms related to cannabis and cannabis-related banking are currently being considered by the federal government in the United States. Examples include the Strengthening the Tenth Amendment Through Entrusting States Act, the

Marijuana Opportunity, Reinvestment and Expungement Act and the Secure and Fair Enforcement Banking Act. There can be no assurance that any of these pieces of legislation will become law in the United States.

While we have several arrangements with U.S.-based companies that may themselves participate in the United States cannabis market, these relationships do not violate the federal laws of the United States respecting cannabis and in no manner involve Canopy Growth in any activities in the United States respecting cannabis. As discussed below, certain entities in which we hold securities may operate in the United States cannabis industry, however, our investment in such entities has been structured such that we hold non-participating, non-voting securities that are only exercisable or exchangeable upon cannabis becoming legal or permissible in the United States under federal law. Further, we have developed specific plans related to establishing business operations in the United States in the event cannabis becomes federally permissible which are discussed below.

On December 20, 2018, the 2018 Farm Bill was signed into law in the United States. The 2018 Farm Bill, among other things, defines industrial hemp, removes industrial hemp and its cannabinoids, including CBD derived from industrial hemp but excluding THC, from the CSA and allows for industrial hemp production and sale in the United States. The passage of the 2018 Farm Bill has allowed us to advance our hemp interests in the United States. The FDA has retained authority over the addition of CBD to products that fall within the *Food, Drug and Cosmetic Act* (the “FDCA”). So far, the FDA has stated that (a), to date, it has approved only one CBD product (a prescription drug to treat two forms of epilepsy), (b) it has seen only limited data about CBD safety and the data it has seen points to risks that need to be considered before taking CBD for any reason, (c) some CBD products are being marketed with unproven medical claims and are of unknown quality and (d) it is currently illegal to market CBD by adding it to a food or labeling it as a dietary supplement. Since the passage of the 2018 Farm Bill, the FDA has periodically issued warning letters to CBD companies, which have been sent for the most part to companies making unfounded medical claims related to major diseases regarding their products. Courts have found that the FDA’s position on CBD amounts to guidance and have stayed cases until FDA issues final regulations. Some states take the position that CBD products are not legally permitted to be sold, but increasingly more states are allowing CBD foods, beverages, and supplements to be sold in-state and issuing more comprehensive regulations for the testing and labelling of those products.

There can be no assurance that the FDA will approve CBD as an additive to products under the FDCA. However, the FDA has expressed a willingness to take a flexible regulatory approach to foster the development of hemp-derived products such as CBD. On February 26, 2020, then-FDA Commissioner Stephen Hahn said, “We know one thing, the American people are using CBD products. People are using these products. We’re not going to be able to say you can’t use these products. It’s a fools’ game to try to even approach that.” The FDA has indicated that any regulations allowing CBD in regulated products will have to fit under the confines of current law and further legislation will likely be required. A pending House bill with bipartisan support, the Hemp and Hemp-Derived CBD Consumer Protection and Market Stabilization Act of 2021, would allow hemp and hemp-derived CBD to be legally marketed in dietary supplements. However, there can be no assurance that any legislation will pass Congress or become law.

The Acreage Arrangement

On June 27, 2019, Canopy Growth and Acreage implemented the Original Acreage Arrangement pursuant to the Acreage Arrangement Agreement, which granted Canopy Growth the right (and obligation) to acquire, subject to the satisfaction or waiver of certain conditions contained in the Acreage Arrangement Agreement, all of the issued and outstanding securities of Acreage contingent on the occurrence or waiver of the changes in U.S. federal law to permit the general cultivation, distribution and possession of marijuana or to remove the regulation of such activities from the federal laws of the United States (the “Triggering Event”). Pursuant to the Acreage Arrangement Agreement, upon the implementation of the Original Acreage Arrangement, shareholders of Acreage and certain other securityholders received an upfront payment of US\$300 million. In connection with the Original Acreage Arrangement, Canopy Growth and Acreage executed a licensing agreement (the “Original Acreage Licensing Agreement”) which provides Acreage with the ability to use Canopy Growth’s brands, along with other intellectual property, on a no-fee basis. In accordance with the Original Acreage Licensing Agreement, in December 2019 Acreage began selling certain Tweed-branded cannabis products at select dispensaries in Illinois, Maine, Massachusetts and Oregon. Any products sold by Acreage under the Tweed brand in the United States are cultivated and processed by Acreage at its facilities in the respective states in the United States where permissible under state laws.

On June 24, 2020, Canopy Growth and Acreage entered into a proposal agreement (the “Proposal Agreement”) in order to, among other things, implement the Acreage Amended Arrangement. In September 2020, Acreage obtained the requisite approvals of the shareholders of Acreage and the Supreme Court of British Columbia and on September 23, 2020, Canopy Growth and Acreage entered into the Acreage Amending Agreement and implemented the Acreage Amended Arrangement. The Acreage Amended Arrangement provides for, among other things, the following:

- (a) a capital reorganization of Acreage, pursuant to which (i) each outstanding Acreage Class A subordinated voting share (“Acreage Existing SVS”) was exchanged for 0.7 of an Acreage Fixed Share (as defined below) and 0.3 of an Acreage Floating Share (as defined below); (ii) each outstanding Acreage Class B proportionate voting share (“Acreage Existing PVS”) was exchanged for 28 Acreage Fixed Shares and 12 Acreage Floating Shares; and (iii) each outstanding Acreage Class C multiple voting share (“Acreage Existing MVS”) was exchanged for 0.7 of an Acreage Fixed Multiple Share (as defined below) and 0.3 of an Acreage Floating Share;

- (b) 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 will acquire all of the Class E subordinated voting shares (the “Acreage Fixed Shares”) based on an amended exchange ratio equal to 0.3048 of a Canopy Growth share for each Acreage Fixed Share, subject to adjustment in accordance with the Acreage Amended Arrangement;
- (c) upon 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 will have the right exercisable for a period of 30 days thereafter, to acquire all of the Class D subordinated voting shares (the “Acreage Floating Shares”) for cash or Canopy Growth shares or a combination thereof, in our discretion, at a price equal to the 30-day volume weighted average trading price of the Acreage Floating Shares, subject to a minimum price of US\$6.41 per Acreage Floating Share;
- (d) immediately prior to the acquisition of the Acreage Fixed Shares, each Class F multiple voting shares (each, an “Acreage Fixed Multiple Share”) will automatically be exchanged for one Acreage Fixed Share and thereafter be acquired by us;
- (e) if the occurrence or waiver of the Triggering Event does not occur within by September 23, 2030, our rights will terminate; and
- (f) we made a payment to certain securityholders of Acreage of approximately US\$37.5 million.

We also entered into an amended and restated license agreement (the “A&R Acreage License”) in connection with the Proposal Agreement to amend and restate the Original Acreage Licensing Agreement. Pursuant to the A&R Acreage License, Acreage has the non-exclusive right to use and sublicense the intellectual property that is subject to the A&R Acreage License within the United States.

We also advanced US\$50 million to Universal Hemp, LLC, a wholly owned subsidiary of Acreage (“Acreage Hempco”) on September 23, 2020, pursuant to a secured debenture (the “Hempco Debenture”). In accordance with the terms of the Hempco Debenture, the funds advanced to Acreage Hempco cannot be used, directly or indirectly, in connection with or for any cannabis or cannabis-related operations in the United States, unless and until such operations comply with all applicable laws of the United States. The Hempco Debenture bears interest at a rate of 6.1% per annum and matures on September 23, 2030, or such earlier date in accordance with the terms of the Hempco Debenture.

The acquisition of Acreage, if completed, will provide a pathway into cannabis markets in the United States; however, Canopy Growth and Acreage will continue to operate as independent companies until the acquisition of Acreage is completed.

Wana Purchase Option

On October 14, 2021, we and Wana entered into the Wana Agreements providing us with the right, upon the occurrence or waiver (at our discretion) of the Triggering Event, to acquire 100% of the outstanding membership interests of Wana. Wana manufactures and sells gummies in the 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. Wana currently has a footprint in 13 U.S. states as well as in Puerto Rico, and across Canada. Wana expects to have license agreements in place in up to a total of 20 U.S. states, including in future adult-use markets in New York and New Jersey, prior to the end of calendar 2022. Until such time as we exercise our right to acquire each Wana Entity, we will have no economic or voting interest in Wana, we will not control Wana, and we and Wana will continue to operate independently.

Other U.S. Holdings

While we do not engage in activities in the United States relating to cultivating and distributing cannabis so long as cannabis remains illegal under United States federal law, certain companies that we have invested in may operate in the United States cannabis industry, provided that the securities held by Canopy Growth are non-participating and non-voting securities that are only convertible, exercisable, or exchangeable for common shares upon cannabis becoming legal or permissible in the United States under federal law. For instance, TerrAscend and SLANG Worldwide Inc. (“SLANG”) have interests in cannabis-related business in the United States, we have undertaken steps to structure our security holdings in these entities to insulate Canopy Growth from engaging in any unlawful United States cannabis-related activities.

Canopy Growth holds conditionally exchangeable shares (the “TerrAscend Exchangeable Shares”) and common share purchase warrants in the capital of TerrAscend as well as an option (the “TerrAscend Option”) to acquire common shares of TerrAscend. The TerrAscend Exchangeable Shares are not entitled to voting rights, dividends or other rights upon dissolution of TerrAscend but are convertible into common shares of TerrAscend upon receipt of the approval of the stock exchanges upon which Canopy Growth’s securities are listed and following either changes in United States federal laws regarding the cultivation, distribution or possession of cannabis or changes in the policies of the stock exchanges upon which Canopy Growth’s securities are listed with respect to such activities. The TerrAscend Exchangeable Shares do not provide (and there are no related contractual rights that would otherwise provide) us with any right to dividends, entitlements upon dissolution of TerrAscend, cash flow or other current economic

entitlements, voting rights or any form of control over the business, affairs, operation or financial condition of TerrAscend. The TerrAscend warrants and the TerrAscend Option described above are only exercisable upon the occurrence or waiver of the Triggering Event.

Similarly, Canopy Growth holds conditionally exercisable warrants in the capital of SLANG. Canopy Growth is not permitted to exercise the warrants without, among other things, receipt of the approval of the stock exchanges upon which Canopy Growth's securities are listed and following the date that the growth, cultivation, production, sale, use and consumption of cannabis and cannabis-related products are permitted in the United States for any and all purposes (including medical, therapeutic and recreational) under all applicable federal laws of the United States, including the CSA.

Further, Canopy Growth has the right, upon the occurrence or waiver (at our discretion) of the Triggering Event, to acquire up to 100% of the outstanding capital stock of Jetty, a California-based producer of cannabis extracts and vape technology. Jetty has developed industry-leading capabilities in extraction and clean vape technology and, upon the occurrence or waiver (at our discretion) of the Triggering Event, would give Canopy Growth a critical position in the largest and most historically significant THC market in the United States. Until such time as Canopy Sub elects to exercise its rights to acquire Jetty, Canopy Growth and Canopy Sub will have no direct or indirect economic or voting interests in Jetty, Canopy Growth and Canopy Sub will not directly or indirectly control Jetty, and Canopy Growth and Canopy Sub, on the one hand, and Jetty, on the other hand, will continue to operate independently of one another.

We may also acquire rights, options or other securities in other entities that are currently engaged in activities in the United States related to cultivating and distributing cannabis that are only exercisable, convertible, or exchangeable for common shares following the date that the federal laws in the United States in regards to cannabis are amended and/or, if applicable, the date that the stock exchange(s) upon which the common shares are listed permit the investment in an entity that is involved in the cultivation or distribution of marijuana in the United States, provided that we (i) do not provide funds to such entities, and (ii) are not entitled to voting rights, dividends, or other rights upon dissolution in connection with the holding of such rights, options, or other securities. We may also invest in or loan funds to subsidiaries of entities that are currently engaged in activities in the United States related to cultivating and distributing cannabis, provided that (i) such subsidiaries do not engage in activities in the United States related to cultivating and distributing cannabis, and (ii) the funds invested or loaned to such entity are only used for lawful purposes and not in connection with activities in the United States related to cultivating and distributing cannabis.

We monitor the activities of TerrAscend, SLANG and other entities in which we are invested for compliance with United States cannabis laws and would make similar arrangements, if necessary, to ensure our ongoing compliance with United States federal laws.

There is a risk that our interpretation of laws, regulations and guidelines, including, but not limited to, the *Cannabis Act*, the associated regulations, various United States state regulations and applicable stock exchange rules and regulations may differ from those of others, including those of government authorities, securities regulators and stock exchanges. In addition, we have and will endeavor to cause the entities that we invest in, to only conduct business and invest in entities in federally legal jurisdictions by including appropriate representations, warranties and covenants in our agreements with such entities. Any violation of these terms would result in a breach of the applicable agreement between such entity and us and, accordingly, may have a material adverse effect on our business, operations and financial condition. In particular, we may be required to divest its interest in an entity or risk significant fines, penalties, administrative sanctions, convictions, settlements or delisting from the TSX and/or NASDAQ and there is no assurance that any divestiture will be completed on terms favorable to us, or at all. Please refer to "Risk Factors" under Item 1A of this Annual Report for further discussion.

Competition

Health Canada issues licenses to cultivate, process and/or sell cannabis under the *Cannabis Act*. According to the Health Canada website, as of May 26, 2022, over 860 licenses to cultivate, distribute or sell cannabis have been issued. When considering the competitive landscape for cannabis production, cultivation and sale, each license issued by Health Canada is connected to a specific entity and a specific property, so to commence a new production site, an entity must apply for a new license. With the demand for legal cannabis increasing and given the early stage of the recreational cannabis market, as more Cannabis 2.0 products are launched, we expect that new competitors will enter the market. In the recreational market, we compete on the basis of quality, price, brand recognition, consistency and variety of cannabis products with the same competitive factors that apply in the medical market, in addition to physician familiarity with cannabis products.

Certain companies in the Canadian cannabis market have elected to enter into contract manufacturing arrangements with license holders pursuant to which the license holder cultivates, processes and sells cannabis under the brand of the contracting company without the contracting company being required to own its own cannabis production assets. This can reduce the barriers to entry for branding companies and increase the number of cannabis products available to consumers; however, such arrangements are contingent on procuring favorable terms under manufacturing arrangements with license holders and are still subject to the ongoing requirements of maintaining cannabis production assets.

In addition, there are illegal growers and retailers of cannabis, operating in the illicit market that, while operating illegally, still act as competitors by either diverting customers away due to product choice, perceived quality of product, convenience of access or price point.

In regards to hemp-derived CBD, with the increased interest in CBD in Canada, the United States and internationally, the hemp-derived CBD market will likely continue to expand. Market entrants in Canada and the United States face regulatory hurdles which may impede access to the market, as well as regulatory uncertainty surrounding the treatment of CBD in both the U.S. and Canada.

Internationally, the capacity of cannabis companies to operate is limited to those countries which have legalized aspects of the production, distribution, sale and use of cannabis. We continue to seek out opportunities internationally by engaging with local cannabis and business experts.

Our BioSteel, This Works and Storz & Bickel subsidiaries, are each subject to their own unique competitive considerations.

The CBI Group Investments

On November 2, 2017, Greenstar Canada Investment Limited Partnership (“Greenstar”), a wholly-owned subsidiary of CBI, invested CDN\$245 million in Canopy Growth in exchange for (i) 18,876,901 common shares; and (ii) 18,876,901 common share purchase warrants exercisable at an exercise price per common share of CDN\$12.9783 (the “Greenstar Warrants”).

In connection with our offering of 4.25% convertible senior notes due 2023 (the “Canopy Notes”) pursuant to an indenture dated June 20, 2018, among Canopy Growth, GLAS Trust Company LLC and Computershare Trust Company of Canada, Greenstar purchased CDN\$200 million worth of Canopy Notes, which are convertible in certain circumstances and subject to certain conditions into an aggregate of 4,151,540 common shares.

On November 1, 2018, CBG Holdings LLC (“CBG”), a wholly-owned subsidiary of CBI, invested CDN\$5.079 billion in Canopy Growth in exchange for (i) 104,500,000 common shares at a price of CDN\$48.60 per common share, and (ii) 139,745,453 common share purchase warrants (the “CBG Warrants”), of which 88,472,861 CBG Warrants (the “Tranche A Warrants”) had an exercise price of CDN\$50.40 and were exercisable until November 1, 2021 and the remaining 51,272,592 CBG Warrants (the “Original Tranche B Warrants”) had an exercise price based on the five-day volume weighted average price of the common shares on the TSX at the time of exercise and will become immediately exercisable only following the exercise of the Tranche A Warrants.

In connection with the Acreage Arrangement Agreement, Canopy Growth and CBG entered into a consent agreement dated April 18, 2019 (the “Consent Agreement”) pursuant to which Canopy Growth agreed to (a) the extension of the expiry date of the Tranche A Warrants from November 1, 2021 until November 1, 2023, (b) the extension of the expiry date of the Original Tranche B Warrants from November 1, 2021 until November 1, 2026; and (c) the amendment of the exercise price for 38,454,444 of the Original Tranche B Warrants, such that 38,454,444 Tranche B Warrants (as defined below) will be exercisable to acquire one common share at a price of CDN\$76.68 rather than the five-day volume weighted average trading price of the common shares at the time of exercise.

On May 1, 2020, the Greenstar Warrants were exercised on May 1, 2020, for aggregate gross proceeds of approximately CDN\$245 million.

As of May 26, 2022, the CBI Group holds, in the aggregate, 142,253,802 common shares, 139,745,453 CBG Warrants and CDN\$200 million principal amount of Canopy Notes. The common shares held by the CBI Group represent approximately 35.3% of the issued and outstanding common shares. Assuming full exercise of the CBG Warrants and full conversion of the Canopy Notes, the CBI Group would hold 286,150,795 common shares, representing approximately 52.3% of the issued and outstanding common shares (assuming no other changes in Canopy Growth's issued and outstanding common shares), calculated in accordance with applicable securities laws.

Investor Rights Agreement

Canopy Growth and the CBI Group also entered into the second amended and restated investor rights agreement dated April 18, 2019 among CBG, Greenstar and Canopy Growth (the "New Investor Rights Agreement"), which amended the first amended and restated investor rights agreement dated November 1, 2018 between CBG, Greenstar and Canopy Growth, pursuant to which the CBI Group has certain governance rights which are summarized below.

Pursuant to the New Investor Rights Agreement, the CBI Group is entitled to designate four nominees for election or appointment to our board of directors for so long as the CBI Group holds a specified number of common shares or securities convertible into common shares (the "Target Number of Shares"). Additionally, under the New Investor Rights Agreement, the CBI Group has certain pre-emptive rights as well as certain top-up rights in order to maintain its pro rata equity ownership position in Canopy Growth in connection with any offering or distribution of securities by Canopy Growth (subject to certain exceptions).

The New Investor Rights Agreement provides that so long as the CBI Group continues to hold at least the Target Number of Shares, our board of directors will not: (i) propose or resolve to change the size of the board, except where otherwise required by law, or with the consent of CBG; or (ii) present a slate of board nominees to shareholders for election that is greater than or fewer than seven directors. In addition, the New Investor Rights Agreement provides that, subject to certain conditions, so long as the CBI Group continues to hold at least the Target Number of Shares, the CBI Group will adhere to certain non-competition restrictions including that we will be their exclusive strategic vehicle for cannabis products of any kind anywhere in the world (subject to limited exceptions. Further, the CBI Group agreed, for a limited period of time and subject to certain exceptions, to certain post-termination, non-competition restrictions, which include not pursuing other cannabis opportunities and not directly or indirectly participating in a competing business anywhere in the world.

Pursuant to the New Investor Rights Agreement, for so long as the CBI Group continues to hold at least the Target Number of Shares, we will not, without the prior written consent of CBG, among other things, (a) consolidate or merge into or with another person or enter into any other similar business combination, including pursuant to any amalgamation, arrangement, recapitalization or reorganization, other than a consolidation, merger or other similar business combination of any wholly-owned subsidiary or an amalgamation or arrangement involving a subsidiary with a another person in connection with a permitted acquisition; (b) acquire any shares or similar equity interests, instruments convertible into or exchangeable for shares or similar equity interests, assets, business or operations with an aggregate value of more than CDN\$250 million, in a single transaction or a series of related transactions; (c) sell, transfer, lease, pledge or otherwise dispose of any of its or any of its subsidiaries' assets, business or operations (in a single transaction or a series of related transactions) in the aggregate with a value of more than CDN\$20 million; or (d) make any changes to our policy with respect to the declaration and payment of any dividends on the common shares.

In accordance with the New Investor Rights Agreement, CBI Group will be permitted, prior to the exercise or expiry of all of the CBG Warrants, to purchase up to 20,000,000 common shares (subject to customary adjustments for share splits, consolidations or other changes to the outstanding share capital of a similar nature): (i) on the TSX, NASDAQ or any other stock exchange, marketplace or trading market on which the common

shares are then listed; or (ii) through private agreement transactions with existing holders of common shares, provided that CBG must promptly notify Canopy Growth of any acquisition of common shares.

The New Investor Rights Agreement will terminate upon the earlier of: (i) the mutual consent of the parties; (ii) the date on which the CBI Group owns less than 33,000,000 common shares; and (iii) the date of a non-appealable court order terminating the New Investor Rights Agreement under certain circumstances.

Consent Agreement

In addition to the amendments to the CBG Warrants, pursuant to the Consent Agreement, we agreed that without the prior written consent of CBG, such consent not to be unreasonably withheld, we will not (i) exercise our right to acquire all of the issued and outstanding shares of Acreage prior to the Triggering Event; (ii) amend, modify, supplement or restate the Acreage Arrangement Agreement; or (iii) waive any terms, covenants or conditions set forth in the Acreage Arrangement Agreement.

In addition, we agreed that, in the event that CBG exercises the Tranche A Warrants in full, we will purchase the lesser of (i) 27,378,866 common shares, and (ii) common shares with a value of CDN\$1,582,995,262, during the period commencing on April 18, 2019 and ending on the date that is 24 months after the date that CBG exercises all of the Tranche A Warrants. If, for any reason, we do not purchase for cancellation the common shares within such period, we are required to pay to CBG an amount (the “Credit Amount”), as liquidated damages, equal to the difference between: (i) CDN\$1,582,995,262; and (ii) the actual purchase price we paid in purchasing common shares pursuant to the Consent Agreement. The Credit Amount will reduce the aggregate exercise price otherwise payable by CBG upon each exercise of the Tranche B Warrants and the Tranche C Warrants (as defined below)).

We also agreed that if the CBI Group receives any notification or communication of any violation or contravention of applicable law or any liability to the CBI Group under applicable law or any notification or communication that would be expected to result in a violation or contravention of applicable law or any actual liability to the CBI Group under applicable law, as a result of the license agreement between us and Acreage, CBG has the right to direct and cause us to terminate the license agreement in accordance with its terms, provided that we will have an opportunity to cure any such violation, contravention or liability and CBG will be required to take all commercially reasonable efforts to assist us in addressing such violation, contravention or liability.

Concurrent with the execution of the Proposal Agreement, on June 24, 2020, Canopy Growth and CBG entered into a second consent agreement (the “Second Consent Agreement”). As the transactions contemplated by the Proposal Agreement may result in certain taxes owing by CBG or its affiliates, we agreed, pursuant to the Second Consent Agreement, to indemnify CBG and its affiliates for such taxes and losses incurred in relation to such taxes, subject to certain exceptions.

Human Capital Resources

As of March 31, 2022, we had 3,151 total employees, including 2,174 full-time employees in Canada. As of March 31, 2022, we had 540 employees outside of Canada, including in the United States. Our employees in production roles are critical to the success of our key markets. As of March 31, 2022, we had a total of 1,363 employees in production roles in Canada, 80 in the United States, 125 in Europe. As of March 31, 2022, a total of 24 employees are unionized in Canada.

Our human resources department is striving to make Canopy Growth a first-choice employer in the cannabis industry. In fiscal 2022, we focused on the following three key priorities to action: (1) ensuring we have top talent in roles most critical to organizational success; (2) building infrastructure needed to scale the Company and continuously re-evaluating its fitness for purpose; and (3) actively engaging with our people and reinforcing behaviors foundational to our success. Supporting these three key priorities are a number of specific programs and initiatives highlighted below.

Our Total Rewards philosophy includes rewarding employees competitively, treating our employees fairly, and providing the flexibility needed to cultivate greatness. In fiscal 2022, we continued to execute against our Total Rewards road map of programs designed to attract, motivate, recognize, reward, and retain the talent we need to realize our vision and deliver on our growth expectations, while holistically supporting total employee well-being.

We also launched our first company-wide engagement survey to gather employee feedback and establish a baseline from which to undertake further action planning about how we can continuously improve our workplace and employee experience.

In ongoing support of our employees during the COVID-19 pandemic, we initiated or continued a number of mental-health programs and offered supplemental resources. These included wellness webinars, virtual yoga and meditation sessions and a variety of online resources to help navigate the pandemic, all of which were available to all of our employees. In addition, we continued to support remote work and offered a number of vaccine clinics at various sites which were open to employees and their friends and families to help reduce the spread of the virus. Fostering a culture of accountability and compliance is also central to effective human capital management. All of our employees completed annual training on applicable corporate policies including our Code of Business Conduct and Ethics, Whistleblower Protection Policy, Insider Trading Policy and Anti-Bribery and Anti-Corruption Policy.

As part of our talent management strategy, we invest in employee education and skills development through Canopy Growth Learning, our online learning management system, for regulatory requirements and corporate policies as noted above, and to build professional skills and capabilities to support career advancement. We encourage frequent performance check-ins between managers and their team members to discuss performance, development, and growth. In fiscal 2021, we implemented a formalized objective-setting process to provide our employees with clarity of focus and to understand how their work supports our organizational priorities. Additionally, we implemented talent reviews at the Vice-President level to assess our bench strength and inform development plans and created a formal succession plan for our Executive C-suite positions to support business continuity.

Through our internal Diversity, Equity & Inclusion (“DEI”) efforts, we are committed to embedding equity into every part of the organization and creating an inclusive organizational environment. To accomplish this, we completed an extensive audit of DEI practices, policies and processes and subsequently developed a multi-year strategy that is supported by our Executive Management team. Through programming and participation in our Employee Resource Groups, which help people from historically excluded groups build community internally, providing learning and development opportunities to support people leaders' ability to mitigate biases and we have established initiatives to support people with disabilities.

Website Access to Reports

We maintain a website at www.canopygrowth.com. We are providing the address to our website solely for the information of investors. The information contained on our website is not a part of, nor is it incorporated by reference into this Annual Report. Through our website, we make available, free of charge, our annual proxy statement, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish them to the SEC. The SEC maintains a website that contains these reports at www.sec.gov.

Item 1A. Risk Factors.

An investment in us involves a number of risks. In addition to the other information contained in this Annual Report and in other filings we make, investors should give careful consideration to the following risk factors. Any of the matters highlighted in these risk factors could adversely affect our business, results of operations and financial condition, causing an investor to lose all, or part of, its, his or her investment. The risks and uncertainties described below are those we currently believe to be material, but they are not the only ones we face. If any of the following risks, or any other risks and uncertainties that we have not yet identified or that we currently consider not to be material, actually occur or become material risks, our business, prospects, financial condition, results of operations and cash flows and consequently the price of our securities could be materially and adversely affected.

Risks Relating to Our Growth Strategy

We and certain of our subsidiaries have limited operating history and therefore we are subject to many of the risks common to early-stage enterprises.

We have a limited history of operations and are in an early stage of development as we attempt to create a global infrastructure to capitalize on the opportunity in the cannabis industry. Accordingly, we are subject to many of the risks common to early-stage enterprises, including under-capitalization, limitations with respect to personnel, other resources and lack of revenue. Our limited operating history may also make it difficult for investors to evaluate our prospects for success. There is no assurance that we will be successful and our likelihood of success must be considered in light of our stage of operations.

We may not be able to successfully manage our growth.

We have completed our initial investment phase and have begun pivoting to a focused execution phase, and may be subject to growth-related risks, including capacity constraints and pressure on our internal systems and controls, which may place significant strain on our operational and managerial resources. In addition, we are subject to a variety of business risks generally associated with developing companies. Our ability to manage growth effectively will require us to continue to implement and improve our operational and financial systems and to expand, train and manage our employee base. There can be no assurances that we will be able to manage growth successfully. Our inability to manage growth successfully could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We may not be able to achieve or maintain profitability and may continue to incur losses in the future.

We have incurred losses in recent periods. We had negative operating cash flow for the fiscal years ended March 31, 2022, March 31, 2021, March 31, 2020, and March 31, 2019. We may not be able to achieve or maintain profitability and may continue to incur significant losses in the future even in light of our Restructuring Actions. In addition, we expect to continue to increase our capital investments and incur significant operating expenses as we implement initiatives to continue to grow our business. If our revenues do not increase to offset these expected costs and operating expenses, we will not be profitable. If our revenue declines or fails to grow at a rate faster than our operating expenses, and we are unable to secure funding under terms that are favorable or acceptable to us, or at all, we will not be able to achieve and maintain profitability in future periods. As a result, we may continue to generate losses. We may not achieve profitability in the future and, even if we do become profitable, we might not be able to sustain that profitability. There is no assurance that future revenues will be sufficient to generate the funds required to continue operations without external funding.

We have been and may in the future be required to write down intangible assets, including goodwill, due to impairment, which could have a material adverse effect on our results of operations or financial position.

We have in the past and may in the future be required to write down intangible assets, including goodwill, due to impairment, which would reduce earnings. We periodically calculate the fair value of our reporting units and intangible assets to test for impairment. This calculation may be affected by several factors, including

general economic conditions, regulatory developments, changes in category growth rates as a result of changing adult consumer preferences, success of planned new product introductions, and competitive activity. Certain events can also trigger an immediate review of goodwill and intangible assets. If the carrying value of our reporting unit and other intangible assets exceed their fair value and the loss in value is other than temporary, the goodwill and other intangible assets are considered impaired, which would result in impairment losses and could have a material adverse effect on our consolidated financial position or results of operations. 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. 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. However, at March 31, 2022, the fair value of the goodwill associated with our cannabis operations reporting unit 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, 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 cannabis operations reporting unit was \$1.7 billion.

There can be no assurance that the Restructuring Actions will have a beneficial impact on our business, financial condition and results of operations. The timing, costs and benefits of the Restructuring Actions cannot be guaranteed.

In the fourth quarter of our fiscal year ended March 31, 2022, we announced the 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 in headcount. There can be no assurance that these initiatives will achieve the expected benefits to our business or reduce costs or grow our revenue as intended. The execution and implementation of these initiatives involve risk, including that significant amounts of management's time and resources could be diverted from our core operations in order to complete such initiatives. In addition, these initiatives could present unforeseen obstacles, lead to operating inefficiencies and negatively disrupt our corporate culture, which could lead to further employee attrition, any of which would have a material adverse effect on our business, financial condition and results of operations. We have and will continue to incur costs to implement these initiatives, and we could be subject to litigation risks and expenses.

Risks Relating to Our Products

There is limited long-term data with respect to the efficacy, side effects and safety of our products, and future clinical research studies on the effects of cannabis, U.S. hemp, cannabinoids and cannabis-based products may lead to conclusions that dispute or conflict with our understanding and belief regarding their benefits, viability, safety, efficacy, dosing and social acceptance.

Research in Canada, the United States and internationally regarding the benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, U.S. hemp or isolated cannabinoids (such as CBD and THC) in dietary supplements, food or cosmetic products remains in early stages. There have been relatively few clinical trials on the potential benefits of cannabis, U.S. hemp or isolated cannabinoids and there is limited long-term data with respect to efficacy, side effects and/or interaction of these substances with human or animal biochemistry. As a result, our products could have unexpected side effects or safety concerns, the discovery of which could lead to civil litigation, regulatory actions and even possibly criminal enforcement actions. In addition, if the products we sell do not or are not perceived to have the effects intended by the end user, this

could have a material adverse effect on our business, financial condition and results of operations. See also “—We may be subject to, or prosecute, litigation in the ordinary course of business.”, “—We may be subject to product liability claims.” and “—Our products have in the past and may in the future be subject to recalls.”

The statements made by us, including in this Annual Report, concerning the potential benefits of cannabis, U.S. hemp and isolated cannabinoids are based on published articles and reports and therefore are subject to the experimental parameters, qualifications and limitations in such studies that have been completed. Although we believe that the existing public scientific literature generally supports our beliefs regarding the benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, U.S. hemp and cannabinoids, future research and clinical trials may cast doubt or disprove such beliefs, or could raise or heighten concerns regarding, and perceptions relating to, cannabis, U.S. hemp and cannabinoids, which could have a material adverse effect on the demand for our products with the potential to lead to a material adverse effect on our business, financial condition and results of operations. Given these risks, uncertainties and assumptions, undue reliance should not be placed on such literature. In particular, the FDA has raised several questions regarding the safety of CBD and gaps in the public scientific literature supporting the use of CBD by the general population.

Required clinical trials of cannabis-based medical products and treatments are novel terrain with very limited or non-existent clinical trial history; we face a significant risk that any trials will not result in commercially viable products and treatments.

We are required to conduct clinical trial of our products under applicable laws. Clinical trials are expensive, time consuming and difficult to design and implement. Regulatory authorities may suspend, delay or terminate any clinical trials we commence at any time, may require us, for various reasons, to conduct additional clinical trials, or may require a particular clinical trial to continue for a longer duration than originally planned. Clinical trials face many risks, including, among others:

- lack of effectiveness of any formulation or delivery system during clinical trials;
- discovery of serious or unexpected toxicities or side effects experienced by trial participants or other safety issues;
- slower than expected subject recruitment and enrollment rates in clinical trials;
- delays or inability in manufacturing or in obtaining sufficient quantities of materials for use in clinical trials due to regulatory and manufacturing constraints;
- delays in obtaining regulatory authorization to commence a trial, including licenses required for obtaining and using cannabis, U.S. hemp or isolated cannabinoids for research, either before or after a trial is commenced;
- unfavorable results from ongoing pre-clinical studies and clinical trials;
- trial participants or investigators failing to comply with study protocols;
- trial participants failing to return for post-treatment follow-up at the expected rate;
- sites participating in an ongoing clinical study withdraw, requiring us to engage new sites; and
- third-party clinical investigators declining to participate in our clinical studies, not performing the clinical studies on the anticipated schedule, or acting in ways inconsistent with the established investigator agreement, clinical study protocol or good clinical practices.

Any of the foregoing could cause our products or treatments not to be commercially viable which could have a material adverse effect on our business, results of operations and financial condition.

The controversy surrounding vaporizers and vaporizer products may materially and adversely affect the market for vaporizer products and expose us to litigation and additional regulation.

There have been a number of highly publicized cases involving lung and other illnesses and deaths that appear to be related to vaporizer devices and/or products used in such devices (such as vaporizer liquids). The focus is currently on the vaporizer devices, the manner in which the devices were used and the related vaporizer device products - THC, nicotine, other substances in vaporizer liquids, possibly adulterated products and other illegal unlicensed cannabis vaporizer products. Some states, provinces, territories and municipalities in Canada and the United States have already taken steps to prohibit the sale or distribution of vaporizers, restrict the sale and distribution of such products or impose restrictions on flavours or use of such vaporizers. This trend may continue, accelerate and expand.

Cannabis vaporizers in Canada are regulated under the *Cannabis Act*, Cannabis Regulations and other laws and regulations of general application. Negative public sentiment may prompt regulators to decide to further limit or defer the industry's ability to sell cannabis vaporizer products, and may also diminish consumer demand for such products. For instance, Health Canada has proposed new regulations that would place stricter limits on the advertising and promotion of vaping products and make health warnings on vaping products mandatory, although such regulations explicitly exclude cannabis and cannabis accessories. The provincial governments in Quebec, Alberta and Newfoundland and Labrador have imposed provincial regulatory restrictions on the sale of cannabis vape products, and Health Canada is seeking to limit the flavours of inhaled cannabis extracts. In June 2021, Health Canada opened a consultation into the use of flavours in inhaled cannabis extracts as it claims that the availability of flavours is one of the factors that contributes to the increase in cannabis vaping in youth and young adults. As part of this consultation, Health Canada released proposed regulations that contemplate prohibiting the production, sale, promotion, packaging and labelling of inhaled cannabis extracts from having a flavour, other than the flavour of cannabis. The proposed amendments would apply equally to inhaled cannabis extracts sold for medical and non-medical purposes. The consultation period closed in September 2021 and the new regulations will come into force 180 days from the day of registration, a date which has yet to be determined. These actions, together with potential deterioration in the public's perception of cannabis containing vaping liquids, may result in a reduced market for our vaping products. There can be no assurance that we will be able to meet any additional compliance requirements or regulatory restrictions, or remain competitive in face of unexpected changes in market conditions.

This controversy could well extend to non-nicotine vaporizer devices and other product formats. Any such extension could materially and adversely affect our business, financial condition, operating results, liquidity, cash flow and operational performance. Litigation pertaining to vaporizer products is ongoing and that litigation could potentially expand to include our products, which would materially and adversely affect our business, financial condition, operating results, liquidity, cash flow and operational performance.

Future research may lead to findings that vaporizers, electronic cigarettes and related products are not safe for their intended use.

Vaporizers, electronic cigarettes and related products were recently developed and therefore the scientific or medical communities have had a limited period of time to study the long-term health effects of their use. Currently, there is limited scientific or medical data on the safety of such products for their intended use and the medical community is still studying the health effects of the use of such products, including the long-term health effects. If a consensus were to develop among the scientific or medical community that the use of any or all of these products pose long-term health risks, market demand for these products and their use could materially decline. Such a development could also lead to litigation, reputational harm and significant regulation. Loss of demand for our product, product liability claims and increased regulation stemming from unfavorable scientific studies on vaporizer products could have a material adverse effect on our business, results of operations and financial condition.

We are subject to risks and uncertainty regarding our U.S. hemp operations.

A small part of our business involves products containing U.S. hemp. There is substantial uncertainty concerning the legal status of U.S. hemp and U.S. hemp products containing U.S. hemp-derived ingredients, including CBD. The status of products derived from the cannabis or hemp plant, under both federal and state law depends on the THC content of the plant or derivative (including whether the plant meets the statutory definition of "industrial hemp" or "hemp"), the part of the plant from which an individual or entity produces the derivative (including whether the plant meets the statutory definition of "marihuana" under the CSA), whether the cultivator, processor, manufacturer or product marketer engages in cannabis-related activities for research versus purely commercial purposes, as well as the form and intended use of the product. The mere presence of a cannabinoid (such as CBD) is not dispositive as to whether the product is legal or illegal. The FDA, for instance, has approved drugs containing synthetic THC, though not naturally derived THC. There may be difficulty in maintaining consistent strains with consistent low levels of THC sufficient to meet U.S. regulatory requirements.

Under U.S. federal law, products containing CBD may be unlawful if derived from cannabis (including hemp with a THC concentration greater than 0.3% on a dry weight basis), or if derived from U.S. hemp grown outside the parameters of an approved U.S. hemp pilot program or U.S. hemp cultivated in violation of the 2018 Farm Bill. Even after enactment of the 2018 Farm Bill, the DEA may not treat all products containing U.S. hemp-derived ingredients, including CBD, as exempt from the Controlled Substances Act. If the DEA takes action against us or other participants in the U.S. hemp industry, this could have a material and adverse effect on our business, financial condition, operating results, liquidity, cash flow and operational performance. The number of competitors in the U.S. hemp industry is expected to increase, which could negatively impact our market share and demand for our products. Additionally, if the United States takes steps to legalize cannabis, the impact of such a development could result in new entrants into the market and increased levels of competition.

Additionally, the U.S. hemp industry may be impacted by perceived similarities or differences between U.S. hemp and cannabis. Consumers, vendors, landlords/lessors, industry partners or third-party service providers may incorrectly perceive U.S. hemp products as cannabis, thereby confusing them for having the THC content of cannabis or for being illegal under U.S. federal law which potentially impacts our ability to sell our products or obtain the necessary services or supplies to manufacture, store or transport our products.

We may also be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions where we source, process, or sell products derived from U.S. hemp. We may be unable to obtain or maintain any necessary licenses, permits or approvals. Additional government licenses are currently, and in the future, may be, required in connection with our operations, in addition to other unknown permits and approvals which may be required, including with respect to our other global operations. To the extent such permits, and approvals are required and not obtained, we may be prevented from operating and/or expanding our business, which could have a material adverse effect on our business, financial condition and results of operations.

Additionally, U.S. hemp plants can be vulnerable to various pathogens including bacteria, fungi, viruses and other miscellaneous pathogens. Such instances often lead to reduced crop quality, stunted growth and/or death of the plant. Moreover, U.S. hemp is “phytoremediative” (meaning that it may extract toxins or other undesirable chemicals or compounds from the ground in which it is planted). Various regulatory agencies have established maximum limits for pathogens, toxins, chemicals and other compounds that may be present in agricultural materials. If U.S. hemp used in our products is found to have levels of pathogens, toxins, chemicals or other undesirable compounds that exceed limits permitted by applicable law, it may have to be destroyed. Should the U.S. hemp used in our products be lost due to pathogens, toxins, chemicals or other undesirable compounds, or if we or our suppliers are otherwise unable to obtain U.S. hemp for use in our products on an ongoing basis, it may have a material and adverse effect on our business, financial condition, operating results, liquidity, cash flow and operational performance.

Furthermore, some of our products that are intended to primarily contain U.S. hemp-derived CBD, or other U.S. hemp-derived cannabinoids, may contain trace amounts of THC. THC is an illegal or controlled substance in many jurisdictions, including under the federal laws of the U.S. Whether or not ingestion of THC (at low levels or otherwise) is permitted in a particular jurisdiction, there may be adverse consequences to consumers of our U.S. hemp products who test positive for any amounts of THC, even trace amounts, because of the presence of unintentional amounts of THC in our U.S. hemp products. In addition, certain metabolic processes in the body may negatively affect the results of drug tests. As a result, we may have to recall our products from the market. Positive tests for THC may adversely affect our reputation, our ability to obtain or retain customers and individuals’ participation in certain athletic or other activities. A claim or regulatory action against us based on such positive test results could materially and adversely affect our business, financial condition, operating results, liquidity, cash flow and operational performance.

There is continuing uncertainty regarding the FDA’s potential position on CBG and other cannabinoids.

Cannabigerol (“CBG”) is a cannabinoid which can be lawfully derived from U.S. hemp. The Company has begun and plans to continue developing products with CBG and other rare cannabinoids (i.e., cannabinoids

other than THC and CBD). The 2018 Farm Bill preserved the FDA's authority over U.S. hemp-derived consumer products and to date, the FDA has provided no guidance as to how cannabinoids other than CBD will be regulated under the FFDCA. Future regulatory changes or enforcement actions by the FDA, with respect to CBG or other U.S. hemp-derived cannabinoids, could have a materially adverse impact on our business, financial condition, results of operations or prospects.

We are subject to risks and uncertainty regarding future product development.

We expect to derive a portion of our future revenues from the sale of new products, including Cannabis 2.0 products, some of which are still being actively developed and put into production. If we fail to adequately meet market demand for such products in a timely fashion, it may adversely impact our profitability.

Our products have in the past and may in the future be subject to recalls.

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including, among other things, product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. For example, we initiated one voluntary recall on May 9, 2019 for LBS Ocean View (Sativa) Whole Cannabis, Dried Cannabis, Net Weight 3.5 g, Lot OVI8305SPB, packaged on April 8, 2018, because the date on the packaging was incorrect. The date on the label was listed as 2018-AL-08 but should have been listed as 2019-AL-08.

If any of our products are recalled for any reason, we could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. All customers who are potentially impacted would be notified, corrective actions would be put in place, and existing product and procedures would be re-tested and examined. We may also lose a significant amount of sales and may not be able to replace those sales at an acceptable margin, or at all. In addition, product recalls have in the past and may in the future require significant management attention. Although we have detailed procedures in place for testing finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one or more of our products were subject to recall, our reputation and the reputation of that product could be harmed. A recall of one of our products could lead to decreased demand for that product or our other products and could have a material adverse effect on our business, results of operations and financial condition. Additionally, product recalls may lead to increased scrutiny of our operations by Health Canada, the FDA, the DEA or other regulatory agencies, requiring further management attention and potential legal fees and other expenses. Furthermore, any product recall affecting the cannabis or U.S. hemp industries more broadly could lead consumers to lose confidence in the safety and security of the products sold by participants in these industries generally, which could have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Regulation and Compliance

We operate in highly regulated industries where the regulatory environments are rapidly developing and we may not always succeed in complying fully with applicable regulatory requirements in all jurisdictions where we carry on business.

Our business and activities are heavily regulated in all jurisdictions where we carry on business. Our operations are subject to various laws, regulations and guidelines by governmental authorities (including, in Canada, Health Canada and other federal, provincial and local regulatory agencies and, in the U.S., the FDA, the USDA, DEA, USPTO and FTC and other federal and state agencies) relating to, among other things, the manufacture, marketing, management, transportation, storage, sale, pricing and disposal of cannabis, U.S. hemp and cannabis-based products, and also including laws, regulations and guidelines relating to health and safety, insurance coverage, the conduct of operations and the protection of the environment (including relating to emissions and discharges to water, air and land, and the handling and disposal of hazardous and non-hazardous materials and wastes). Our operations may also be affected in varying degrees by government regulations with respect to, among other things, price controls, import or export controls, controls on currency remittance,

increased income taxes, restrictions on foreign investment and government policies rewarding contracts to local competitors or requiring domestic producers or vendors to purchase supplies from a particular jurisdiction. Laws, regulations and guidelines, applied generally, grant government agencies and self-regulatory bodies broad administrative discretion over our activities, including the power to limit or restrict business activities as well as impose additional disclosure requirements on our products and services, as well as on our personnel (including management and our board of directors).

Achievement of our business objectives is contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all necessary regulatory approvals for the production, storage, transportation, sale, import and export, as applicable, of our products. The cannabis and U.S. hemp industries are still new, and in Canada, in particular, the *Cannabis Act* is a new regime that has no close precedent in Canadian law. Similarly, the regulatory regimes in the jurisdictions in which we and our joint ventures operate outside of the United States and Canada are new and are still being developed without close precedent in such jurisdictions. The effect of relevant governmental authorities' administration, application and enforcement of their respective regulatory regimes and delays in obtaining, or failure to obtain, necessary regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on our business, financial condition and results of operations. For example, in the U.S., registered federal trademark protection is only available for goods and services that can be lawfully used in interstate commerce; the USPTO is not currently approving any trademark applications for cannabis, or certain goods containing U.S. hemp-derived CBD (such as dietary supplements and food) until the FDA and the USDA provides clearer guidance on the regulation of such products.

The regulatory environment for our products is rapidly developing, and the need to build and maintain robust systems to comply with different and changing regulations in multiple jurisdictions increases the possibility that we may violate one or more applicable requirements. While we endeavor to comply with all relevant laws, regulations and guidelines, any failure to comply with the regulatory requirements applicable to our operations could subject us to negative consequences, including, but not limited to, civil and criminal penalties, damages, fines, the curtailment or restructuring of our operations, asset seizures, revocation or imposition of additional conditions on licenses to operate our business, the denial of regulatory applications (including, in the U.S., by other regulatory regimes that rely on the positions of the DEA, FDA and USDA in the application of their respective regimes), the suspension or expulsion from a particular market or jurisdiction or of our key personnel, or the imposition of additional or more stringent inspection, testing and reporting requirements, any of which could materially adversely affect our business, financial condition and results of operations. Additionally, scheduled or unscheduled inspections of our facilities or facilities of our joint ventures or third party suppliers by applicable regulatory agencies could result in adverse findings that could require significant remediation efforts and/or temporary or permanent shutdown of our facilities or those of our joint ventures or third party suppliers. In the United States, failure to comply with FDA and USDA requirements (and analogous state agencies) may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions. The outcome of any regulatory or agency proceedings, investigations, inspections, audits, and other contingencies could harm our reputation, require us to take, or refrain from taking, actions that could harm our operations or require us to pay substantial amounts of money, harming our results of operations, financial condition and cash flows. Increasingly, communication and coordination among regulators has led in other industries to coordinated responses to regulatory and licensure applications. To the extent that regulators coordinate responses to license applications and regulatory conditions, limitations or denials of licenses in one jurisdiction may lead to denials in other jurisdictions. There can be no assurance that any pending or future regulatory or agency proceedings, investigations, inspections and audits will not result in substantial costs or a diversion of management's attention and resources, negatively impact our future growth plans and opportunities or have a material adverse impact on our business, financial condition and results of operations.

If our U.S. hemp business activities are found to be in violation of any of U.S. federal, state or local laws or any other governmental regulations, in addition to the items described above:

- we may be subject to “Warning Letters,” untitled letters, fines, penalties, administrative sanctions, settlements, injunctions, product recalls and/or other enforcement actions arising from civil, administrative or other proceedings initiated that could adversely affect our business, financial condition, operating results, liquidity, cash flow and operational performance;
- the profits or revenues derived therefrom could be subject to anti-money laundering statutes, including the Money Laundering Control Act, which could result in significant disruption to our U.S. hemp business operations and involve significant costs, expenses or other penalties; and
- our suppliers, service providers and distributors may elect, at any time, to breach, terminate or otherwise cease to participate in supply, service or distribution agreements, or other relationships, on which our operations rely.

We and our joint ventures and strategic investments are reliant on required licenses, authorizations, approvals and permits for our ability to grow, process, store and sell cannabis, U.S. hemp and cannabinoids which are subject to ongoing compliance, reporting and renewal requirements and we may also be required to obtain additional licenses, authorizations, approvals and permits in connection with our business.

We are dependent on our existing licenses from Health Canada in order to grow, store and sell cannabis. These licenses are subject to ongoing compliance and reporting requirements. Failure to comply with the requirements of these licenses or failure to maintain these licenses could have a material adverse impact on our business, financial condition and operating results. There can be no guarantee that a license will be extended or renewed or, if extended or renewed, that it will be extended or renewed on terms that are favorable to us or that Health Canada will not revoke the licenses. Should we fail to comply with requirements of the licenses, should Health Canada not extend or renew the licenses, should they be renewed on different terms (including not allowing for anticipated capacity increases) or should the licenses be revoked, our business, financial condition and results of the operations will be materially adversely affected.

In addition, our ability to grow our business is dependent on securing and maintaining certain new licenses, particularly retail licenses and licenses in international jurisdictions. Failure to comply with the requirements of any license application or failure to obtain and maintain the appropriate licenses with the relevant authorities would have a material adverse impact on our business, financial condition and results of operations. There can also be no guarantees that regulatory authorities will issue the required licenses to us.

Changes in the laws, regulations and guidelines governing cannabis and U.S. hemp may adversely impact our business.

Our current operations are subject to various laws, regulations and guidelines promulgated by governmental authorities (including, in Canada, Health Canada and, in the U.S., the FDA, the USDA, DEA, FTC and USPTO, and analogous state agencies) relating to the marketing, acquisition, manufacture, packaging/labeling, management, transportation, storage, sale and disposal of cannabis or U.S. hemp but also including laws and regulations relating to health and safety, insurance coverage, the conduct of operations and the protection of the environment (including relating to emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes). Additionally, our growth strategy continues to evolve as regulations governing the cannabis industry in the jurisdictions in which we operate become more fully developed. Interpretation of these laws, rules and regulations and their application to our operations is ongoing. No assurance can be given that new laws, regulations and guidelines will not be enacted or that existing laws, regulations and guidelines will not be amended, repealed or interpreted or applied in a manner which could require extensive changes to our operations, increase compliance costs, give rise to material liabilities or a revocation of our licenses and other permits, restrict the growth opportunities that we currently anticipate or otherwise limit or curtail our operations. For example, the *Cannabis Act* requires the federal government to conduct a review of the *Cannabis Act* after three years, which was anticipated to commence in October 2021. This statutory review may lead to the amendment, removal or addition of provisions in or to the *Cannabis Act* which could adversely affect our business. Amendments to current laws, regulations and guidelines governing the production, sale and use of cannabis and cannabis-based products, more stringent implementation or enforcement thereof or other unanticipated events, including changes in political conditions and/or regimes or political instability, currency controls, fluctuations in currency exchange rates and rates of inflation, labor unrest, changes in taxation laws, regulations and policies, restrictions on foreign exchange and repatriation, governmental regulations relating to foreign investment and the cannabis business more generally, and changes in attitudes toward cannabis, are beyond our control and could require

extensive changes to our operations, which in turn may result in a material adverse effect on our business, financial condition and results of operations.

While the production of cannabis in Canada is under the regulatory oversight of the Canadian federal government, the distribution and retail sale of recreational cannabis in Canada falls within the jurisdiction of the provincial and territorial governments. The impact of the legislation regulating recreational cannabis passed in such provinces and territories on the cannabis industry and on our business plans and operations is uncertain. Certain Canadian provinces and territories have announced certain restrictions that are more stringent than the federal rules or regulations such as retail sale and marketing restrictions, bans on certain types of cannabis products, raising minimum age of purchase and flavour restrictions. For example, Quebec, Newfoundland and Labrador and Prince Edward Island do not currently permit sales of cannabis vaporizers and Quebec limits the sale of other high THC non-edible cannabis products. In addition, the distribution and retail channels and applicable rules and regulations in the provinces continue to evolve and our ability to distribute and retail cannabis and cannabis products in Canada is dependent on the ability of the provinces and territories of Canada to establish licensed retail networks and outlets. In response to the COVID-19 pandemic, various provinces and territories introduced a variety of response measures which impacted their respective cannabis regimes, which include in certain jurisdictions: forced store closures, restrictions or bans on in-store shopping experiences, and the authorization of private delivery services. There is no guarantee that the applicable legislation regulating the distribution and sale of cannabis for recreational purposes, including as amended to respond to the COVID-19 pandemic, will allow for the growth opportunities we currently anticipate.

Furthermore, additional countries continue to pass laws that allow for the production and distribution of cannabis in some form or another. We have some subsidiaries, investments, joint ventures and strategic alliances in place outside of Canada and the United States, which may be affected if more countries legalize cannabis. See “Business—U.S. Regulatory Framework—The Acreage Arrangement and “Business—U.S. Regulatory Framework—Wana Purchase Option.” Increased international competition and limitations placed on us by Canadian regulations might lower the demand for our products on a global scale. We also face competition in each jurisdiction outside of Canada and the United States where we have subsidiaries, investments, joint ventures and strategic alliances with local companies that have more experience, more in-depth knowledge of local markets or applicable laws, regulations and guidelines or longer operating histories in such jurisdictions.

We are subject to certain restrictions of the TSX and Nasdaq, which may constrain our ability to expand our business internationally.

Our common shares are listed on the TSX and Nasdaq. We must comply with the TSX and Nasdaq requirements or guidelines when conducting business, especially when pursuing international opportunities in the United States.

On October 16, 2017, the TSX provided clarity regarding the application of the TSX Requirements to TSX-listed issuers with business activities in the cannabis sector. In TSX Staff Notice 2017-0009, the TSX notes that issuers with ongoing business activities that violate U.S. federal law regarding cannabis are not in compliance with the TSX Requirements. The TSX reminded issuers that, among other things, should the TSX find that a listed issuer is engaging in activities contrary to the TSX Requirements, the TSX has the discretion to initiate a delisting review. Although we do not conduct any operations in the United States with respect to cannabis, failure to comply with the TSX Requirements could result in a delisting of our common shares from the TSX or the denial of an application for certain approvals, such as to have additional securities listed on the TSX, which could have a material adverse effect on the trading price of our common shares and could have a material adverse effect on our business, financial condition and results of operations.

While Nasdaq has not issued official rules specific to the cannabis or hemp industry, stock exchanges in the United States, including Nasdaq, have historically refused to list certain cannabis related businesses, including cannabis retailers, that operate primarily in the United States. Failure to comply with any requirements imposed by Nasdaq could result in the delisting of our common shares from Nasdaq or denial of

any application to have additional securities listed on Nasdaq, which could have a material adverse effect on the trading price of our common shares.

We are constrained by law in our ability to market and advertise our products.

Our marketing and advertising are subject to regulation by various regulatory bodies in the jurisdictions we operate. In Canada, the development of our business and related results of operations may be hindered by applicable regulatory restrictions on sales and marketing activities. For example, the regulatory environment in Canada limits our ability to compete for market share in a manner similar to other industries. Furthermore, the applicable regulatory restrictions on sales and marketing activities are not always clear, may be subject to interpretation and have in the past, and may in the future, be interpreted or applied inconsistently by the applicable Canadian regulatory agencies, which have broad interpretative and enforcement discretion with respect to such activities. This may result in such restrictions on sale and marketing activities being interpreted unfavorably by a regulatory agency against some market participants, including us, but not others. If we are unable to effectively market our products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for our products, our sales and results of operations could be adversely affected. See “Business—Canadian Regulatory Framework.”

In the United States, our advertising is subject to regulation by the FTC under the Federal Trade Commission Act as well as the FDA under the Federal Food, Drug, and Cosmetic Act and USDA, including as amended by the Dietary Supplement Health and Education Act of 1994, and by state agencies under analogous and similar state and local laws and regulations. In recent years, the FTC, the FDA, USDA and state agencies have initiated numerous investigations of food and dietary supplement products both because of their CBD content and based on allegedly deceptive or misleading marketing claims and have, on occasion, issued “Warning Letters” or instituted enforcement actions due to such claims. Some U.S. states also permit content, advertising and labeling laws and regulations to be enforced by state attorneys general, who may seek civil and criminal penalties, relief for consumers, class action certifications, class wide damages and recalls of products sold by us. There has also been an increase in private litigation that seeks, among other things, relief for consumers, class action certifications, class wide damages and recalls of products. We have been subject to such litigation in Canada and may be subject to additional private class action litigation. Any actions against us by governmental authorities or private litigants could have a material and adverse effect on our business, financial condition, operating results, liquidity, cash flow and operational performance.

We could be adversely affected by violations of the Corruption of Foreign Public Officials Act (Canada), the U.S. Foreign Corrupt Practices Act and other similar anti-bribery laws.

Our business is subject to the Corruption of Foreign Public Officials Act (Canada) and the U.S. Foreign Corrupt Practices Act (“FCPA”) and other similar laws which generally prohibit companies and employees from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. In addition, we are or will be subject to the anti-bribery laws of any other countries in which we conduct business now or in the future. Our employees or other agents may, without our knowledge and despite our efforts, engage in conduct prohibited under our policies and procedures and under anti-bribery laws, for which we may be held responsible. Our policies mandate compliance with these anti-corruption and anti-bribery laws. However, there can be no assurance that our internal control policies and procedures will always protect us from recklessness, fraudulent behavior, dishonesty or other inappropriate acts committed by our affiliates, employees, contractors or agents. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

Cannabis is a controlled substance in the United States and therefore subject to the Controlled Substances Act.

We are indirectly involved in ancillary activities related to the cannabis industry in jurisdictions in the United States where local state law permits such activities and, by virtue of, among other transactions, the Acreage Amended Arrangement, the Wana Agreements and our holding of securities in the capital of TerrAscend, we may be indirectly associated with the cultivation, processing or distribution of cannabis in the

United States. In the United States, cannabis is regulated at both the federal and state levels. To our knowledge, there are to date a total of 37 states, and the District of Columbia, that have now legalized cannabis in some form, including California, Nevada, New York, New Jersey, Washington and Florida. Although several states allow the sale of cannabis at the state level, cannabis continues to be categorized as a controlled substance under the CSA and, as such, cultivation, distribution, sale and possession of cannabis violates federal law in the United States. The inconsistency between federal and state laws and regulations may result in a loss of the value of our investments and alliances in these businesses.

As a result of the Sessions Memorandum, federal prosecutors have prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws that may be inconsistent with federal prohibitions. No direction was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis activities and, as a result, it is uncertain how active federal prosecutors will be in relation to such activities. There can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

On March 11, 2021, Merrick Garland was appointed as U.S. Attorney General. At his confirmation hearing, he said, “It does not seem to me a useful use of limited resources that we have, to be pursuing prosecutions in states that have legalized and that are regulating the use of marijuana, either medically or otherwise”. He has not yet reissued the Cole Memorandum, however, or issued substitute guidance. In the fiscal 2021 omnibus spending bill, Congress included the Rohrabacher-Farr amendment which prohibits the Department of Justice from spending funds to interfere with the implementation of state medical cannabis laws until September 30, 2021. The omnibus appropriations bill for fiscal 2022 passed on March 15, 2022 and extends the Rohrabacher-Farr amendment’s effectiveness to and including September 30, 2022.

While state law in certain U.S. states may take a permissive approach to medical and/or recreational use of cannabis, the CSA may still be enforced by U.S. federal law enforcement officials against individuals and companies operating in those states for activity that is legal under state law. If the Department of Justice opted to pursue a policy of aggressively enforcing U.S. federal law against financiers or equity owners of cannabis-related businesses, then Acreage, TerrAscend and Wana, for instance, could face (i) seizure of their cash and other assets used to support or derived from their business activities; and/or (ii) the arrest of its employees, directors, officers, managers and/or investors, who could face charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis. In addition, under such an aggressive enforcement policy, the Department of Justice could allege that we and our board of directors, and potentially our shareholders, “aided and abetted” violations of federal law as a result of the Acreage Arrangement, the Wana Agreements or other transactions involving us. In these circumstances, we may lose our entire investment and directors, officers and/or our shareholders may be required to defend any criminal charges against them at their own expense and, if convicted, be sent to federal prison.

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings initiated by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on us, including our reputation and ability to conduct business, the listing of our securities on the TSX, Nasdaq or other exchanges, our financial position, operating results, profitability or liquidity or the market price of our listed securities. Overall, an investor’s contribution to and involvement in our activities may result in federal civil and/or criminal prosecution, including forfeiture of his or her entire investment.

We are subject to a number of federal, state, and foreign environmental and safety laws and regulations that may expose us to significant costs and liabilities.

Our operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. Accordingly, we will incur ongoing costs and

obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in costs for corrective measures, penalties or restrictions on our production operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to our operations or give rise to material liabilities, which could have a material adverse effect on our business, financial condition and results of operations.

Our employees or investors could face detention, denial of entry or lifetime bans from United States for their business associations with us.

Cannabis remains illegal under U.S. federal law. Individuals employed at or investing in cannabis companies could face detention, denial of entry or lifetime bans from the United States for their business associations with cannabis businesses. Entry to the United States is granted at the sole discretion of the U.S. Customs and Border Protection (“CBP”) officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a foreign national. The government of Canada has started warning travelers that previous use of cannabis, or any substance prohibited by U.S. federal laws, could result in denial of entry to the United States. Business or financial involvement in the cannabis industry in Canada or in the United States could also be reason enough for CBP officers to deny entry. On September 21, 2018, CBP released a statement outlining its position with respect to enforcement of the laws of the U.S. It stated that Canada’s legalization of cannabis will not change CBP enforcement of U.S. laws regarding controlled substances and because cannabis continues to be a controlled substance under U.S. law, working in or facilitating the proliferation of the cannabis industry in U.S. states or Canada may affect admissibility to the United States. On October 9, 2018, CBP released an additional statement regarding the admissibility of Canadian citizens working in the legal cannabis industry. CBP stated that a Canadian citizen working in or facilitating the proliferation of the legal cannabis industry in Canada coming into the United States for reasons unrelated to the cannabis industry will generally be admissible to the United States; however, if such person is found to be coming into the United States for reasons related to the cannabis industry, such person may be deemed inadmissible. Employees, directors, officers, managers and investors of companies involved in business activities related to cannabis in Canada or the United States (such as us), who are not U.S. citizens, face the risk of being barred from entry into the United States for life. Despite the fact that our U.S. hemp activities are legal pursuant to the 2018 Farm Bill, due to the nature of the business as a whole, individuals employed by or investing in us could face a such a ban.

Anti-money laundering and other banking laws and regulations can limit our ability to access financing and hamper our growth.

We are subject to a variety of domestic and international laws and regulations pertaining to money laundering, financial recordkeeping and proceeds of crime, including the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities internationally.

In the event that any of our operations or investments, any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations or investments were found to be in violation of money laundering legislation, such transactions may be viewed as proceeds of crimes under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize our ability to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while we have no current intention to declare or pay dividends in the foreseeable future, in the event that a determination was made that proceeds obtained by us could reasonably be shown to constitute proceeds of crime, we may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

In February 2014, the Financial Crimes Enforcement Network (FINCEN) of the U.S. Department of the Treasury issued the FINCEN Memo. The FINCEN Memo states that in some circumstances, it may not be appropriate to prosecute banks that provide services to marijuana-related businesses for violations of federal

money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on Cannabis-related violations of the CSA. It is unclear at this time whether the current administration will follow the guidelines of the FINCEN Memo. Under U.S. federal law, banks or other financial institutions that provide a Cannabis-related business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy. As a result, we may have limited or no access to banking or other financial services in the United States. The inability or limitation on our ability to open or maintain bank accounts in the United States, to obtain other banking services and/or accept credit card and debit card payments may make it difficult to operate and conduct our business as planned in the United States. Although multiple legislative reforms related to cannabis and cannabis-related banking are currently being considered by the federal government in the United States, such as the Strengthening the Tenth Amendment Through Entrusting States Act, the Marijuana Opportunity, Reinvestment and Expungement Act and the Secure and Fair Enforcement Banking Act, there can be no assurance that any of these pieces of legislation will become law in the United States.

Risks Relating to Entry into New Markets

Our expansion plans into the United States rely on the success of the Acreage Arrangement and the Wana Purchase Option, and we cannot guarantee that the Acreage Arrangement or Wana Purchase Option will close in the near future, or at all, and even if closed, that we will achieve the expected benefits of such transactions.

Our expansion plans into the United States are primarily constituted by the Acreage Amended Arrangement and the Wana Purchase Option. See “Business—U.S. Regulatory Framework—The Acreage Arrangement” and “Business— U.S. Regulatory Framework – Wana Purchase Option” for additional information regarding the Acreage Arrangement and the Wana Purchase Option. The effectiveness of the Acreage Amended Arrangement is subject to certain conditions, including, among other things, that U.S. federal law is amended to permit the general cultivation, distribution and possession of marijuana or to remove the regulation of such activities from the federal laws of the United States and the receipt of the certain regulatory approvals. Such conditions have not yet occurred. See “—Cannabis is a controlled substance in the United States and therefore subject to the Controlled Substances Act.” The ability to exercise the option to acquire Wana is also conditioned upon amendments to U.S. federal law to permit the general cultivation, distribution and possession of marijuana or to remove the regulation of such activities from the federal laws of the United States. There is no guarantee that U.S. federal law will be amended to legalize cannabis in the near future, or at all. Additionally, the regulatory approval processes may take a lengthy period of time to complete, which could delay closing of the Acreage Arrangement.

Certain of these conditions, including the U.S. federal legalization of cannabis, are outside of our control. There can be no certainty, nor can we provide any assurance, that all conditions precedent to the consummation of the acquisitions of Acreage or Wana will be satisfied or waived, or, if satisfied or waived, when they will be satisfied or waived and, accordingly, the Acreage Amended Arrangement and/or the Wana Purchase Option may not be completed. If, for any reason, the Acreage Amended Arrangement and/or the Wana Purchase Option are not completed or their respective completions are materially delayed and/or the Acreage Arrangement Agreement (as modified by the Acreage Amending Agreement) and/or the Wana Purchase Option are terminated, the market price of our common shares may be materially adversely affected. In such events, our business, financial condition or results of operations could also be subject to various material adverse consequences, including that we would remain liable for costs relating to the Acreage Amended Arrangement and the Wana Purchase Option.

Even if we do acquire the Acreage Fixed Shares and, if applicable, the Acreage Floating Shares, as well as the membership interests of Wana, the intended benefits of the Acreage Amended Arrangement and/or the Wana Purchase Option may not be realized. The Acreage Amended Arrangement and the Wana Purchase Option pose risks for our ongoing operations, including, among others, (i) that senior management’s attention may be diverted from the management of daily operations to the integration of the Acreage and/or Wana operations, (ii) costs and expenses associated with any undisclosed or potential liabilities, (iii) that the Acreage

and/or Wana businesses may not perform as well as anticipated and (iv) that unforeseen difficulties may arise in integrating the Acreage and/or Wana businesses.

We cannot assure you that the Acreage Amended Arrangement and/or the Wana Purchase Option will be accretive to us in the near term or at all. Furthermore, if we fail to realize the intended benefits of Acreage Amended Arrangement and/or the Wana Purchase Option, the market price of our common shares could decline to the extent that the market price reflects those benefits.

Controlled substance and other legislation and treaties may restrict or limit our ability to research, manufacture and develop a commercial market for our products outside of the jurisdictions in which we currently operate and our expansion into such jurisdictions is subject to risks.

Approximately 250 substances, including cannabis, are listed in the Schedules annexed to the UN Single Convention on Narcotic Drugs (New York, 1961), the Convention on Psychotropic Substances (Vienna, 1971) and the Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (introducing control on precursors) (Vienna, 1988). The purpose of these listings is to control and limit the use of these drugs according to a classification of their therapeutic value, risk of abuse and health dangers, and to minimize the diversion of precursor chemicals to illegal drug manufacturers. The 1961 UN Single Convention on Narcotic Drugs, as amended in 1972, classifies cannabis as a Schedule I (“substances with addictive properties, presenting a serious risk of abuse”) narcotic drug and as further amended by the December 2020 Commission on Narcotic Drugs, a Schedule IV (“the most dangerous substances, already listed in Schedule I, which are particularly harmful and of extremely limited medical or therapeutic value”) narcotic drug. The 1971 UN Convention on Psychotropic Substances classifies THC as a Schedule I psychotropic substance (substances presenting a high risk of abuse, posing a particularly serious threat to public health which are of very little or no therapeutic value). Many countries are parties to these conventions, which govern international trade and domestic control of these substances, including cannabis. They may interpret and implement their obligations in a way that creates legal obstacles to our obtaining manufacturing and/or marketing approval for our products in those countries. These countries may not be willing or able to amend or otherwise modify their laws and regulations to permit our products to be manufactured and/or marketed and achieving such amendments to the laws and regulations may take a prolonged period of time. There can be no assurance that any market for our products will develop in any jurisdiction in which we do not currently have operations. We may face new or unexpected risks or significantly increase our exposure to one or more existing risk factors, including economic instability, political instability, changes in laws and regulations and the effects of competition. These factors may limit our capability to successfully expand our operations into such jurisdictions and may have a material adverse effect on our business, financial condition and results of operations.

Investments and joint ventures outside of Canada and the United States are subject to the risks normally associated with any conduct of business in foreign countries, including varying degrees of political, legal, regulatory and economic risk.

Much of our exposure to markets in jurisdictions outside of Canada and the United States is through investments and joint ventures. These investments and joint ventures are subject to the risks normally associated with any conduct of business in foreign and/or emerging countries including political risks; civil disturbance risks; changes in laws, regulations or policies of particular countries, including those relating to royalties, duties, imports, exports and currency; the cancellation or renegotiation of contracts; the imposition of royalties, net profits payments, tax increases or other claims by government entities, including retroactive claims; a disregard for due process and the rule of law by local courts; the risk of expropriation and nationalization; delays in obtaining or the inability to obtain necessary governmental permits or the reimbursement of refundable tax from fiscal authorities.

Threats or instability in a country caused by political events including elections, change in government, changes in personnel or legislative bodies, foreign relations or military control present serious political and social risk and instability causing interruptions to the flow of business negotiations and influencing relationships with government officials. Changes in policy or law may have a material adverse effect on our business,

financial condition and results of operations. The risks include increased “unpaid” state participation, higher energy costs, higher taxation levels and potential expropriation.

Other risks include the potential for fraud and corruption by suppliers or personnel or government officials which may implicate us, compliance with applicable anti-corruption laws and regulations, including the FCPA and the Corruption of Foreign Public Officials Act (Canada) by virtue of our operating in jurisdictions that may be vulnerable to the possibility of bribery, collusion, kickbacks, theft, improper commissions, facilitation payments, conflicts of interest and related party transactions and our possible failure to identify, manage and mitigate instances of fraud, corruption or violations of our code of conduct and applicable regulatory requirements.

There is also the risk of increased disclosure requirements; currency fluctuations; restrictions on the ability of local operating companies to hold Canadian dollars, U.S. dollars or other foreign currencies in offshore bank accounts; import and export restrictions; increased regulatory requirements and restrictions; increased health-related regulations; limitations on the repatriation of earnings or on our ability to assist in minimizing our expatriate workforce’s exposure to double taxation in both the home and host jurisdictions; and increased financing costs.

These risks may limit or disrupt our joint ventures, strategic alliances or investments, restrict the movement of funds, cause us to have to expend more funds than previously expected or required or result in the deprivation of contract rights or the taking of property by nationalization or expropriation without fair compensation, and may materially adversely affect our business, financial position and/or results of operations. In addition, the enforcement by us of our legal rights in foreign countries, including rights to exploit our properties or utilize our permits and licenses and contractual rights may not be recognized by the court systems in such foreign countries or enforced in accordance with the rule of law.

We currently have investments in companies and may in the future invest in companies, or engage in joint ventures, in or with interests in countries with developing economies. It is difficult to predict the future political, social and economic direction of the countries in which we operate, and the impact government decisions may have on our business. Any political or economic instability in the countries in which we operate could have a material and adverse effect on our business, financial condition and results of operations.

Our use of joint ventures may expose us to risks associated with jointly owned investments.

We currently operate parts of our business through joint ventures with other companies, and we may enter into additional joint ventures and strategic alliances in the future. Joint venture investments may involve risks not otherwise present for investments made solely by us, including: (i) we may not control the joint ventures, either by virtue of our economic or legal ownership share, or our ability to influence day-to-day operational decision-making; (ii) our joint venture partners may not agree to distributions that we believe are appropriate; (iii) where we do not have substantial decision-making authority, we may experience impasses or disputes with our joint venture partners on certain decisions, which could require us to expend additional resources to resolve such impasses or disputes, including litigation or arbitration; (iv) our joint venture partners may become insolvent or bankrupt, fail to fund their share of required capital contributions or fail to fulfill their obligations as a joint venture partner; (v) the arrangements governing our joint ventures may contain certain conditions or milestone events that may never be satisfied or achieved; (vi) our joint venture partners may have business or economic interests that are inconsistent with ours and may take actions contrary to our interests; (vii) we may suffer losses as a result of actions taken by our joint venture partners with respect to our joint venture investments; (viii) it may be difficult for us to exit a joint venture if an impasse arises or if we desire to sell our interest for any reason; and (ix) our joint venture partners may exercise termination rights under the relevant agreements. Any of the foregoing risks could have a material adverse effect on our business, financial condition and results of operations. In addition, we may, in certain circumstances, be liable for the actions of our joint ventures or joint venture partners. Any of the foregoing risks could have a material adverse effect on our business, financial condition and results of operations.

There can be no assurance that our current and future acquisitions, strategic alliances, investments or expansions of scope of existing relationships will have a beneficial impact on our business, financial condition and results of operations.

We currently have, and may in the future enter into, additional acquisitions, strategic alliances or investments with third parties that we believe will complement or augment our existing business. Our ability to complete acquisitions or strategic alliances is dependent upon, and may be limited by, the availability of suitable candidates and capital. In addition, acquisitions or strategic alliances could present unforeseen integration obstacles or costs, may not enhance our business, and/or may involve risks that could adversely affect us, including significant amounts of management time that may be diverted from operations in order to pursue and complete such transactions or maintain such strategic alliances. Future acquisitions or strategic alliances could result in the incurrence of additional debt, costs and contingent liabilities, and there can be no assurance that future acquisitions or strategic alliances will achieve, or that our existing acquisitions or strategic alliances will continue to achieve, the expected benefits to our business or that we will be able to consummate future acquisitions or strategic alliances on satisfactory terms, or at all. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

In addition, future acquisitions, including the acquisition of Acreage (if the Acreage Arrangement is completed), could result in future issuances of our securities, including up to 171,227,420 common shares that may be issued in the future in connection with the closing of the Acreage Arrangement and the associated top-up right of the CBI Group pursuant to the New Investor Rights Agreement. Such issuances of securities may have an adverse effect on the market price of the common shares. See “— *Our expansion plans into the United States rely on the success of the Acreage Arrangement and the Wana Purchase Option, and we cannot guarantee that the Acreage Arrangement or Wana Purchase Option will close in the near future, or at all, and even if closed, that we will achieve the expected benefits of such transactions.*”

We are subject to risks relating to our current and future operations in emerging markets.

We have operations in various emerging markets, such as Latin America and the Caribbean, and may have operations in additional emerging markets in the future. Such operations expose us to the socio-economic conditions as well as the laws governing the cannabis industry in such countries. Inherent risks with conducting foreign operations include, but are not limited to: high rates of inflation; extreme fluctuations in currency exchange rates, military repression; war or civil war; social and labor unrest; organized crime; hostage taking; terrorism; violent crime; expropriation and nationalization; renegotiation or nullification of existing licenses, approvals, permits and contracts; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political norms, banking and currency controls and governmental regulations that favour or require us to award contracts in, employ citizens of, or purchase supplies from, the jurisdiction.

Governments in certain foreign jurisdictions intervene in their economies, sometimes frequently, and occasionally make significant changes in policies and regulations. Changes, if any, in cannabis industry policies or shifts in political attitude in the countries in which we operate may adversely affect our operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, importation of product and supplies, income and other taxes, royalties, the repatriation of profits, expropriation of property, foreign investment, maintenance of licenses, approvals and permits, environmental matters, land use, land claims of local people, water use and workplace safety. Failure to comply strictly with applicable laws, regulations and local practices could result in loss, reduction or expropriation of licenses, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

We continue to monitor developments and policies in the emerging markets in which we operate and assess the impact thereof to our operations; however, such developments cannot be accurately predicted and could have an adverse effect on our operations or profitability.

Risks Relating to Competition, Performance and Operations

We have been and may in the future be required to write down inventory due to downward pressure on market prices, which could have a material adverse effect on our results of operations or financial position.

At the end of each reporting period, management performs an assessment of inventory obsolescence, prices and demand to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. We also consider factors such as slow-moving or non-marketable products in our determination of obsolescence. As a result of this assessment, inventory write-downs may occur from period to period. Due to continued pricing pressures in the Canadian marketplace, we may incur further inventory write-downs in the future. We have had a series of inventory write-downs due to price compression in the cannabis market. We expect these write-downs to continue as pricing pressures remain elevated. These inventory write-downs have in the past and may in the future materially adversely affect our results of operations and financial position.

We may not be able to supply the provincial purchasers in various provinces and territories of Canada with our products in the quantities or prices anticipated, or at all.

Our current revenues are largely dependent upon our supply contracts with the various Canadian provinces and territories. There are many factors which could impact our contractual agreements with the provinces and territories, including but not limited to availability of supply, product selection and the popularity of our products with retail customers. If our supply agreements with certain Canadian provinces are amended, terminated or otherwise altered, our sales and operating results could be adversely affected, which could have a material adverse effect on our business, operating results and financial condition.

Our supply arrangements with provincial purchasers, each of which we understand to be substantially similar in all material respects with the supply arrangements entered into with the other license holders in the Canadian cannabis industry, do not contain any binding minimum purchase obligations on the part of the relevant provincial purchaser.

We expect purchase orders to be primarily driven by end-consumer demand for our products and the relevant provincial purchaser supply at the relevant time. Accordingly, we cannot predict the quantities of our products that will be purchased by the provincial purchasers, or if our products will be purchased at all. Provincial purchasers may change the terms of the supply agreements at any time during the supply relationship including on pricing, have broad rights of return of products and are under no obligation to purchase our products or maintain any listings of our products for sale. As a result, provincial purchasers have a significant amount of control over the terms of the supply arrangements.

The effect of the legalization of recreational cannabis in Canada on the medical cannabis market in Canada is still uncertain, and it may have a significant negative effect upon our medical cannabis business if our existing or future medical-use patients decide to purchase products available in the recreational market instead of purchasing our medical-use products.

On October 17, 2018, the *Cannabis Act* came into effect. The *Cannabis Act* allows individuals over the age of 18 to legally purchase, process and cultivate limited amounts of cannabis for recreational use in Canada, subject to provincial and territorial age restrictions which may increase the age of purchase in the province or territory. As a result, individuals who rely upon the medical cannabis market to supply their medical cannabis and cannabis-based products may cease this reliance, and instead turn to the recreational cannabis market to supply their cannabis and cannabis-based products. Factors that will influence this decision include the price of medical cannabis products in relation to similar recreational cannabis products, the amount of active ingredients in medical cannabis products in relation to similar recreational cannabis products, the types of cannabis products available to adult users and limitations on access to recreational cannabis products imposed by the regulations under the *Cannabis Act* and the legislation governing the distribution and sale of cannabis that has been enacted by the individual provinces and territories of Canada. The impact of the legalization of recreational cannabis in Canada on the medical cannabis market is uncertain, and while we cannot predict its impact on our sales and revenue prospects, it may be adverse.

The recreational cannabis market in Canada has in the past been and may in the future become oversupplied following the implementation of the Cannabis Act and the related legalization of cannabis for recreational use.

As a result of the implementation of the *Cannabis Act* and the legalization of adult cannabis use, numerous additional cannabis producers have and may continue to enter the Canadian market. We and such other cannabis producers have in the past produced and may in the future produce more cannabis than is needed to satisfy the collective demand of the Canadian medical and recreational markets, and we may be unable to export that over-supply into other markets. As a result, the available supply of cannabis could exceed demand, which has in the past and could in the future result in a significant decline in the market price for cannabis, which could have a material adverse effect on our business, financial condition and results of operations.

We must rely largely on our own market research and internal data to forecast sales and market demand and market prices which may differ from our forecasts.

Given the early stage of the cannabis and U.S. hemp industries, we rely largely on our own market research and internal data to forecast industry trends and statistics as detailed forecasts are, with certain exceptions, not generally available from other sources. A failure in the demand for our products to materialize as a result of competition, technological change, change in the regulatory or legal landscape or other factors could have a material adverse effect on our business, financial condition and results of operations.

We may be unsuccessful in competing in the legal recreational cannabis market in Canada.

We face competition from a very large number of existing license holders licensed under the *Cannabis Act*. Certain of these competitors may have significantly greater financial, production, marketing, R&D and technical and human resources than we do. As a result, our competitors may be more successful than us in gaining market penetration and market share in the recreational cannabis industry in Canada. Our commercial opportunity in the recreational market could be reduced or eliminated if our competitors produce and commercialize products for the recreational market that, among other things, are safer, more effective, more convenient or less expensive than the products that we may produce, have greater sales, marketing and distribution support than our products, enjoy enhanced timing of market introduction and perceived effectiveness advantages over our products and receive more favorable publicity than our products. If our recreational products do not achieve an adequate level of acceptance by the recreational market, we may not generate sufficient revenue from these products, and our proposed recreational business may not become profitable.

The *Cannabis Act* allows individuals over the age of 18 to legally cultivate up to four cannabis plants per household provided that each plant meets certain requirements, subject to any restrictions on these activities imposed in certain provinces and territories. If we are unable to effectively compete with other suppliers to the recreational cannabis market, or a significant number of individuals take advantage of the ability to cultivate and use their own cannabis, our recreational business may be negatively impacted.

In addition, the *Cannabis Act* allows for licenses to be granted for outdoor cultivation, which may reduce start-up capital required for new entrants in the cannabis industry. It may also ultimately lower prices, as capital expenditure requirements related to outdoor growing are typically much lower than those associated with indoor growing. Such results may also have a material adverse impact on our business, financial condition and result of operation.

The Canadian excise duty framework may affect profitability.

Canada's excise duty framework imposes an excise duty and various regulatory-like restrictions on certain cannabis products sold in Canada. We currently hold licenses issued by the Canada Revenue Agency ("CRA") required to comply with this excise framework. Any change in the rates or application of excise duty to cannabis products sold by us in Canada, and any restrictive interpretations by the CRA or the courts of the provisions of the Excise Act, 2001 (which may be different than those contained in the *Cannabis Act*) may affect our profitability and ability to compete in the market.

Our business may be impacted as a result of increased rates of inflation.

Inflation is now a concern due to the impacts of the many government programs and the associated spending to fund them which has created large government deficits in almost every jurisdiction. This has resulted in increases to the money supply as well to fund some of these programs. The net result has been significant inflationary pressures, including, in particular, on wages. Increased inflation could reduce our purchasing power and result in negative impacts on the ability to obtain goods and services required for the operation of our business or to pass on rising costs to our customers. To the extent that we are unable to offset such cost inflation through higher prices of our offerings or other cost savings, there could be a negative impact on the our business, sales and margin performance, net income, cash flows and the trading price of our common shares.

Failure to establish and maintain effective internal control over financial reporting may result in our not being able to accurately report our financial results, which could result in a loss of investor confidence and adversely affect the market price of our common shares.

We are responsible for establishing and maintaining adequate internal control over financial reporting, which is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP (as defined below). Because we are implementing new financial control and management systems, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. A failure to prevent or detect errors or misstatements may result in a decline in the price of our common shares and harm our ability to raise capital in the future.

If our management is unable to certify the effectiveness of our internal controls or if material weaknesses or significant deficiencies in our internal controls are identified, we could be subject to regulatory scrutiny and a loss of public confidence, which could harm our business and cause a decline in the price of our common shares. The accounting complexities encountered in financial reporting rely on complex spreadsheets, most significantly around the valuation of inventory and biological assets and the related classification of line items on the consolidated statements of operations. Spreadsheets are inherently prone to error due to their manual nature. Our controls related to spreadsheets did not address all risks associated with access security, data entry and evidence of review of completed spreadsheets.

In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance on a timely basis, which could cause a decline in the price of our common shares and harm our ability to raise capital. Failure to accurately report our financial performance on a timely basis could also jeopardize our listing on the TSX or Nasdaq. Delisting of our common shares on any exchange would reduce the liquidity of the market for our common shares, which would reduce the price of and increase the volatility of the price of our common shares.

We do not expect that our disclosure controls and procedures and internal control over financial reporting will prevent all error or fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within an organization are detected. The inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of certain persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results could be materially adversely affected, which could also cause investors to lose confidence in our reported financial information, which in turn could result in a reduction in the trading price of our common shares.

In addition, acquisitions can pose challenges in implementing the required processes, procedures and controls in the new operations. Companies that are acquired by us, including Acreage (if the Acreage Arrangement is completed) and Wana (if the Wana transaction is completed), may not have disclosure controls and procedures or internal control over financial reporting that are as thorough or effective as those required by the securities laws that currently apply to us.

We are subject to liability arising from any fraudulent or illegal activity by our employees, contractors and consultants.

We are exposed to the risk that our employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to us that violates: (i) applicable laws and regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse of federal, state and provincial laws and regulations; or (iv) laws and regulations that require the true, complete and accurate reporting of financial information or data. It is not always possible for us to identify and deter misconduct by our employees and other third parties, and the precautions taken by us to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to comply with such laws or regulations. If any such actions are brought against us, and we are not successful in defending us or asserting our rights, those actions could have a significant impact on our business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and the curtailment of our operations, any of which could have a material adverse effect on our business, financial condition and results of operations.

Our cannabis cultivation and U.S. hemp operations are subject to risks inherent in the agricultural business.

Our business involves the growing of cannabis, an agricultural product, in certain jurisdictions where that activity is permitted. As such, our business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks that may create crop failures and supply interruptions for our customers.

Weather conditions and climate, which can vary substantially from year to year, may have a significant impact on the size and quality of the harvest of the crops processed and sold by us. Such adverse weather patterns could result in more permanent disruptions in the quality and size of the available crop, which could adversely affect our business. Like other agricultural products, the quality of cannabis grown outdoors is affected by weather and the environment, which can change the quality or size of the harvest. If a weather event is particularly severe, such as a major drought or hurricane, the affected harvest could be destroyed or damaged to an extent that it would be less desirable to our customers, which would result in a reduction in revenues. If such an event is also widespread, it could affect our ability to acquire the quantity of products required by customers. In addition, other items can affect the marketability of cannabis grown outdoors, including, among other things, the presence of non-cannabis related material, genetically modified organisms and excess residues of pesticides, fungicides and herbicides.

Significant increases or decreases in the total harvest will impact the sales of our products and, consequently, the profits and results of our operations. High degrees of quality variance can also affect processing velocity and capacity utilization, as the processes required to potentially upgrade lower or more variable quality product can slow overall processing times. There can be no assurance that natural elements will not have a material adverse effect on the production of our products.

Our cannabis cultivation operations are vulnerable to rising energy costs and dependent upon key inputs.

Our cannabis cultivation operations consume considerable energy, making us vulnerable to rising energy costs. Rising or volatile energy costs may have a material adverse effect on our business, financial condition and results of operations.

In addition, our business is dependent on a number of key inputs and their related costs, including raw materials and supplies related to our growing operations, as well as electricity, water and other utilities. Any

significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact our financial condition and operating results. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on our business, financial condition and operating results.

We, or the cannabis and U.S. hemp industries more generally, may receive unfavorable publicity or become subject to negative consumer perception.

We believe that the cannabis and U.S. hemp industries are highly dependent upon broad social acceptance and consumer perception regarding the safety, efficacy and quality of the cannabis and U.S. hemp products, as well as consumer views concerning regulatory compliance. Consumer perception of our products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention, market rumors or speculation and other publicity regarding the consumption or effects thereof of cannabis and U.S. hemp products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis or U.S. hemp markets or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the cannabis industry, and therefore demand for our products and services, our business, financial condition, results of operations and cash flows.

Our dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the demand for our products, and our business, financial condition, results of operations and cash flows. Further, adverse publicity, reports or other media attention regarding the safety, efficacy and quality of cannabis or U.S. hemp in general, or our products specifically, or associating the consumption or use of cannabis or U.S. hemp with illness or other negative effects or events, could have such a material adverse effect on us. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products legally, appropriately or as directed.

The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views on our operations and activities and the cannabis and U.S. hemp industries in general, whether true or not. Social media permits user-generated content to be distributed to a broad audience which can respond or react, in near real time, with comments that are often not filtered or checked for accuracy. In many cases, we do not have the ability to filter such comments or verify their accuracy. Accordingly, the speed with which negative publicity (whether true or not) can be disseminated has increased dramatically with the expansion of social media. The dissemination of negative or inaccurate posts, comments or other user-generated content about us on social media (including those published by third-parties) could damage our brand, image and reputation or how the cannabis or U.S. hemp industries are perceived generally, which could have a detrimental impact on the market for our products and thus on our business, financial condition and results of operations.

In addition, certain businesses may have strong economic opposition to the cannabis or U.S. hemp industries. Lobbying by such groups, and any resulting inroads they might make in halting or rolling back the cannabis and U.S. hemp movements, could affect how the cannabis or U.S. hemp industries are perceived by others and could have a detrimental impact on the market for our products and thus on our business, financial condition and results of operations.

Moreover, the parties with which we do business may perceive that they are exposed to reputational risk as a result of our cannabis or U.S. hemp related business activities. Failure to establish or maintain business relationships could have a material adverse effect on our business, financial condition and results of operations.

Any third-party service provider or supplier could suspend or withdraw its services to us if it perceives that the potential risks exceed the potential benefits to such services. For example, we face challenges making U.S. dollar wire transfers or engaging any third-party service provider or supplier with a substantial presence where cannabis is not federally legal (including the United States). In these circumstances, while we believe that such services can be procured from other institutions, we may in the future have difficulty maintaining existing, or securing new, bank accounts or clearing services, service providers or other suppliers.

Although we take care in protecting our image and reputation, we do not ultimately have control over how we or the cannabis or U.S. hemp industries are perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to our overall ability to advance our business strategy and realize on our growth prospects, thereby having a material adverse impact on our business, financial condition and results of operations.

We may not successfully execute our business strategy.

An important part of our business strategy involves expanding operations in international markets, including in markets where we currently do not operate. We may be unable to pursue this strategy in the future at the desired pace or at all. We may be unable to, among other things, identify suitable companies to acquire or invest in; complete acquisitions on satisfactory terms; successfully expand our infrastructure and sales force to support growth; achieve satisfactory returns on acquired companies, particularly in countries where we do not currently operate; or enter into successful business arrangements for technical assistance or management expertise outside of North America.

In addition, the process of integrating acquired businesses, particularly in new markets, may involve unforeseen difficulties, such as loss of key employees, and may require a disproportionate amount of management's attention and financial and other resources. We can give no assurance that we will ultimately be able to effectively integrate and manage the operations of any acquired business, including Acreage (if the Acreage Arrangement is completed) and Wana (if the acquisition of Wana is completed), or realize anticipated synergies. The failure to successfully integrate the cultures, operating systems, procedures and information technologies of an acquired business could have a material adverse effect on our business, financial condition or results of operations.

If we succeed in expanding our existing businesses, such expansion may place increased demands on management, operating systems, internal controls and financial and physical resources. If not managed effectively, these increased demands may adversely affect the services provided to customers. In addition, our personnel, systems, procedures and controls may be inadequate to support future operations, particularly with respect to operations in countries outside of North America. Consequently, in order to manage growth effectively, we may be required to increase expenditures to increase our physical resources, expand, train and manage our employee base, improve management, financial and information systems and controls, or make other capital expenditures. Our business, financial condition and results of operations could be adversely affected if we encounter difficulties in effectively managing the budgeting, forecasting and other process control issues presented by future growth.

The markets that we operate in are increasingly competitive, and we may compete for market share with other companies, both domestically and internationally, that may have longer operating histories and more financial resources, manufacturing and marketing experience than us.

The markets for cannabis and U.S. hemp are competitive and evolving and we face intense competition from both existing and emerging companies that offer similar products. Some of our current and potential competitors may have longer operating histories, greater financial, marketing and other resources and larger customer bases than we have. In addition, there is potential that the cannabis and U.S. hemp industries will undergo consolidation, creating larger companies with financial resources, manufacturing and marketing capabilities and product offerings that are greater than ours. As a result of this competition, we may be unable to maintain our operations or develop them as currently proposed on terms we consider acceptable, or at all. Increased competition by larger, better-financed competitors with geographic advantages could materially and

adversely affect our business, financial condition and results of operations. For example, we may not be able to enter into supply agreements or negotiate favorable prices. If we are unable to achieve our business objectives, such failure could materially and adversely affect our business, financial condition and results of operations. Moreover, competitive factors may result in us being unable to enter into desirable arrangements with new partners, to recruit or retain qualified employees or to acquire the capital necessary to fund our capital investments.

Given the rapid changes affecting global, national and regional economies generally, and the cannabis and U.S. hemp industries in particular, we may not be able to create and maintain a competitive advantage in the marketplace. Our success will depend on our ability to respond to, among other things, changes in the economy, regulatory conditions, market conditions and competitive pressures. Any failure by us to anticipate or respond adequately to such changes could have a material and adverse effect on our business, financial condition, operating results, liquidity, cash flow and operational performance.

In Canada, the number of licenses granted, and the number of license holders ultimately authorized by Health Canada could also have an impact on our operations. We expect to face additional competition from new market entrants that are granted licenses under the *Cannabis Act* or existing license holders which are not yet active in the industry. If a significant number of new licenses are granted by Health Canada in the near term, we may experience increased competition for market share and may experience downward price pressure on our products as new entrants increase production. We may also face competition from illegal cannabis dispensaries that are selling cannabis to individuals despite not having a valid license. Despite raids of dispensaries, many dispensaries are still in operation, providing additional competition.

If the number of users of medical and/or recreational cannabis increases, the demand for products will increase and we expect that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, we will require a continued high level of investment in R&D, sales and customer support. We may not have sufficient resources to maintain R&D, sales and customer support efforts on a competitive basis which could have a material adverse effect on our business, financial condition and results of operations. Furthermore, the Canadian federal authorization of home cultivation, outdoor grow, and the easing of other barriers to entry into a Canadian recreational cannabis market, could materially and adversely affect our business, financial condition, results of operations or growth prospects.

Additionally, the legal landscape for medical and recreational cannabis is changing internationally. More countries have passed laws that allow for the production and distribution of medical cannabis in some form or another, and some of these countries may pass laws allowing for the production and distribution of recreational cannabis as well. Increased international competition could materially and adversely affect our business, operations or growth prospects.

We face competition from the illegal cannabis market.

We face competition from illegal market operators that are unlicensed and unregulated, and that are selling cannabis and cannabis products, including products with higher concentrations of active ingredients, using flavours or other additives or engaging in advertising and promotion activities that we are not permitted to. As these illegal market participants do not comply with the regulations governing the cannabis industry, their operations may also have significantly lower costs and they may be able to sell products with significantly higher cannabinoid potencies or which include ingredients that are prohibited by law. The perpetuation of the illegal market for cannabis may have a material adverse effect on our business, financial condition and results of operations, as well as the public perception of cannabis use.

Our business and results of operations have been adversely affected and may continue to be adversely impacted by the COVID-19 pandemic.

The COVID-19 pandemic has severely restricted the level of economic activity around the world and in all countries in which we or our affiliates operate. A public health epidemic, including COVID-19, or the fear of a

potential pandemic, poses the risk that we or our employees, contractors, suppliers, and other partners may be prevented from conducting business activities for an indefinite period of time, and our customers may be prevented from purchasing our products, due to shutdowns, “stay at home” mandates or other preventative measures that may be requested or mandated by governmental authorities. In response to the COVID-19 pandemic, the governments of many countries, states, provinces, municipalities and other geographic regions have taken such preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. Many businesses have temporarily closed voluntarily or closed permanently. Although some preventative or protective actions have been eased or lifted in varying degrees by different governments of various countries, states and municipalities, COVID-19, including new and highly contagious variants of COVID-19, continues to spread quickly throughout the world. Notwithstanding widespread vaccine availability within Canada and the United States, the emergence of COVID-19 variants and slowing vaccination rates in certain localities have resulted in increased infection rates and has caused, and may continue to cause, several jurisdictions to reinstitute certain COVID-19 restrictions. Additional waves of increased COVID-19 infections as well as COVID-19 related restrictions imposed by various governmental authorities (including, for example, requirements to show proof of vaccination), could negatively impact our supply chain, as well as traffic and sales volume for retailers offering our products, which in turn could have an adverse effect on our business, financial condition and results of operations.

The effect of the COVID-19 pandemic, including emerging COVID-19 variants, could include additional closures of our facilities or the facilities of our suppliers and other vendors in our supply chain and other preventive and protective measures in our supply chain. If the pandemic persists, closures or other restrictions on the conduct of business operations of our third-party manufacturers, suppliers or vendors could further disrupt our supply chain. The increased global demand on shipping and transport services may cause us to experience delays in the future which could impact our ability to obtain materials or deliver our products in a timely manner. These factors could otherwise disrupt our operations and could have an adverse effect on our business, financial condition and results of operations. In various jurisdictions in Canada, cannabis retailers have from time-to-time been restricted to conducting sales via curbside pickup and online delivery or reducing opening hours, staff onsite and reducing the number of customers allowed in-store for cannabis retailers that continue to be open as well as, in some cases, requiring customers to show proof of vaccination to enter retail stores.

Retailers of our products in Canada and the United States have in some cases been determined to be, and may in other cases be deemed in the future, nonessential and be required to close or choose to suspend or significantly curtail their operations due to health and safety concerns for their employees. Further, those retail operations that we have been able to reopen may be closed in the future in the event that governments reinstitute closures for public health reasons. Even if our production facilities remain open, mandatory or voluntary self-quarantines and travel restrictions may limit our employees’ ability to get to our facilities, and this, together with impacts on our supply chain and the uncertainty produced by the rapidly evolving nature of COVID-19, may result in reduced or suspended production. Those types of restrictions could also impact the abilities of customers in certain Canadian jurisdictions or the United States to continue to have access to our products. Quarantines, shelter-in-place and similar government orders, or the perception that such orders, shutdowns or other restrictions on the conduct of business operations could occur could impact personnel at third-party manufacturing facilities in Canada and the United States and other countries, or the availability or cost of materials, which would disrupt our supply chain.

As a result of COVID-19, we have implemented work-from-home policies for many employees and the effects of our work-from-home policies may negatively impact productivity, disrupt access to books and records, increase cybersecurity risks and disrupt our business, and we do not yet know when we will be able to return to the office. In addition, the effects of COVID-19 may delay our R&D programs and our ability to execute on certain of our strategic plans involving construction. So long as measures to combat COVID-19 stay in effect, we expect COVID-19 to negatively affect our results of operations. The global impact of COVID-19 continues to evolve rapidly, and the extent of its effect on our operational and financial performance will

depend on future developments, which are highly uncertain, including the duration, scope and severity of the pandemic, the development and availability of effective treatments and vaccines, further actions taken by governments and other third parties to contain or mitigate its impact, the direct and indirect economic effects of the pandemic and related containment measures, and new information that will emerge concerning the severity and impact of COVID-19 and new variants of the virus, among others.

Any positive impacts from preventive measures, vaccines or treatments for COVID-19 may be not be realized due to mutations in the COVID-19 virus, adverse side effects, difficulties in implementation or distribution or other factors, so there can be no assurance that such preventive measures, vaccines or treatments will have a material impact on our business, financial condition or results of operations. Furthermore, any subsequent “wave” or mutated strains of COVID-19 or the spread of other pathogens could also exacerbate the risks described in this risk factor. Even after the pandemic subsides, our businesses could also be negatively impacted should the effects of COVID-19 lead to changes in consumer behavior, including as a result of a decline in discretionary spending. During the past year, financial conditions for the cannabis industry continued to face increased volatility. Moreover, future events could cause global financial conditions to suddenly and rapidly destabilize, and governmental authorities may have limited resources to respond to such future crises. Future crises may be precipitated by any number of causes, including natural disasters, geopolitical instability (including rising geopolitical tensions in Ukraine and Russia), changes to energy prices or sovereign defaults. Any sudden or rapid destabilization of global economic conditions could negatively impact our ability to obtain equity or debt financing or make other suitable arrangements to finance our projects. If increased levels of volatility continue, there is a rapid destabilization of global economic conditions or a prolonged recession resulting from the pandemic, it would likely materially affect our business and the value of our common shares.

We are subject to risks related to the protection and enforcement of our intellectual property rights, and we may be unable to protect or enforce our intellectual property rights.

The ownership and protection of our intellectual property rights is a significant aspect of our future success. Currently we rely on trade secrets, technical know-how, proprietary information, trademarks, copyrights, designs and certain patent filings to maintain our competitive position. We try to protect our intellectual property by strategically seeking and obtaining registered protection where appropriate, developing and implementing standard operating procedures to protect trade secrets, technical know-how and proprietary information, and entering into agreements with parties that have access to our inventions, trade secrets, technical know-how and proprietary information, such as our partners, collaborators, employees and consultants, to protect confidentiality and ownership. We also seek to preserve the integrity and confidentiality of our inventions, trade secrets, technical know-how and proprietary information by maintaining physical security of our premises and physical and electronic security of our information technology systems, and we seek to protect our trademarks and the goodwill associated therewith by monitoring and enforcing against unauthorized use of our trademarks. In addition, in the United States, registered federal trademark protection is only available for goods and services that can be lawfully used in interstate commerce; the USPTO is not currently approving any trademark applications for cannabis, or certain goods containing U.S. hemp-derived CBD (such as dietary supplements and food) until the FDA and the USDA provides clearer guidance on the regulation of such products.

It is possible that we will inadvertently disclose or otherwise fail or be unable to protect our inventions, trade secrets, technical know-how or proprietary information, or will fail to identify our inventions or trademarks as patentable or registrable intellectual property, or fail to obtain patent or registered trademark protection therefor. Any such disclosure or failure could have a material adverse effect on our business.

We may be unable to protect our inventions, trade secrets, and other intellectual property from discovery or unauthorized use.

In relation to our agreements with parties that have access to our intellectual property, any of these parties may breach their obligations to us, and we may not have adequate remedies for such breach. In relation to our security measures, such security measures may be breached and we may not have adequate remedies for such breach. In addition, our intellectual property that has not yet been applied for or registered may otherwise

become known to, or be independently developed by, competitors, or may already be the subject of applications for intellectual property registrations filed by our competitors, which may have a material adverse effect on our business, financial condition and results of operations.

We cannot provide any assurances that our inventions, trade secrets, technical know-how and other proprietary information will not be disclosed in violation of agreements, or that competitors will not otherwise gain access to our intellectual property or independently develop and file applications for intellectual property rights in a manner that adversely impacts our intellectual property rights. Unauthorized parties may attempt to replicate or otherwise obtain and use our inventions, trade secrets, technical know-how and proprietary information. Policing the unauthorized use of our current or future intellectual property rights is difficult, expensive, time-consuming and unpredictable, as is enforcing these rights against unauthorized use by others. Identifying unauthorized use of intellectual property rights is difficult. For example, we may be unable to effectively monitor and evaluate the products being distributed by our competitors, including parties such as unlicensed dispensaries, and the processes used to produce such products. Additionally, if the steps taken to identify and protect our trade secrets are inadequate, we may be unable to enforce our rights in them against third parties.

Our intellectual property rights may be invalid or unenforceable under applicable laws, and we may be unable to have issued or registered, and unable to enforce, our intellectual property rights.

The laws regarding intellectual property rights relating to cannabis and cannabis-related products, and the positions of intellectual property offices administering such laws, are constantly evolving, and there is uncertainty regarding which countries will permit the filing, prosecution, issuance, registration and enforcement of intellectual property rights relating to cannabis and cannabis-related products.

Specifically, we have sought trademark protection in many countries, including Canada, the United States and others. Our ability to obtain registered trademark protection for cannabis and cannabis-related goods and services (including hemp and hemp-related goods and services), may be limited in certain countries outside of Canada, including the U.S., where registered federal trademark protection is currently unavailable for trademarks covering the sale of cannabis products or certain goods containing U.S. hemp-derived CBD (such as dietary supplements and foods) until the FDA provides clearer guidance on the regulation of such products; and including Europe, where laws on the legality of cannabis use are not uniform, and trademarks cannot be obtained for products that are “contrary to public policy or accepted principles of morality.” Accordingly, our ability to obtain intellectual property rights or enforce intellectual property rights against third-party uses of similar trademarks may be limited in certain countries.

Moreover, in any infringement proceeding, some or all of our current or future trademarks, patents or other intellectual property rights or other proprietary know-how, or arrangements or agreements seeking to protect the same for our benefit, may be found invalid, unenforceable, anti-competitive or not infringed. An adverse result in any litigation or defense proceedings could put one or more of our current or future trademarks, patents or other intellectual property rights at risk of being invalidated or interpreted narrowly and could put existing intellectual property applications at risk of not being issued. Any or all of these events could materially and adversely affect our business, financial condition and results of operations.

We cannot offer any assurances about which, if any, patent applications will issue, the breadth of any such patent or whether any issued patents will be found invalid or unenforceable or which of our products or processes will be found to infringe upon the patents or other proprietary rights of third parties. Any successful opposition to future issued patents could deprive us of rights necessary for the successful commercialization of any new products or processes that we may develop.

In addition, there is no guarantee that any patent or other intellectual property applications that we file will result in registration or any enforceable intellectual property rights or the breadth of such protection. Further, with respect to any patent applications that we file, there is no assurance that we will find all potentially relevant prior art relating to such applications, which may prevent a patent from issuing from such application or invalidate any patent that issues from such application. Even if patents do successfully issue, and cover our

products and processes, third parties may challenge their validity, enforceability or scope, which may result in such patents being narrowed, found unenforceable or invalidated. Furthermore, even if they are unchallenged, any patent applications and future patents may not adequately protect our intellectual property rights, provide exclusivity for our products or processes or prevent others from designing around any issued patent claims. Any of these outcomes could impair our ability to prevent competition from third parties, which could materially and adversely affect our business, financial condition and results of operations.

We may be subject to allegations that we are in violation of third-party intellectual property rights, and we may be found to infringe third-party intellectual property rights, possibly without the ability to obtain licenses necessary to use such third-party intellectual property rights.

Other parties may claim that our products infringe on their intellectual property rights, including with respect to patents, and our operation of our business, including our development, manufacture and sale of our goods and services, may be found to infringe third-party intellectual property rights. There may be third-party patents or patent applications with claims to products or processes related to the manufacture, use or sale of our products and processes. There may be currently pending patent applications, some of which may still be confidential, that may later result in issued patents that our products or processes may infringe. In addition, third parties may obtain patents in the future and claim that use of our inventions, trade secrets, technical know-how and proprietary information, or the manufacture, use or sale of our products infringes upon those patents. Third parties may also claim that our use of our trademarks infringes upon their trademark rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders, other equitable relief, and/or require the payment of damages, any or all of which may have an adverse impact on our business, financial condition and results of operations. In addition, we may need to obtain licenses from third parties who allege that we have infringed on their purported rights, whether or not such allegations have merit. Such licenses may not be available on terms acceptable to us, and we may be unable to obtain any licenses or other necessary or useful rights to such third-party intellectual property.

Our germplasm collection is a key piece of our intellectual property, and we may be unable to protect, register or enforce our intellectual property rights in germplasm, and may infringe third-party intellectual property rights with respect to germplasm, possibly without the ability to obtain licenses necessary to use such third-party intellectual property rights.

Germplasm, including seeds, clones and cuttings, is the genetic material used to produce our crops and to create new cannabis varieties. We use our germplasm collection and advanced breeding technologies to produce cannabis varieties. We rely on parental varieties for the success of our breeding program. Although we believe that the parental germplasm is proprietary to us, we may need to obtain licenses from third parties who may allege that we have appropriated their germplasm or their rights to such germplasm, whether or not such allegations have merit. Such licenses may not be available on terms acceptable to us, and we may be unable to obtain any licenses or other necessary or useful rights under third-party intellectual property. We may seek to protect our parental germplasm, as appropriate, relying on intellectual property rights, including rights related to inventions (patents and plant breeders' rights), trade secrets, technical know-how and proprietary information. There is a risk that we will fail to protect such germplasm or that we will fail to register rights in relation to such germplasm.

We also seek to protect our parental germplasm, and commercial varieties from pests and diseases and enhance plant productivity and fertility, and we conduct research into products that protect against crop pests and fungal diseases. There are several reasons why new product concepts in these areas may be abandoned, including greater than anticipated development costs, technical difficulties, regulatory obstacles, competition, inability to prove the original concept, lack of demand and the need to divert focus, from time to time, to other initiatives. The processes of breeding, development and trait integration are lengthy, and the germplasm we test may not be selected for commercialization. The length of time and the risk associated with breeding may affect our business. Our sales depend, in part, on our germplasm. Commercial success frequently depends on being the first company to the market, and many of our competitors are also making considerable investments in similar

new and improved cannabis germplasm products. Consequently, there is no assurance that we will successfully develop new cannabis germplasm to the point of commercial viability in the markets we serve on a timely basis.

Finally, we seek to protect our germplasm and commercial varieties from accidental release, theft, misappropriation and sabotage by maintaining physical security of our premises and through contractual rights with our employees and certain of our suppliers, independent contractors, consultants and licensees. However, such security measures may be insufficient or breached, and our employees, independent contractors, consultants and licensees may engage in the inadvertent disclosure, theft, misappropriation or sabotage. We may not have adequate remedies in the case of any such security breach, inadvertent disclosure, theft, misappropriation or sabotage.

We receive licenses to use some third-party intellectual property rights, and the failure of the owner of such intellectual property to properly maintain or enforce the intellectual property underlying such licenses, or our inability to obtain or maintain such licenses, could have a material adverse effect on our business, financial condition and performance.

We are party to licenses granted by third parties, including the brands for Houseplant, Martha Stewart CBD, LBS and DNA Genetics, that give us rights to use third-party intellectual property that is necessary or useful to our business. Our success will depend, in part, on the ability of the applicable licensor to maintain and enforce its licensed intellectual property against other third parties, particularly intellectual property rights to which we have secured exclusive rights. Without protection for the intellectual property we have licensed, other companies might be able to offer substantially similar products for sale, or utilize substantially similar processes or publicity and marketing rights, any of which could have a material adverse effect on our business, financial condition and results of operations. Our success will also depend, in part, on our ability to obtain licenses to certain intellectual property that we believe are necessary or useful for our business. Such licenses may not be available on terms acceptable to us, or at all, which could adversely affect our ability to commercialize our products or services, as well as have a material adverse effect on our business, financial condition and results of operations.

Any of our licensors may allege that we have breached our license agreements with those licensors, whether with or without merit, and accordingly seek to terminate our applicable licenses. If successful, this could result in our loss of the right to use applicable licensed intellectual property, which could adversely affect our ability to commercialize our products or services, as well as have a material adverse effect on our business, financial condition and results of operations.

We may not be able to secure adequate or reliable sources of funding required to operate our business.

There is no guarantee that we will be able to achieve our business objectives. Our continued development may require additional financing. The failure to raise such capital could result in a delay or indefinite postponement of our current business objectives or in our inability to continue to operate our business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to us. If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of our common shares. In addition, from time to time, we may enter into transactions to acquire assets or the equity of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase our debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions or other strategic joint venture opportunities.

We could have difficulty integrating the operations of businesses that we have acquired and will acquire.

The success of our acquisitions, including Acreage (if the Acreage Arrangement is completed) and Wana (if the acquisition of Wana is completed), depends upon our ability to integrate any businesses that we acquire. The integration of acquired business operations could disrupt our business by causing unforeseen operating

difficulties, diverting management's attention from day-to-day operations and requiring significant financial resources that would otherwise be used for the ongoing development of our business. The difficulties of integrations could be increased by the necessity of coordinating geographically dispersed organizations, coordinating personnel with disparate business backgrounds, managing different corporate cultures, or discovering previously unknown liabilities. In addition, we could be unable to retain key employees or customers of the acquired businesses. We could face integration issues including those related to operations, internal controls, information systems and operational functions of the acquired companies and we also could fail to realize cost efficiencies or synergies that we anticipated when selecting our acquisition candidates or these acquisitions could fail to compete successfully and may not produce the anticipated revenues and profits. Any of these items could adversely affect our business, financial condition or results of operations.

Our production facilities are integral to our operations and any adverse changes or developments affecting our facilities may impact our business, financial condition and results of operations.

Our activities and resources are focused on various production and manufacturing facilities including in Canada, the United States (for U.S. hemp products), Denmark and Australia. The licenses held by us are specific to individual facilities. Adverse changes or developments affecting any facility, including but not limited to a breach of security, an inability to successfully grow cannabis plants or produce finished goods, unanticipated cost overruns in growing or producing products, an outbreak of a communicable illness (such as COVID-19) or a force majeure event, could have a material and adverse effect on our business, financial condition, prospects and results of operations. Any breach of the security measures and other facility requirements, including any failure to comply with recommendations or requirements arising from inspections by regulatory agencies, could also have an impact on our ability to continue operating under our licenses or the prospect of renewing our licenses or could result in a revocation of our licenses.

All facilities continue to operate with routine maintenance. We bear many, if not all, of the costs of maintenance and upkeep at our facilities, including replacement of components over time. Our operations and financial performance may be adversely affected if we and our facilities are unable to keep up with maintenance requirements.

Certain contemplated capital expenditures in Canada, including the construction of additional growing rooms and the expansion of cannabis oil extraction capacity, will require Health Canada approval. There is no guarantee that Health Canada will approve the contemplated expansion and/or renovation, which could adversely affect our business, financial condition and results of operations.

We may not be successful in maintaining the consumer brand recognition and loyalty of our products.

We compete in a market that relies on innovation and the ability to react to evolving consumer preferences. Consumers in the cannabis market have demonstrated a degree of brand loyalty, but suppliers must continue to adapt their products in order to maintain their status among customers as the market evolves. Our continued success depends in part on our ability and our supplier's ability to continue to differentiate the brand names we represent, own or license and maintain similarly high levels of recognition with target consumers. Trends within the cannabis industry change often and our failure to anticipate, identify or react to changes in these trends could, among other things, lead to reduced demand for our products.

Regulations have recently been and are likely to continue to be enacted in the future that would make it more difficult to appeal to consumers or to leverage the brands that we distribute, own or license. For example, the Canadian federal regulatory regime requires plain packaging on cannabis products in order to prohibit testimonials, lifestyle branding and packaging that is appealing to youth. The restriction on the use of logos and brand names on cannabis products could have a material adverse impact on our business, financial condition and results of operations, as it may be difficult to establish brand loyalty. In addition, the *Cannabis Act* allows for licenses to be granted for outdoor cultivation, which may reduce start-up capital required for new entrants in the cannabis industry. Outdoor cultivation may also ultimately lower prices, as capital expenditure requirements related to outdoor growing are typically much lower than those associated with indoor growing. Such results may also have a material adverse impact on our business, financial condition and result of operation.

Furthermore, even if we are able to continue to distinguish our products, there can be no assurance that the sales, marketing and distribution efforts of our competitors will not be successful in persuading consumers of our products to switch to their products. Some of our competitors have greater access to resources than we do, which better positions them to conduct market research in relation to branding strategies or costly marketing campaigns. Any loss of consumer brand loyalty to our products or in our ability to effectively brand our products in a recognizable way will have a material effect on our ability to continue to sell our products and maintain our market share, which could have a material adverse effect on our business, results of operations and financial condition.

If we fail to obtain and retain high-visibility sponsorship or endorsement arrangements with celebrities, or if the reputation of any of the celebrities that we partner with is impaired, our business may suffer.

A principal component of our marketing program is to partner with well-known celebrities for sponsorship and endorsement arrangements, such as Martha Stewart for our CBD line of gummies, oils and softgels and products for pets line, and professional and amateur athletes for our BioSteel products. Although we have partnered with several well-known celebrities in this manner, some of these persons may not continue their endorsements, may not continue to succeed in their fields or may engage in activities which could bring disrepute on themselves and, in turn, on us and our brand image and products. We also may not be able to attract and partner with new celebrities that may emerge in the future. Competition for endorsers is significant and adverse publicity regarding us or our industry could make it more difficult to attract and retain endorsers. Any of these failures by us or the celebrities that we partner with could adversely affect our business and revenues.

The majority of our assets are the capital stock of our material subsidiaries; therefore our investors are subject to the risks attributable to our material subsidiaries which generate substantially all of our revenues.

The majority of our assets are the capital stock of our material subsidiaries. We conduct substantially all of our business through our subsidiaries, which generate substantially all of our revenues. Consequently, our cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of our subsidiaries and the distribution of those earnings to us. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of our material subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before us.

We may experience breaches of security at our facilities or fraudulent or unpermitted data access or other cyber-security breaches, which may cause our customers to lose confidence in our security or data protection measures and may expose us to risks related to breaches of applicable privacy and data security laws, regulations and requirements.

Given the nature of our products and our lack of legal availability outside of certain legalized or regulated retail or distribution channels, as well as the concentration of inventory in our facilities, despite meeting or exceeding the applicable security requirements under applicable law, there remains a risk of theft. A security breach at one of our facilities could expose us to additional liability and to potentially costly litigation, increase expenses and business disruptions relating to the resolution and future prevention of these breaches and may deter potential customers from choosing our products.

Our information systems and any of our third-party service providers and vendors are vulnerable to an increasing threat of continually evolving cybersecurity risks. These risks may take the form of malware, computer viruses, cyber threats, extortion, employee error, malfeasance, system errors or other types of risks, and may occur from inside or outside of the respective organizations. Cybersecurity risk is increasingly difficult to identify and quantify and cannot be fully mitigated because of the rapid evolving nature of the threats, targets and consequences. Additionally, unauthorized parties may attempt to gain access to these systems through fraud or other means of deceiving third-party service providers, employees or vendors. Our operations depend, in part, on how well networks, equipment, IT systems and software are protected against damage from a number

of threats. These operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. However, if we are unable or delayed in maintaining, upgrading or replacing IT systems and software, the risk of a cybersecurity incident could materially increase. Any of these and other events could result in information system failures, delays and/or increases in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact our reputation and results of operations.

We may collect and store certain personal information about our customers and are responsible for protecting such information from data security breaches. A data security breach may occur in a variety of ways, including, without limitation, a procedural or process failure, information technology malfunction, supply chain vulnerability, computer virus, cybersecurity threat (such as denial-of-service attacks, direct or indirect cyber-attacks or cyber-intrusions over the Internet, hacking, ransomware, phishing and other social engineering attacks), unauthorized access or use, natural disasters, terrorism, war, and telecommunication and electrical failures. In addition, theft of data such as customer lists and preferences and other consumer and employee personal information, for competitive, fraudulent, or other unauthorized purposes, is an ongoing and growing risk. Any such theft, data security breach or other incident may have a material adverse effect on our business, financial condition and results of operations.

We are dependent upon information technology systems in the conduct of our operations and we collect, store and use certain data, intellectual property, our proprietary business information and certain personal information of our employees and customers on our computer systems. We have been, and expect to continue to be, subject to various cyberattacks and phishing schemes.

Many highly publicized data security incidents and attacks have occurred to other companies over the last several years, and we expect such attacks to continue. Any fraudulent, malicious or accidental breach of our data security could result in unintentional disclosure of, or unauthorized access to, third-party, customer, vendor, employee or other confidential or sensitive data or information, which could potentially result in business disruptions and additional costs to us including, without limitation, to repair or replace damaged systems, remediate issues, enhance security or respond to occurrences, lost sales, violations of data privacy and security laws, regulations, and requirements, violations of other laws, penalties, fines, regulatory action or litigation. We also rely on third-party service providers for certain information technology systems, such as payment processing, and any data security breach at a third-party service provider could have similar effects. In addition, media or other reports of perceived security vulnerabilities to our systems or those of our third-party suppliers, even if no breach has been attempted or occurred, could adversely impact our brand and reputation and customers could lose confidence in our security measures and reliability, which would harm our ability to retain customers and gain new ones. If any of these were to occur, it could have a material adverse effect on our business and results of operations.

We are and may become subject to a variety of privacy and data security laws and contractual obligations, which could increase compliance costs and our failure to comply with them could subject us to potentially significant fines or penalties and otherwise harm our business.

We maintain an array of sensitive information, including confidential business and personal information in connection with our operations, and are subject to laws and regulations governing the privacy and security of such information. The global data protection landscape is rapidly evolving, and we may be affected by or subject to new, amended or existing laws and regulations in the future, including as our operations continue to expand and we operate in foreign jurisdictions. These laws and regulations may be subject to differing interpretations, which adds to the complexity of collecting, using, disclosing and processing personal data. Guidance on implementation and compliance practices are often updated or otherwise revised.

In the United States, there are numerous federal and state privacy and data security laws and regulations governing the collection, use, disclosure and protection of personal information, including federal and state health information privacy laws, federal and state security breach notification laws and federal and state

consumer protection laws. Each of these laws is subject to varying interpretations and constantly evolving. While the United States lacks a nationwide privacy law of general applicability, certain state laws govern the privacy and security of personal information, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts. For example, the California Consumer Privacy Act (“CCPA”), which took effect on January 1, 2020, gives California residents expanded rights to access and delete their personal information, opt out of certain personal information sharing, and receive detailed information about how their personal information is used. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. The CCPA may increase our compliance costs and potential liability. Further, in November 2020, California voters approved the California Privacy Rights Act (“CPRA”) through a ballot measure. The CPRA amended the CCPA, giving California residents additional control over their personal information and imposing further obligations on businesses processing the personal information of California residents. The CPRA includes the creation of a privacy-specific enforcement agency, the first of its kind in any U.S. state, which will be responsible for enforcing the new law. The CPRA takes effect on January 1, 2023. Additional states, including Colorado, Virginia, and Utah, have also adopted state-specific privacy regimes similar to California’s law and to legal regimes in place outside the US. In addition to state laws, the Federal Trade Commission (“FTC”) takes the view that failing to take appropriate steps to keep consumers’ personal information secure may constitute unfair acts or practices in or affecting commerce in violation of Section 5(a) of the Federal Trade Commission Act (the FTCA), 15 U.S.C § 45(a). The FTC expects a company’s data security measures to be reasonable and appropriate in light of the sensitivity and volume of consumer information it holds, the size and complexity of its business and the cost of available tools to improve security and reduce vulnerabilities. Individually identifiable health information is considered sensitive data that merits stronger safeguards.

Outside the United States, numerous countries have adopted generally applicable data privacy regimes at the national level. For example, the European Parliament and the Council of the European Union adopted a comprehensive general data privacy regulation (“GDPR”) in 2016 to replace the then-current European Union Data Protection Directive and related country-specific legislation. The GDPR took effect in May 2018 and governs the collection and use of personal data in the European Union. The GDPR, which is wide-ranging in scope, imposes several requirements relating to the consent of the individuals to whom the personal data relates, the information provided to the individuals, the security and confidentiality of the personal data, data breach notification and the use of third-party processors in connection with the processing of the personal data. The GDPR also imposes strict rules on the transfer of personal data out of the European Union, enhances enforcement authority and imposes large penalties for noncompliance, including the potential for fines of up to €20 million or 4% of the annual global revenues of the infringer, whichever is greater. The withdrawal of the United Kingdom from the European Union further complicated European data protection compliance obligations, as we must also comply with data privacy and security laws in effect in the UK that are substantially similar to the GDPR, but may diverge over time.

In Canada, the Personal Information Protection and Electronics Documents Act (Canada) (“PIPEDA”), the Personal Information Protection Act (Alberta), the Personal Information Protection Act (British Columbia), and the Act respecting the protection of personal information in the private sector (Quebec) govern the collection, use, and disclosure of personal information by private sector organizations. The Office of the Privacy Commissioner of Canada has stated that it considers the personal information of cannabis users is to be considered sensitive. Canadian privacy jurisprudence regarding the obligations that private sector organizations have to individual data subjects is constantly evolving. Privacy laws in Canada are also changing at the legislative level. On November 17, 2020, the Canadian Federal Government introduced Bill C-11, An Act to enact the Consumer Privacy Protection Act and the Personal Information and Data Protection Tribunal and to make consequential amendments to other Acts, for consideration in the House of Commons. Should Bill C-11 come into force, all private organizations that collect, use, and disclose personal information will become subject to new obligations and restrictions, including, without limitation, in connection with obtaining consent, access and control over personal information, deletion of personal information, data portability, de-identification of personal information, and transparency requirements. On September 22, 2021, the Quebec

government adopted Bill 64, an Act to modernize legislative provisions as regards the protection of personal information, which enacts significant changes to the requirements in Quebec relating to the collection, use, and disclosure of personal information, including, without limitation, by providing individuals with more significant rights and control over their personal information that are in many ways similar to the rights provided to data subjects under the GDPR. Entities that are doing business in Quebec may need to implement significant changes to the ways in which they process personal information. Certain of these obligations will come into force as early as September 22, 2022. On June 17, 2021, the Province of Ontario commenced a public consultation on modernizing Ontario's legislative framework focusing on strengthening privacy laws in Ontario. The scope and nature of any new privacy legislation to be introduced in the Province of Ontario remains to be determined and it is possible that such legislation will introduce new restrictions and obligations on private sector organizations. The penalties and enforcement measures available to Canadian regulators for non-compliance that are contemplated under Bill C-11 and Bill-64 are more significant than those that are available under current privacy and data protection legislation in Canada.

In addition, with respect to consumer health information, there are a number of federal, state and provincial laws protecting the confidentiality of certain patient health information, including patient records, and restricting the use and disclosure of that protected information. For example, the privacy rules under PIPEDA and other applicable privacy laws protect medical records and other personal health information by limiting their use and disclosure of health information to the minimum level reasonably necessary to accomplish the intended purpose and apply to our operations globally. In Canada, we may also be required to retain certain customer personal information for prescribed periods of time pursuant to the Cannabis Act.

In the United States, the Health Insurance Portability and Accountability Act ("HIPAA") imposes privacy and security requirements and breach reporting obligations with respect to individually identifiable health information upon "covered entities" (health plans, health care clearinghouses and certain health care providers), and their respective business associates, individuals or entities that create, received, maintain or transmit protected health information in connection with providing a service for or on behalf of a covered entity. HIPAA mandates the reporting of certain breaches of health information to the U.S. Department of Health and Human Services ("HHS"), affected individuals and if the breach is large enough, the media. Entities that are found to be in violation of HIPAA as the result of a breach of unsecured protected health information, a complaint about privacy practices or an audit by HHS, may be subject to significant civil, criminal and administrative fines and penalties and/or additional reporting and oversight obligations if required to enter into a resolution agreement and corrective action plan with HHS to settle allegations of HIPAA non-compliance. In addition, provisions of the Americans with Disabilities Act require confidential treatment of employee medical records.

If we were found to be in violation of the privacy or security rules under PIPEDA, HIPAA, or other applicable laws protecting the confidentiality of health information in jurisdictions we operate in, we could be subject to sanctions and civil or criminal penalties, which could increase our liabilities, harm our reputation and have a material adverse effect on our business, financial condition and results of operations.

Additional jurisdictions in which we operate or which we may enter also have data privacy and security laws and regulations that govern the collection, use, disclosure, transfer, storage, disposal, and protection of sensitive personal information. Data privacy and security are rapidly developing areas of law, as well, and imposition of new requirements is common. The interpretation and enforcement of such laws and regulations are uncertain and subject to change, and may require substantial costs to monitor and implement compliance with any additional requirements. Failure to comply with data protection laws and regulations could result in government enforcement actions (which could include substantial civil and/or criminal penalties), litigation, business disruption, and/or adverse publicity and could negatively affect our business results, operations and financial condition.

We are and may become subject to, or prosecute, litigation in the ordinary course of our manufacturing, marketing, distribution and sale of our products.

We may from time to time be subject to litigation, claims, other legal and regulatory proceedings and disputes arising in the ordinary course of our manufacturing, marketing, distribution and sale of our products, some of which may adversely affect our business, financial condition and results of operations. Several companies in the U.S. hemp-derived CBD industry have become party to an increasing number of purported class actions lawsuits relating to their food and dietary supplement products containing U.S. hemp-derived CBD. Should we face similar class actions filed against us, plaintiffs in such class action lawsuits, as well as in other lawsuits against us, may seek very large or indeterminate amounts, including punitive damages, which may remain unknown for substantial periods of time. Should any litigation in which we become involved be determined against us, such a decision could adversely affect our ability to continue operating, adversely affect the market price for our common shares and require the use of significant resources.

Even to the extent we ultimately prevail in litigation, litigation can consume and redirect significant resources. Litigation may also create a negative perception of us and our brands, which could have an adverse effect on our business, financial condition and results of operations.

Securities litigation could also result in substantial costs and damages and divert management's attention and resources. Securities class action litigation often has been brought against companies following periods of volatility in the market price of their securities. We have been the target of such litigation and may in the future be the target of similar litigation. Regardless of merit, such litigation could result in substantial costs and damages and divert management's attention and resources, which could adversely affect our business. Any adverse determination in litigation against us could also subject us to significant liabilities. Any decision resulting from any such litigation that is adverse to us could have a negative impact on our financial position. See Item 3 of this Annual Report for more details on our legal proceedings.

We may be subject to product liability claims.

As a manufacturer and distributor of products designed to be topically applied, ingested or inhaled by humans, we face an inherent risk of exposure to product liability claims, regulatory action and litigation if our products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis and U.S. hemp products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from consumption of cannabis or U.S. hemp products alone or in combination with other medications or substances could occur as described under “—There is limited long-term data with respect to the efficacy and side effects of our products and future clinical research studies on the effects of cannabis, U.S. hemp, cannabinoids and cannabis-based products may lead to conclusions that dispute or conflict with our understanding and belief regarding their benefits, viability, safety, efficacy, dosing and social acceptance.” We may be subject to various product liability claims, including, among others, that our products caused injury or illness, incorrect labeling, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances.

A product liability claim or regulatory action against us could result in increased costs to us, could adversely affect our reputation with our clients and consumers generally, and could have a material adverse effect on our business, financial condition and results of operations. Please refer to “Part 1 – Legal Proceedings” under Item 3 of this Annual Report for further discussion. There can be no assurances that we will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of our products.

We may be unable to attract or retain skilled labor and personnel with experience in our various areas of business, or to obtain adequate equipment, parts and components, and we may be unable to attract, develop and retain additional employees required for our operations and future developments.

We may be unable to attract or retain employees with sufficient experience in our various areas of business, and may prove unable to attract, develop and retain additional employees required for our development and future success.

Our success is currently largely dependent on the performance of our skilled employees. Our future success depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and we may incur significant costs to attract and retain them. In addition, we recently announced the Restructuring Actions which included, among other things, aligning general and administrative costs with short-term business expectations and a reduction in headcount impacting a number of employees. The Restructuring Actions could lead to increased attrition amongst those employees who were not directly affected by the reduction in headcount, and we may not be successful at retaining such employees or attracting new employees, which may have a material adverse effect on our business, results of operations and financial condition.

In addition, our ability to compete and grow will be dependent upon having access, at a reasonable cost and in a timely manner, to skilled labor, adequate equipment, parts and components. No assurances can be given that we will be successful in maintaining the required supply of skilled labor, adequate equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by our capital expenditure programs may be significantly greater than anticipated or available, in which circumstance there could be a materially adverse effect on our financial results.

The inability of our customers or suppliers to meet their financial or contractual obligations to us may result in disruption to our supply chain and operations and could result in financial losses.

We have exposure to several customers who are license holders and, at least some of these customers are experiencing financial difficulties. In addition, we also face exposure to our third-party U.S. hemp, cannabis products and non-cannabis product suppliers who may face financial difficulties and which would impact our supply of U.S. hemp, cannabis products and non-cannabis products. For example, supply chains throughout the world have been negatively impacted by COVID-19 and this has increased the costs of products and shipping. We have in the past, and may in the future, have disruptions in our supply chain and need to take allowances against and need to write off receivables due to the creditworthiness of these customers.

Further, the inability of these customers to purchase our products could materially adversely affect our results of operations.

We may be unable to attract and retain customers.

Our success depends on our ability to attract and retain customers. There are many factors which could impact our ability to attract and retain customers, including but not limited to our ability to continually produce desirable and effective product, the successful implementation of customer-acquisition plans and the continued growth in our aggregate number of customers. The failure to acquire and retain customers would have a material adverse effect on our business, operating results and financial condition.

We rely on third-party distributors to distribute our products, and those distributors may not perform their obligations.

We rely on third-party distributors and other courier services, and may in the future rely on other third parties, to distribute our products. If these distributors do not successfully carry out their contractual obligations or terminate or suspend their contractual arrangements with us, if there is a delay or interruption in the distribution of our products or if these third parties damage our products, it could negatively impact our revenue and may require significant management attention. In addition, any damage to our products due to acts or omissions of our third-party distributors, such as product spoilage or improper storage or handling, could expose us to potential product liability, damage our reputation and the reputation of our products or brands or otherwise harm our business.

We rely on third-party manufacturers for the production of certain of our products and events adversely affecting them would adversely affect us.

We rely on third-party manufacturers to produce certain products or constituent parts thereof required to meet our quality and market needs, and plan to continue to do so. If our contract manufacturers fail to maintain high manufacturing standards and processes, it could harm our business. In the event of a natural disaster or business failure, including due to bankruptcy of a contract manufacturer, we may not be able to secure a replacement of our products on a timely or cost-effective basis, which could result in delays, additional costs and reduced revenues. Additionally, our third-party manufacturers have been and may continue to be negatively affected by the ongoing COVID-19 pandemic.

We are vulnerable to third-party transportation risks.

We depend on fast and efficient courier services to distribute our products to our customers. Any prolonged disruption of this courier service could have a material adverse effect on our business, financial condition and results of operations. Rising costs associated with the courier services that we use to ship our products may also adversely impact our business and our ability to operate profitably.

Due to the nature of our products, security of the product during transportation to and from our facilities is of the utmost concern. A breach of security during transport or delivery could have a material and adverse effect on our business, financial condition and prospects. Any breach of the security measures during transport or delivery, including any failure to comply with applicable recommendations or requirements, could also have an impact on our ability to continue operating under our current licenses or impact the prospects of renewing our licenses.

We rely on third-party testing and analytical methods which are validated but still being standardized.

We are required to test our cannabis and U.S. hemp products, as well as cannabis accessories, in many of our active markets, with independent third-party testing laboratories for, among other things, cannabinoid levels. However, testing methods and analytical assays for cannabinoid levels of detection vary among different testing laboratories. There is currently no industry consensus on standards for testing methods or compendium of analytical assays or standard levels of detection. The detected and reported cannabinoid content in our cannabis and U.S. hemp products therefore can differ depending on the laboratory and testing methods (analytical assays) used. Variations in reported cannabinoid content will likely continue until the relevant regulatory agencies and independent certification bodies (e.g., ISO, USP) collaborate to develop, publish and implement standardized testing approaches for cannabis (including U.S. hemp), cannabinoids and their derivative products. Until such standardized analytical assays and levels of detection are developed, the existing differences could cause confusion with our consumers which could lead to a negative perception of us and our products, increase the risk of litigation regarding cannabinoid content and regulatory enforcement action and could make it more difficult for us to comply with regulatory requirements regarding contents of ingredients and packaging and labeling.

We may decide, or be required, to divest or restructure certain of our interests.

In certain circumstances, we may decide, or be required, to divest certain of our interests. In particular, if any of our interests give rise to a violation of any applicable laws and regulations, including U.S. federal law, we may be required to divest our interest or risk significant fines, penalties, administrative sanctions, convictions, settlements or delisting from the TSX and/or Nasdaq. For instance, if we determine that our operations are not compliant with U.S. laws or the policies of the TSX and Nasdaq, we will use commercially reasonable best efforts to divest our interest in the event that we cannot restructure our holdings. There is no assurance that these divestitures will be completed on terms favorable to us, or at all. Any opportunities resulting from these divestitures, and the anticipated effects of these divestitures on us, may never be realized or may not be realized to the extent we anticipate. Not all of our interests are liquid, and such interests may be

difficult to dispose of and subject to illiquidity discounts on divestiture. Any required divestiture or an actual or perceived violation of applicable laws or regulations by us could have a material adverse effect on us, including on our reputation and ability to conduct business, the listing of our common shares on the TSX and Nasdaq, our financial position, operating results, profitability or liquidity or the market price of our common shares. In addition, it is difficult for us to estimate the time or resources that may be required for the investigation of any such matter or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

If we decide, or are required, to restructure our interests to remain in compliance with laws or stock exchange requirements, such restructuring could result in the write-down of the value of our interests, which could have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in wholesale and retail prices could result in earnings volatility.

The cannabis industry is a margin-based business in which gross profits depend on the excess of sales prices over costs. Consequently, profitability is sensitive to fluctuations in wholesale and retail prices caused by changes in supply (which itself depends on other factors such as weather, fuel, equipment and labor costs, shipping costs, economic situation and demand), taxes, government programs and policies for the cannabis industry (including price controls and wholesale price restrictions that may be imposed by government agencies responsible for the sale of cannabis), and other market conditions, all of which are factors beyond our control. Our operating income may be significantly and adversely affected by a decline in the price of cannabis and will be sensitive to changes in the price of cannabis and the overall condition of the cannabis industry, as our profitability is directly related to the price of cannabis. There is currently not an established market price for cannabis and the price of cannabis is affected by numerous factors beyond our control. Any price decline may have a material adverse effect on us.

We are subject to the risk of defects or impairment charges related to potential write-downs of acquired assets or goodwill in future acquisitions.

A defect in any business arrangement, including Acreage (if the Acreage Arrangement is completed) and Wana (if the acquisition of Wana is completed), may arise to defeat or impair our claim to such transaction, which may have a material adverse effect on us. It is possible that material changes could occur that may adversely affect management's estimate of the recoverable amount for any agreement we enter into. Impairment estimates, based on applicable key assumptions and sensitivity analysis, will be based on management's best knowledge of the amounts, events or actions at such time, and the actual future outcomes may differ from any estimates that are provided by us. Any impairment charges on our carrying value of business arrangements could have a material adverse effect on us.

Our Credit Facility contains restrictive covenants that may limit our operating flexibility.

Our Credit Facility contains restrictive covenants that limit our ability to transfer or dispose of assets, merge with other companies or consummate certain changes of control, acquire other companies, open new offices that contain a material amount of assets, pay dividends, incur additional indebtedness and liens and enter into new businesses. We therefore may not be able to engage in any of the foregoing transactions unless we obtain the consent of the lender or terminate the Credit Facility, which may limit our operating flexibility. In addition, our Credit Facility is secured by all of our assets, including our intellectual property, and requires us to satisfy certain financial covenants. There is no guarantee that we will be able to generate sufficient cash flow or sales to meet these financial covenants or pay the principal and interest on any such debt. Furthermore, there is no guarantee that future working capital, borrowings or equity financing will be available to repay or refinance any such debt. Any inability to make scheduled payments or meet the financial covenants on our Credit Facility would adversely affect our business.

We are exposed to counterparty risks and liquidity risks that may impact our ability to obtain loans and other credit facilities on favorable terms.

We are exposed to counterparty risks and liquidity risks including, but not limited to, through: (i) financial institutions that may hold our cash and cash equivalents; (ii) companies that will have payables to us; (iii) our insurance providers; and (iv) our lenders, if any. These factors may impact our ability to obtain loans and other credit facilities in the future and, if obtained, on terms favorable to us. If these risks materialize, our operations could be adversely impacted and the price of our common shares could be adversely affected.

We may hedge or enter into forward sales, which involves inherent risks.

We may hedge or enter into forward sales of our forecasted right to purchase cannabis. Hedging involves certain inherent risks including: (i) credit risk (the risk that the creditworthiness of a counterparty may adversely affect its ability to perform its payment and other obligations under its agreement with us or adversely affect the financial and other terms the counterparty is able to offer us); (ii) market liquidity risk (the risk that we have entered into a hedging position that cannot be closed out quickly, by either liquidating such hedging instrument or by establishing an offsetting position); and (iii) unrealized fair value adjustment risk (the risk that, in respect of certain hedging products, an adverse change in market prices for cannabis will result in us incurring losses in respect of such hedging products as a result of the hedging products being out-of-the-money on their settlement dates).

There can be no assurance that a hedging program designed to reduce the risks associated with price fluctuations will be successful. Although hedging may protect us from adverse changes in price fluctuations, it may also prevent us from fully benefitting from positive changes in price fluctuations.

We must rely on local counsel and consultants with respect to laws and regulations in countries outside of Canada.

The legal and regulatory requirements in the foreign countries in which we operate with respect to the cultivation and sale of cannabis, banking systems and controls, as well as local business culture and practices are different from those in Canada. Our officers and directors must rely, to a great extent, on local legal counsel and consultants in order to keep abreast of material legal, regulatory and governmental developments as they pertain to and affect our business operations, and to assist with governmental relations. We must rely, to some extent, on those members of management and our board of directors who have previous experience working and conducting business in these countries, if any, in order to enhance its understanding of and appreciation for the local business culture and practices. We also rely on the advice of local experts and professionals in connection with current and new regulations that develop in respect of the cultivation and sale of cannabis as well as in respect of banking, financing, labor, litigation and tax matters in these jurisdictions. Any developments or changes in such legal, regulatory or governmental requirements or in local business practices are beyond our control. The impact of any such changes may adversely affect our business.

Risks Relating to our Common Shares

The market price for our common shares may be volatile and subject to fluctuation in response to numerous factors, many of which are beyond our control.

The market price for our common shares may be volatile and subject to wide fluctuations in response to many factors, including:

- actual or anticipated fluctuations in our results of operations;
- changes in estimates of our future results of operations by us or securities research analysts;
- changes in the economic performance or market valuations of other companies that investors deem comparable to us;
- additions or departures of our executive officers and other key employees;
- transfer restrictions on outstanding common shares;
- equity issuances by us (including through the sale of securities convertible into equity securities) or resales of common shares by our stockholders or the perception in the market that such issuances or resales might occur;
- significant acquisitions or business combinations, strategic partnerships, investments, joint ventures or capital commitments by or involving us or our competitors, including the Acreage Arrangement if completed and the acquisition of Wana, if completed;
- increases in speculative trading activity by investors targeting publicly traded cannabis companies, which can further contribute to the volatility of the market price for our common shares if aggregate short exposure exceeds the number of our common shares available for purchase;

- news reports relating to trends, concerns or competitive developments, regulatory changes or enforcement actions and other related issues in our industry or target markets;
- the prospect of actual or perceived future changes to the legal and regulatory regimes that govern our products and our industries;
- investors' general perception of us and the public's reaction to our press releases, our other public announcements and our filings with the SEC and Canadian securities regulators;
- our failure to timely file our public filings with the SEC and Canadian securities regulators;
- our failure to comply with the Nasdaq and TSX rules;
- reports by industry analysts, investor perceptions, and market rumors or speculation;
- general market, economic and political conditions (including rising geopolitical tensions in Ukraine and Russia);
- negative announcements by our customers, competitors or suppliers regarding their own performance; and
- the realization of any of the other risk factors set forth herein.

For example, reports by industry analysts, investor perceptions, market rumors or speculation could trigger a sell-off in our common shares. Any sales of substantial numbers of our common shares in the public market or the perception that such sales might occur may cause the market price of our common shares to decline. In addition, to the extent that other large companies within our industries experience declines in their stock price, the share price of our common shares may decline as well. Moreover, if the market price of our common shares drops significantly, shareholders may institute securities class action lawsuits against us. Lawsuits against us could cause us to incur substantial costs and could divert the time and attention of our management and other resources.

Securities markets continue to experience significant price and volume fluctuations that have, in some cases, been unrelated to the operating performance, underlying asset values or prospects of such public companies. Accordingly, the market price of our common shares may decline even if our results of operations, underlying asset values or prospects have not changed. In addition, certain institutional investors may base their investment decisions on consideration of our environmental, governance, diversity and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in limited or no investment in our common shares by those institutions, which could adversely affect the trading price of our common shares. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the trading price of the common shares may be adversely affected.

In addition, our shareholders may be unable to sell significant quantities of our common shares into the public markets without a significant reduction in the price of our common shares, or at all. There can be no assurance that there will be sufficient liquidity of our common shares, nor that we will continue to meet the listing requirements of the TSX or Nasdaq or achieve listing on any other recognized stock exchange.

The financial reporting obligations of being a public company and maintaining a dual listing on the TSX and on Nasdaq requires significant company resources and management attention.

We are subject to the public company reporting obligations under the *Exchange Act* and the rules and regulations regarding corporate governance practices, including those under the Sarbanes-Oxley Act, the Dodd-Frank Act, and the listing requirements of Nasdaq. We incur significant legal, accounting, reporting and other expenses in order to maintain a dual listing on both the TSX and Nasdaq. Moreover, our listing on both the TSX and Nasdaq may increase price volatility due to various factors, including the ability to buy or sell common shares, different market conditions in different capital markets and different trading volumes. In addition, low trading volume may increase the price volatility of the common shares.

It is not anticipated that any dividend will be paid to holders of our common shares for the foreseeable future.

No dividends on our common shares have been paid to date. We currently intend to retain future earnings, if any, for future operation and expansion. Our board of directors has the discretion to declare dividends and to prescribe the timing, amount and payment of such dividends. Such decision will depend upon our future earnings, cash flows, acquisition capital requirements and financial condition, and other relevant factors that our board of directors may deem relevant. Further, our Credit Facility provides for certain restrictions on our ability

to pay dividends and there can be no assurance that we will declare a dividend on a quarterly, annual or other basis, or at all. We have no plans to pay any dividends, now or in the near future.

Investors in the United States may have difficulty bringing actions and enforcing judgments against us and others based on securities law civil liability provisions.

We are incorporated under the laws of the Province of Ontario and our head office is located in the Province of Ontario. Some of our directors and officers and some of the experts named in this Annual Report are residents of Canada or otherwise reside outside of the United States and a substantial portion of their assets and our assets are located outside the United States. Consequently, it may be difficult for investors in the United States to bring an action against such directors, officers or experts or to enforce against those persons or us a judgment obtained in a U.S. court predicated upon the civil liability provisions of U.S. federal securities laws or other U.S. laws. In addition, while statutory provisions exist in Ontario for derivative actions to be brought in certain circumstances, the circumstances in which a derivative action may be brought, and the procedures and defenses that may be available in respect of any such action, may be different than those of shareholders of a company incorporated in the United States.

If we are a passive foreign investment company for U.S. federal income tax purposes in any year, certain adverse tax rules could apply to U.S. Holders of our common shares.

A corporation that is not a resident of the U.S. for U.S. federal income tax purposes will be considered a passive foreign investment company ("PFIC") for any taxable year in which (i) 75% or more of its gross income is "passive income" or (ii) 50% or more of the average quarterly value of its assets produce (or are held for the production of) "passive income." For this purpose, "passive income" generally includes interest, dividends, rents, royalties and certain gains. The determination as to whether the Company is a PFIC for any taxable year is based on the application of complex U.S. federal income tax rules, which are subject to differing interpretations, and is not determinable until after the end of such taxable year. Further, the determination is based in part on the Company's operations and the mix, use and value of the Company's assets, which values may be treated as changing for U.S. federal income tax purposes as the Company's market capitalization changes. If the Company were to be classified as a PFIC in any taxable year during which a U.S. Holder owns its common shares, certain adverse tax consequences could apply to such U.S. Holder. Certain elections may be available to U.S. Holders of the Company's common shares that may mitigate some of the adverse consequences if the Company were to be treated as a PFIC. U.S. Holders should consult their own tax advisors regarding the application of the PFIC rules to their investment in the Company's common shares.

As used herein, "U.S. Holder" means a beneficial owner of our common shares that is (i) an individual who is a citizen or resident of the U.S. for U.S. federal income tax purposes, (ii) a corporation (or other entity taxable as a corporation for U.S. federal tax purposes) created or organized under the laws of the U.S. or any political subdivision thereof, including the states and the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source, or (iv) a trust that (a) is subject to the primary supervision of a court within the U.S. and for which one or more U.S. persons have authority to control all substantial decisions or (b) has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person. U.S. Holders are urged to consult their own tax advisers as to whether we may be treated as a PFIC and the tax consequences thereof.

Future sales or issuances of securities could adversely affect the prevailing market price of our securities.

We may sell additional equity securities in subsequent offerings (including through the sale of securities convertible into equity securities). We cannot predict the size of future issuances of equity securities or the size and terms of future issuances of debt instruments or other securities convertible into equity securities or the effect, if any, that future issuances and sales of our securities will have on the market price of our common shares, including up to 171,227,420 common shares that may be issued in the future in connection with the closing of the Acreage Arrangement and the associated top-up right of the CBI Group pursuant to the New Investor Rights Agreement.

Additional issuances of our securities may involve the issuance of a significant number of common shares at prices less than the current market price for our common shares. Issuances of a substantial number of common shares, or the perception that such issuances could occur, may adversely affect prevailing market prices of our common shares. Any transaction involving the issuance of previously authorized but unissued common shares, or securities convertible into common shares, would result in dilution, possibly substantial, to security holders.

Sales of substantial amounts of our securities by our shareholders, including the CBI Group, or the availability of such securities for sale, could adversely affect the prevailing market prices for the securities and dilute investors' earnings per share. Exercises of presently outstanding share options or warrants may also result in dilution to security holders. A decline in the market prices of our securities could impair our ability to raise additional capital through the sale of securities should we desire to do so.

If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research about our business, our share price and trading volume could decline.

The trading market for our common shares depends, in part, on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our common shares or publish inaccurate or unfavorable research about our business, the trading price of our common shares would likely decline. In addition, if our results of operations fail to meet the forecasts of analysts, the trading price of our common shares would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our common shares could decrease, which might cause our trading price and trading volume to decline.

Risks Relating to the CBI Group Investments

The CBI Group, our single largest shareholder, has the ability to exercise significant influence over us.

The CBI Group is our single largest shareholder and our business and future operations may be adversely affected by changes in the business, market price, directors, officers or employees of the CBI Group. The CBI Group has the ability to exercise significant influence over our business and operations due to its ownership interest and its rights under the New Investor Rights Agreement.

As of May 26, 2022, the CBI Group holds in the aggregate approximately 35.3% of our issued and outstanding common shares on a non-diluted basis, and, through its pre-emptive rights and top-up rights, the CBI Group has the ability to maintain its ownership level. The CBI Group is also entitled to designate four nominees for election or appointment to our board of directors.

In light of such ownership and rights, the CBI Group is in a position to exercise significant influence over us, including matters affecting shareholders or requiring shareholder approval, such as the election of directors, change of control transactions, amendments to our articles and bylaws and the determination of other significant corporate actions.

Upon exercise of the remaining CBG Warrants in full and full conversion of the Canopy Notes held by the CBI Group, assuming no other securities of ours are issued and excluding the exercise of our right to acquire Acreage, the CBI Group will beneficially hold approximately 52.3% of our issued and outstanding common shares and would be able to exercise a controlling influence over our business and affairs.

Accordingly, the CBI Group currently has significant influence over us and has the ability to increase this influence at any time upon the exercise of the CBG Warrants and the conversion of the Canopy Notes held by the CBI Group. There can also be no assurance that the interests of the CBI Group will align with our interests or the interests of our other shareholders, and the CBI Group will have the ability to influence or block certain actions that may not reflect our intent or align with our interests or the interests of our other shareholders, including realizing on opportunities in the U.S. to the extent permissible under applicable laws and regulations. In addition, the presence of the CBI Group could limit the price that investors or an acquirer may be willing to pay for our common shares and may therefore delay or prevent a change of control of us, such as a merger or take-over.

Pursuant to the New Investor Rights Agreement, the CBI Group also has certain consent rights which could delay or prevent the completion of certain transactions that may otherwise be beneficial to our shareholders. We may also enter into other arrangements with the CBI Group, and as a result, we may be dependent on the CBI Group, which could have a material adverse effect on our business, financial condition and results of operations.

We may not realize the benefits of our strategic partnership with the CBI Group, which could have an adverse effect on our business, financial condition and results of operations.

We believe that the strategic partnership between us and the CBI Group provides us with additional financial resources, product development and commercialization capabilities, and deep regulatory expertise to better position us to compete, scale and lead the rapidly growing global cannabis industry. We also believe that the growth opportunities for us are significant and could extend across the globe as new markets open. With the CBI Group's resources and expertise, we expect to be even better positioned to support innovation and create differentiated products and brands across medical and recreational categories. Nevertheless, a number of risks and uncertainties are associated with the expansion into such markets and the pursuit of these growth opportunities. The failure to reap the anticipated benefits of the CBI Group's resources and expertise to realize growth opportunities could have a material adverse effect on our business, financial condition and results of operations.

Any common shares issued pursuant to the exercise of the CBG Warrants or the Canopy Notes held by the CBI Group will dilute shareholders.

The Tranche A Warrants may be exercised in full or in part at any time on or prior to November 1, 2023 and the Tranche B Warrants and Tranche C Warrants may be exercised in full or in part at any time on or prior to November 1, 2026, from time to time, in accordance with the terms thereof, and entitles the holder thereof, upon valid exercise in full thereof, to acquire, accept and receive from us an aggregate of 139,745,453 common shares (subject to adjustment in accordance with the terms of such warrants). The CDN\$200 million principal amount of Canopy Notes held by the CBI Group may be converted, in accordance with the terms thereof, and entitles the holder thereof, upon conversion in full thereof, to 4,151,540 common shares. Assuming full exercise of the Tranche A Warrants, the Tranche B Warrants and the Tranche C Warrants and the full conversion of the Canopy Notes held by the CBI Group, the CBI Group would be entitled to 286,150,795 common shares, which represents approximately 52.3% of the issued and outstanding common shares as of May 26, 2022 (on a non-diluted basis). Any issuance of common shares pursuant to the exercise of the CBG Warrants and the conversion of the Canopy Notes held by the CBI Group would dilute all of our other shareholders.

The CBI Group's significant interest in us may impact the liquidity of our common shares.

Our common shares may be less liquid and trade at a discount relative to the trading that could occur in circumstances where the CBI Group did not have the ability to significantly influence or determine matters affecting us. Additionally, the CBI Group's significant voting interest in us may discourage transactions involving a change of control of us, including transactions in which an investor, as a shareholder, might otherwise receive a premium for its common shares over the then-current market price.

The change of control provisions in certain of our existing or future contractual arrangements may be triggered upon the exercise of the CBG Warrants in part or in full.

Certain of our existing or future contractual arrangements may include change of control provisions requiring us to make certain payments or triggering certain termination rights for our counterparties if the change of control trigger is fulfilled. The change of control provisions in certain of our existing arrangements, including, but not limited to, compensatory arrangements, or agreements we may enter into in the future, may be triggered upon the exercise of the CBG Warrants in part or in full.

Conflicts of interest may arise between us and our directors and officers, including as a result of the continuing involvement of certain of our directors with the CBI Group and its affiliates.

We may be subject to various potential conflicts of interest because of the fact that some of our officers and directors may be engaged in a range of business activities, and have relationships with or are employed by the CBI Group. For example, David Klein, our Chief Executive Officer, previously served as Executive Vice President and Chief Financial Officer of CBI. Thomas Stewart, our Chief Accounting Officer, previously served as Senior Director, Global Accounting at CBI. Holly Lukavsky, our Vice President of Chief Human Resources,

previously served as VP- Human Resources at CBI. Garth Hankinson, one of our directors, currently serves as the Executive Vice President and Chief Financial Officer of CBI. Robert Hanson, one of our directors, currently serves as Executive Vice President and President, Wine & Spirits Division at CBI. Judy Schmeling, the chair of our board of directors, is also a board member of CBI. In addition, Jim Sabia, one of our directors, serves as Executive Vice President and President – Beer Division at CBI. Our directors devote, and our executive officers may devote, time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to us. Our directors, and in some cases, our executive officers, may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to our business and affairs and that could adversely affect our operations. These business interests could require significant time and attention.

We may also become involved in other transactions which are inconsistent or conflict with the interests of our directors and officers who may from time to time deal with persons, firms, institutions or corporations with which we may be dealing, or which may be seeking investments similar to those desired by us. The interests of these persons could conflict with our interests. In addition, we may be competing with these persons, such as the CBI Group, for available investment and other opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws and regulations. In particular, in the event that such a conflict of interest arises at a meeting of our directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws and regulations, our directors are required to act honestly, in good faith and in our best interests.

Future sales of our common shares by the CBI Group could cause the market price for our common shares to fall.

The CBI Group is not contractually committed to maintaining an equity stake in us. Subject to compliance with applicable securities laws, the CBI Group may sell some or all of their common shares at any time. The New Investor Rights Agreement contains registration rights, on terms customary for a significant shareholder, pursuant to which we have agreed to facilitate sales of common shares by the CBI Group. In addition, the CBI Group has the right to require us to make disclosure to permit it to sell in certain circumstances. Such sales, or the market perception of such sales, could significantly reduce the market price of our common shares. We cannot predict the effect, if any, that future public sales of our common shares beneficially owned by the CBI Group or the availability of these common shares for sale will have on the market price of our common shares. If the market price of our common shares were to drop as a result, this might impede our ability to raise additional capital and might cause a significant decline in the value of the investments of our other shareholders.

The intentions of the CBI Group regarding its long-term economic ownership of our common shares are subject to change as a result of changes in the circumstances of the CBI Group or its affiliates, changes in our management and operation and changes in laws and regulations, market conditions and our financial performance.

General Risks

We are dependent on our senior management.

Our success is dependent upon the ability, expertise, judgment, discretion and good faith of our senior management. Our future success depends on our continuing ability to attract, develop, motivate and retain key employees. Qualified individuals are in high demand, and we may incur significant costs to attract and retain them. The loss of the services of a member of senior management, or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on our ability to execute our business plan and strategy, and we may be unable to find adequate replacements on a timely basis, or at all. While employment and consulting agreements are customarily used as a primary method of retaining the services of certain employees, these agreements cannot assure the continued services of such individuals and consultants. We do not maintain key-person insurance on the lives of any of our officers or employees.

Further, certain shareholders, directors, officers and employees in our Canadian operations may require security clearance from Health Canada. Under the *Cannabis Act*, a security clearance cannot be valid for more

than five years and must be renewed before the expiry of a current security clearance. There is no assurance that any of our existing personnel who presently or may in the future require a security clearance will be able to obtain or renew such clearances or that new personnel who require a security clearance will be able to obtain one. A failure by an employee to maintain or renew his or her security clearance may impair our operations. In addition, if an employee with security clearance leaves and we are unable to find a suitable replacement who has a security clearance required by the *Cannabis Act* in a timely manner, or at all, there could occur a material adverse effect on our business operations.

Natural disasters, unusual weather, pandemic outbreaks, boycotts and geo-political events or acts of terrorism could adversely affect our operations and financial results.

The occurrence of one or more natural disasters, such as hurricanes, floods and earthquakes, unusually adverse weather, pandemic outbreaks, such as the COVID-19 virus, influenza and other highly communicable diseases or viruses, boycotts and geo-political events, such as civil unrest in countries in which our operations are located and acts of terrorism, or similar disruptions could adversely affect our business, financial condition and results of operations. These events could result in physical damage to one or more of our properties, increases in fuel or other energy prices, the temporary or permanent closure of one or more of our facilities, the temporary lack of an adequate workforce in a market, the temporary or long-term disruption in the supply of products from suppliers, the temporary disruption in the transport of goods, delay in the delivery of goods to our facilities, and disruption to our information systems. Such events could also negatively impact consumer sentiment, reduce demand for consumer products like ours and cause general economic slowdown. These factors could otherwise disrupt our operations and could have an adverse effect on our business, financial condition and results of operations.

In February 2022, following Russia's invasion of Ukraine, the United States and the European Union imposed various economic sanctions against Russia. Such sanctions may result in restrictions on the sale of oil or other energy resources from Russia to other countries in the region and could result in an increase in our global shipping expenses, reduce our sales, or otherwise have an adverse effect on our European operations. Additionally, escalation by Russia beyond Ukraine and into other countries within the region could also reduce our sales and have a negative effect on our European operations.

We will seek to maintain adequate insurance coverage in respect of the risks we face; however, insurance premiums for such insurance may not continue to be commercially justifiable and there may be coverage limitations and other exclusions which may not be sufficient to cover our potential liabilities.

While we have insurance to protect our assets, operations and employees, such insurance is subject to deductibles, coverage limits and exclusions and may not be available or adequate for the risks and hazards to which we are exposed in our current state of operations. For example, certain wholesalers, distributors, retailers and other service providers may require suppliers of U.S. hemp products to provide an indemnification from liability in connection with such products, which may not be covered by insurance. In addition, no assurance can be given that such insurance will be adequate to cover our liabilities or will be generally available in the future or, if available, that premiums and deductibles will be commercially justifiable. If we were to incur substantial liability claims and such damages were not covered by insurance or were in excess of policy limits, or if we were to incur such liability at a time when we are not able to obtain liability insurance, our business, financial condition and results of operations may be adversely affected.

Tax and accounting requirements may change or be interpreted in ways that are unforeseen to us and we may face difficulty or be unable to implement and/or comply with any such changes or interpretations.

We are subject to numerous tax and accounting requirements, and changes in existing accounting or taxation rules or practices, or varying interpretations of current rules or practices, could have a significant adverse effect on our financial results, the manner in which we conduct our business or the marketability of any of our products. In many countries, including the U.S., we are subject to transfer pricing and other tax regulations designed to ensure that appropriate levels of income are reported as earned and are taxed accordingly. Although we believe that we are in substantial compliance with all applicable regulations and

restrictions, we are subject to the risk that governmental authorities could audit our transfer pricing and related practices and assert that additional taxes are owed or that various jurisdictions could assert that we should file tax returns in jurisdictions where we do not file and subject us to additional tax. In the future, the geographic scope of our business may expand, and such expansion will require us to comply with the tax laws and regulations of additional jurisdictions. Requirements as to taxation vary substantially among jurisdictions. Complying with the tax laws and regulations of these jurisdictions can be time consuming and expensive and could potentially subject us to penalties and fees in the future if we failed to comply. In the event that we failed to comply with applicable tax laws, regulations and accounting requirements, this could have a material adverse effect on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

Our corporate headquarters is located in Smiths Falls, Ontario, Canada. We have various other corporate offices, stores and facilities across Canada including locations in the provinces of Ontario, Quebec, Manitoba, Saskatchewan, Alberta, British Columbia and Newfoundland and Labrador. Our operations in the United States include locations in the states of California, Colorado, New York, and Illinois. Outside Canada and the United States, in addition to our material properties described below, we maintain corporate office space in several other countries.

We believe that our facilities, taken as a whole, are in good condition and working order. Within our global cannabis and other consumer products segments, we have adequate capacity to meet our needs for the foreseeable future.

During the year ended March 31, 2022, we reorganized our operations and consolidated or wound down some of our properties. As of March 31, 2022, our material owned or leased properties now consist of the following:

Facility Location	Type	Segment	Property Owned/Leased	Utilization (Full or Partial)
CANADA				
Smiths Falls, Ontario	Production, Manufacturing, Distribution, R&D, Corporate	Global Cannabis	Owned, subject to mortgage in favour of Wilmington Trust, National Association, in connection with the Credit Facility	Partial
Kincardine, Ontario	Production	Global Cannabis	Owned, subject to mortgage in favour of Wilmington Trust, National Association, in connection with the Credit Facility	Full
Mirabel, Quebec	Production	Global Cannabis	Leased	Full
UNITED STATES				
Modesto, California	Production	Global Cannabis	Owned, subject to mortgage in favour of Wilmington Trust, National Association, in connection with the Credit Facility	Partial
EUROPE				
Tuttlingen, Germany	Manufacturing (Storz & Bickel)	Consumer Products	Owned	Full
Frankfurt, Germany	Production, Corporate	Global Cannabis	Leased	Full

Item 3. Legal Proceedings.

Other than as disclosed below, we are not aware of: (a) any legal proceedings to which we are a party, or to which any of our properties is subject, which would be material to us or of any such proceedings being contemplated, (b) any penalties or sanctions imposed by a court relating to securities legislation, or other penalties or sanctions imposed by a court or regulatory body against us that would likely be considered important to a reasonable investor making an investment decision, and (c) any settlement agreements that we have entered into before a court relating to securities legislation or with a securities regulatory authority.

In November 2019, the Company and certain of its current and former executives were named as defendants in a purported class action lawsuit filed in the U.S. District Court for the District of New Jersey (the “Court”) captioned Ortiz v. Canopy Growth Corporation et al., No. 2:19-cv-20543-KM-ESK. The plaintiffs alleged that the defendants made false and/or misleading statements and/or failed to disclose material adverse facts, regarding Canopy Growth’s receivables, business, operations and prospects relating to, among other things, the demand for its softgel and oil products. Pursuant to documents filed with the Court on February 4, 2022, the Company has reached an agreement to settle the class action. The agreement does not constitute any

admission of liability or wrongdoing by the Company or its executives. The agreement expressly provides that the Company denies any misconduct or wrongdoing. The agreement is subject to approval by the Court and other terms. On February 7, 2022, Judge McNulty granted an order preliminarily approving the settlement. The Court will hear the plaintiff's motion for final approval of the settlement on June 7, 2022.

In July 2020, Canopy Growth was added as a defendant in a proposed class action commenced against a large number of Canadian license holders including Aurora Cannabis Inc.; Aurora Cannabis Enterprises Inc.; AuroraCo.; Aleafiaco; Aleafia Health Inc.; Emblem Cannabis Corp.; Hexo Corp.; HexoCo; Cronos Group Inc.; Cronosco; Tilray Canada Ltd.; Organigram Holdings Inc.; OrganigramCo; MediPharm Labs Corp.; MediPharmCo; CanopyCo; Aphria Inc.; Broken Coast Cannabis Ltd.; AphriaCo; Emerald Cannabis Corporation; Emerald Health Therapeutics, Inc.; and EmeraldCo. The proposed class action was commenced in the Alberta Court of Queen's Bench sitting at Calgary. The plaintiffs allege that the defendants, including Canopy Growth, marketed and sold medicinal and recreational cannabis products with an advertised content of THC and CBD and that the amount of THC and/or CBD as contained on the label was wrong and outside the permissible variability limits. The claim alleges the following causes of action indiscriminately against all of the defendants: breach of contract and breach of consumer protection legislation, including the various Sale of Goods Acts and Consumer Protection Acts; common law and statutory misrepresentation; negligence in product labelling; breach of the duty to warn; unjust enrichment; waiver of tort. The claim seeks an aggregate of \$505 million in damages as against all of the defendants) and \$5,000,000 in punitive damages against each defendant plus an accounting of revenues from each defendant.

In February 2021, Canopy Growth was named as a defendant, together with RIV Capital, RIV Capital Corporation (formerly Canopy Rivers Corporation) ("RCC"), TerrAscend, TerrAscend Canada Inc. and Olivier Dufourmantelle, in an action commenced by 2615975 Ontario Inc. in the Ontario Superior Court of Justice, sitting at Windsor, Ontario. The claim seeks, amongst other things, damages in the amount of \$500 million for bad faith, fraud, civil conspiracy, breach of the duty of honesty and good faith in contractual relations and breach of fiduciary duty. In December 2021, counsel for the plaintiffs advised that the plaintiffs wished to discontinue the action on a without costs basis. As of May 26, 2022, releases have been exchanged and the parties await formal discontinuation of the action.

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. We are not currently a party to any other legal proceedings other than described above, the outcome of which, if determined adversely to us, would individually or in the aggregate have a material adverse effect on our business, financial condition, results of operations or prospects. Please refer to "Risk Factors" under Item 1A of this Annual Report for further discussion.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common shares are traded on the Nasdaq under the symbol "CGC" and the TSX under the symbol "WEED."

Holders

As of May 28, 2021, there were approximately 492 holders of record of our common shares. This number of holders of record does not represent the actual number of beneficial owners of our common shares because shares are frequently held in "street name" by securities dealers and others for the benefit of individual owners who have the right to vote their shares.

Dividends

As of the date of this Annual Report, we have not declared any dividends or made any distributions on our common shares. Furthermore, we have no current intention to declare dividends on our common shares in the foreseeable future. Any decision to pay dividends on our common shares in the future will be at the discretion of our board of directors and will depend on, among other things, our results of operations, current and anticipated cash requirements and surplus, financial condition, any contractual restrictions and financing agreement covenants, our ability to meet solvency tests imposed by corporate law and other factors that our board of directors may deem relevant.

Recent Sales of Unregistered Securities

Not applicable.

Purchases of Equity Securities by the Issuer and Affiliated Persons

We did not purchase any of our common shares during the three months ended March 31, 2021.

Item 6. Reserved.

Not applicable.

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 C³ Cannabinoid Compound Company

On January 31, 2022, we completed the divestiture of all of our interest in C³ Cannabinoid Compound Company GmbH (“C³”) to a European pharmaceutical company headquartered in Germany (the “C³ Divestiture”). C³ develops and manufactures cannabinoid-based pharmaceutical products for distribution in Germany and certain other European countries. In connection with the C³ 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 C³. Refer to Note 30 of our Financial Statements for further information regarding the C³ 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 TerraAscend, 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:

<i>(in thousands of Canadian dollars, except share amounts and where otherwise indicated)</i>	Years ended March 31,		\$ Change	% Change
	2022	2021		
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%

¹For 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 <i>(in thousands of Canadian dollars)</i>	Years ended March 31,		\$ Change	% Change
	2022	2021		
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

(in thousands of Canadian dollars)

	Years ended March 31,			
	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 other²				
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.

- C³ 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 C³ 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 C³’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.

Other consumer products

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:

	Years ended March 31,			
<i>(in thousands of Canadian dollars except where indicated)</i>	2022	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 C³ relative to fiscal 2021;
- A year-over-year decline in C³'s gross margins due primarily to (i) the decrease in revenue, and the associated impact on C³'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 C³, 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 C³ 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:

	Years ended March 31,			
(in thousands of Canadian dollars)	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 C³ 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,		\$ Change	% Change
	2022	2021		
<i>(in thousands of Canadian dollars)</i>				
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.

Income tax recovery

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	<u>\$ 429,810</u>	<u>\$ 66,813</u>	<u>\$ 496,623</u>

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	<u>\$ 564,049</u>	<u>\$ 6,634</u>	<u>\$ 570,683</u>

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	<u>\$ 742,929</u>	<u>\$ 100,346</u>	<u>\$ 843,275</u>

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:

<i>(in thousands of Canadian dollars)</i>	Years ended March 31,		\$ Change	% Change
	2022	2021		
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	<u>\$ (415,447)</u>	<u>\$ (340,310)</u>	<u>\$ (75,137)</u>	<u>(22%)</u>

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	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	Years ended March 31,			
(in thousands of Canadian dollars)	2021	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

(in thousands of Canadian dollars)

	Years ended March 31,			
	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 other²				
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.

Global cannabis

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. C³ (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 C³'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:

(in thousands of Canadian dollars except where indicated)	Years ended March 31,		\$ Change	% Change
	2021	2020		
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,		\$ Change	% Change
	2021	2020		
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	<u>\$ 1,310,416</u>	<u>\$ 1,637,279</u>	<u>\$ (326,863)</u>	<u>(20%)</u>

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 C³, 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 C³, 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 C³, 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:

	Years ended March 31,		\$ Change	% Change
	2021	2020		
<i>(in thousands of Canadian dollars)</i>				
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:

	Years ended March 31,		\$ Change	% Change
	2021	2020		
<i>(in thousands of Canadian dollars)</i>				
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	<u>\$ (340,310)</u>	<u>\$ (442,792)</u>	<u>\$ 102,482</u>	<u>23%</u>

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,		
	2022	2021	2020
<i>(in thousands of Canadian dollars)</i>			
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 C³ 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 C³ (\$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,		
	2022	2021	2020
<i>(in thousands of Canadian dollars)</i>			
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	<u>\$ (582,495)</u>	<u>\$ (630,231)</u>	<u>\$ (1,477,579)</u>

¹Free 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:

(CDN \$000's)	Payments due by period				
	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
	<u>\$ 2,572,131</u>	<u>\$ 295,386</u>	<u>\$ 1,037,288</u>	<u>\$ 1,157,661</u>	<u>\$ 81,796</u>

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) C³. 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 C³ 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 value 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 of 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.

Item 8. Financial Statements and Supplementary Data.

The financial statements required by this item and the reports of the independent accountants thereon required by Item 14(a)(2) appear on pages F-2 to F-58. See accompanying Index to the Financial Statements on page F-1.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, and summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report was made under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer.

Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2022, our disclosure controls and procedures (a) are effective to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is timely recorded, processed, summarized and reported and (b) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. GAAP.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk

that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of our internal control over financial reporting as of March 31, 2022, based on the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on the assessment, management has determined that our internal control over financial reporting as of March 31, 2022, was effective.

In accordance with guidance issued by the SEC, companies are permitted to exclude acquisitions from their final assessment of internal control over financial reporting for the first fiscal year in which the acquisition occurred. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has limited the evaluation of our internal controls over financial reporting to exclude controls, policies and procedures and internal controls over financial reporting of the recently acquired operations of:

- Ace Valley (acquired April 1, 2021); and
- Supreme Cannabis (acquired June 22, 2021).

The operations of Ace Valley and Supreme Cannabis combined, represent approximately 6% of our total assets and 9% of our gross revenues for the year ended March 31, 2022.

KPMG LLP, an independent registered public accounting firm, has audited our Financial Statements included in this Annual Report and issued its report on the effectiveness of our internal control over financial reporting as of March 31, 2022, which is included herein.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a–15(f) and 15d–15(f) under the Exchange Act) that occurred during our most recent quarter, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

Item 9C. Disclosures Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required under this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our fiscal year ended March 31, 2022.

Item 11. Executive Compensation.

The information required under this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our fiscal year ended March 31, 2022.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required under this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our fiscal year ended March 31, 2022.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required under this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our fiscal year ended March 31, 2022.

Item 14. Principal Accountant Fees and Services.

The information required under this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our fiscal year ended March 31, 2022.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) (1) Financial Statements

See the accompanying Index to Consolidated Financial Statement Schedule on page F-1.

(a) (2) Financial Statement Schedules

See the accompanying Index to Consolidated Financial Statement Schedule on page F-1.

(a) (3) Exhibits

Exhibit Index

Exhibit Number	Description
2.1††	Arrangement Agreement, dated as of April 18, 2019, by and between Canopy Growth Corporation and Acreage Holdings, Inc. (incorporated by reference to Exhibit 2.1 to Canopy Growth's Annual Report on Form 10-K for the year ended March 31, 2020, filed with the SEC on June 1, 2020).
2.2	First Amendment to Arrangement Agreement, dated as of May 15, 2019, by and between Canopy Growth Corporation and Acreage Holdings, Inc. (incorporated by reference to Exhibit 2.2 to Canopy Growth's Annual Report on Form 10-K for the year ended March 31, 2020, filed with the SEC on June 1, 2020).
2.3	Proposal Agreement, dated as of June 24, 2020, by and between Canopy Growth Corporation and Acreage Holdings, Inc. (incorporated by reference to Exhibit 2.1 to Canopy Growth's Current Report on Form 8-K, filed with the SEC on June 30, 2020).
2.4††	Second Amendment to the Arrangement Agreement, dated as of September 23, 2020, by and between Canopy Growth Corporation and Acreage Holdings, Inc. (incorporated by reference to Exhibit 10.1 to Canopy Growth's Current Report on Form 8-K, filed with the SEC on September 23, 2020).
3.1	Certificate of Incorporation and Articles of Amendment of Canopy Growth Corporation (incorporated by reference to Exhibit 3.1 to Canopy Growth's Annual Report on Form 10-K for the year ended March 31, 2020, filed with the SEC on June 1, 2020).
3.2	Bylaws of Canopy Growth Corporation (incorporated by reference to Exhibit 3.2 to Canopy Growth's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021, filed with the SEC on November 8, 2021).
4.1*	Description of Capital Stock of Canopy Growth Corporation.
4.2	Form of Canopy Growth Corporation Common Share Certificate (incorporated by reference to Exhibit 4.2 to Canopy Growth's Annual Report on Form 10-K for the year ended March 31, 2020, filed with the SEC on June 1, 2020).
4.3	Indenture, dated as of June 20, 2018, by and among Canopy Growth Corporation, Glas Trust Company LLC and Computershare Trust Company of Canada (incorporated by reference to Exhibit 99.1 to Canopy Growth's Form 6-K, filed with the SEC on June 26, 2018).
4.4*	Agreement of Resignation, Appointment and Acceptance, dated as of January 14, 2022, by and among Canopy Growth Corporation, Computershare Trust Company of Canada and Glas Trust Company LLC.
4.5	Tranche A Amended and Restated Common Share Purchase Warrant, dated as of June 27, 2019, granted to CBG Holdings LLC (incorporated by reference to Exhibit 4.4 to Canopy Growth's Annual Report on Form 10-K for the year ended March 31, 2020, filed with the SEC on June 1, 2020).
4.6	Tranche B Amended and Restated Common Share Purchase Warrant, dated as of June 27, 2019, granted to CBG Holdings LLC (incorporated by reference to Exhibit 4.5 to Canopy Growth's Annual Report on Form 10-K for the year ended March 31, 2020, filed with the SEC on June 1, 2020).
4.7	Tranche C Amended and Restated Common Share Purchase Warrant, dated as of June 27, 2019, granted to CBG Holdings LLC (incorporated by reference to Exhibit 4.6 to Canopy Growth's Annual Report on Form 10-K for the year ended March 31, 2020, filed with the SEC on June 1, 2020).
10.1*†	Form of Director and Officer Indemnity Agreement.
10.2*	Canopy Growth Corporation Amended and Restated Omnibus Incentive Plan.
10.3†	Form of Option Grant Agreement (U.S. and Canadian Employees) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on June 14, 2021).
10.4†	Form of Restricted Stock Unit Grant Agreement (U.S. Employees) (For Settlement in Common Shares Only) (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on June 14, 2021).
10.5†	Form of Restricted Stock Unit Grant Agreement (For Non-U.S. Employees) (For Settlement in Common Shares Only) (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on June 14, 2021).
10.6†	Form of Performance Stock Unit Grant Agreement (U.S. Employees) (incorporated by reference to Exhibit 10.4 to Canopy Growth's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021, filed with the SEC on August 6, 2021).
10.7†	Form of Performance Stock Unit Grant Agreement (Canadian Employees) (incorporated by reference to Exhibit 10.5 to Canopy Growth's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021, filed with the SEC on August 6, 2021).

- 10.8† Canopy Growth Corporation Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to Canopy Growth's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021, filed with the SEC on November 8, 2021).
- 10.9* Non-Employee Director Compensation Table.
- 10.10‡ Subscription Agreement dated as of October 27, 2017 by and between Greenstar Canada Investment Limited Partnership and Canopy Growth Corporation (incorporated by reference to Exhibit 10.7 to Canopy Growth's Annual Report on Form 10-K for the year ended March 31, 2020, filed with the SEC on June 1, 2020).
- 10.11 Subscription Agreement dated as of August 14, 2018 by and between CBG Holdings LLC and Canopy Growth Corporation (incorporated by reference to Exhibit 10.8 to Canopy Growth's Annual Report on Form 10-K for the year ended March 31, 2020, filed with the SEC on June 1, 2020).
- 10.12 Second Amended and Restated Investor Rights Agreement, dated as of April 18, 2019, by and among CBG Holdings LLC, Greenstar Canada Investment Limited Partnership and Canopy Growth Corporation (incorporated by reference to Exhibit 10.9 to Canopy Growth's Annual Report on Form 10-K for the year ended March 31, 2020, filed with the SEC on June 1, 2020).
- 10.13 Consent Agreement, dated as of April 18, 2019, by and between Canopy Growth Corporation and CBG Holdings LLC (incorporated by reference to Exhibit 10.10 to Canopy Growth's Annual Report on Form 10-K for the year ended March 31, 2020, filed with the SEC on June 1, 2020).
- 10.14 Consent Agreement, dated as of June 24, 2020, by and between Canopy Growth Corporation and CBG Holdings LLC (incorporated by reference to Exhibit 10.1 to Canopy Growth's Current Report on Form 8-K, filed with the SEC on June 30, 2020).
- 10.15† Executive Employment Agreement, dated as of December 8, 2019, by and between Canopy Growth Corporation and David Klein (incorporated by reference to Exhibit 10.21 to Canopy Growth's Annual Report on Form 10-K for the year ended March 31, 2020, filed with the SEC on June 1, 2020).
- 10.16† Amendment to Executive Employment Agreement of David Klein, dated June 8, 2021 (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K, filed with the SEC on June 14, 2021).
- 10.17‡ Debenture, dated as of September 23, 2020, issued by Universal Hemp, LLC to 11065220 Canada Inc. (incorporated by reference to Exhibit 10.2 to Canopy Growth's Current Report on Form 8-K, filed with the SEC on September 23, 2020).
- 10.18‡ Credit Agreement, dated as of March 18, 2021, among Canopy Growth Corporation and 11065220 Canada Inc., as borrowers, the lenders party thereto and Wilmington Trust, National Association, as administrative and collateral agent (incorporated by reference to Exhibit 10.1 to Canopy Growth's Current Report on Form 8-K, filed with the SEC on March 18, 2021).
- 10.19† Service Delivery Agreement, dated as of October 5, 2020, by and among Canopy Growth USA LLC, Brand House Group, N.A. Corporation and Julious Grant (incorporated by reference to Exhibit 10.18 to Canopy Growth's Annual Report on Form 10-K for the year ended March 31, 2021, filed with the SEC on June 1, 2021).
- 10.20† Amendment to Service Delivery Agreement, by and among Canopy Growth USA LLC, Brand House Group, N.A. Corporation and Julious Grant, dated June 8, 2021 (incorporated by reference to Exhibit 10.10 to Canopy Growth's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021, filed with the SEC on August 6, 2021).
- 10.21*† Employment Agreement, effective as of March 29, 2022, between Canopy Growth Corporation and Judy Hong.
- 10.23† Executive Employment Agreement, dated as of August 7, 2020, by and between Canopy Growth Corporation and Phil Shaer (incorporated by reference to Exhibit 10.12 to Canopy Growth's Annual Report on Form 10-K for the year ended March 31, 2021, filed with the SEC on June 1, 2021).
- 10.24† Amendment to Executive Employment Agreement of Phil Shaer, dated June 8, 2021 (incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K, filed with the SEC on June 14, 2021).
- 10.25† Executive Employment Agreement, dated as of December 12, 2019, by and between Canopy Growth Corporation and Rade Kovacevic (incorporated by reference to Exhibit 10.22 to Canopy Growth's Annual Report on Form 10-K for the year ended March 31, 2020, filed with the SEC on June 1, 2020).
- 10.26† Amendment to Executive Employment Agreement of Rade Kovacevic, dated June 8, 2021 (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K, filed with the SEC on June 14, 2021).
- 10.27† Executive Employment Agreement, dated as of March 31, 2020, by and between Canopy Growth Corporation and Mike Lee (incorporated by reference to Exhibit 10.23 to Canopy Growth's Annual Report on Form 10-K for the year ended March 31, 2020, filed with the SEC on June 1, 2020).
- 10.28† Amendment to Executive Employment Agreement of Mike Lee, dated June 8, 2021 (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K, filed with the SEC on June 14, 2021).
- 14.1* Canopy Growth Corporation Code of Business Conduct and Ethics.
- 21.1* List of Subsidiaries of Canopy Growth Corporation.

- 23.1* Consent of KPMG, LLP, Independent Registered Public Accounting Firm.
- 24.1* Power of Attorney (included on signature page hereto).
- 31.1* Certification of the Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1** Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2** Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS* Inline XBRL Instance Document
- 101.SCH* Inline XBRL Taxonomy Extension Schema Document
- 101.CAL* Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF* Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB* Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE* Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

† This document has been identified as a management contract or compensatory plan or arrangement.

* Filed herewith.

** This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or otherwise subject to the liability of that Section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933, as amended (the “Securities Act”), or the Exchange Act.

‡ Portions of this exhibit are redacted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

‡‡ Portions of this exhibit are redacted pursuant to Item 601(b)(2)(ii) of Regulation S-K.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Canopy Growth Corporation

Date: May 31, 2022

By: /s/ David Klein

David Klein

Chief Executive Officer

(Principal Executive Officer)

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints David Klein and Judy Hong, and each of them, as his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
_____ /s/ David Klein David Klein	Director and Chief Executive Officer (Principal Executive Officer)	May 31, 2022
_____ /s/ Judy Hong Judy Hong	Chief Financial Officer (Principal Financial Officer)	May 31, 2022
_____ /s/ Thomas Stewart Thomas Stewart	Chief Accounting Officer (Principal Accounting Officer)	May 31, 2022
_____ /s/ Robert Hanson Robert Hanson	Director	May 31, 2022
_____ /s/ David Lazzarato David Lazzarato	Director	May 31, 2022
_____ /s/ Garth Hankinson Garth Hankinson	Director	May 31, 2022
_____ /s/ Jim Sabia Jim Sabia	Director	May 31, 2022
_____ /s/ Judy Schmeling Judy Schmeling	Director, Chair	May 31, 2022
_____ /s/ Theresa Yanofsky Theresa Yanofsky	Director	May 31, 2022

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<u>Consolidated Statements of Shareholders' Equity for the Years Ended March 31, 2022, 2021, and 2020</u>	F-8
<u>Consolidated Statements of Cash Flows for the Years Ended March 31, 2022, 2021, and 2020</u>	F-11
<u>Notes to Consolidated Financial Statements</u>	F-15

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Canopy Growth Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Canopy Growth Corporation and subsidiaries (the Company) as of March 31, 2022 and 2021, the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2022, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated May 31, 2022 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is the matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Fair value measurement of the liability arising from the Acreage financial instrument

As discussed in Notes 24 and 31 to the consolidated financial statements, the Company has an obligation to acquire certain shares of Acreage Holdings, Inc., ("Acreage") in return for a specified number of the Company's common shares, and an option, exercisable at its discretion, to acquire certain other Acreage shares for cash or common shares of the Company as the Company may determine. The obligation and the option (collectively, the "Acreage financial instrument") become effective upon the occurrence (or waiver by the Company) of specified changes in United States ("US") federal laws relating to the legalization of cannabis (the "Acreage Triggering Event"). The Acreage financial instrument is recorded at fair value through earnings in the consolidated financial statements at each reporting period. As of March 31, 2022, the Acreage financial instrument was recorded as a financial liability of \$47,000 thousand, with fair value changes of \$553,000 thousand recognized in other income (expense), net in the year ended March 31, 2022.

We identified the assessment of the fair value measurement of the liability arising from the Acreage financial instrument as a critical audit matter. There was a high degree of subjective auditor judgment in the evaluation of the key assumptions that were not directly observable, including the probability of different scenarios when determining the fair value. The key assumptions included the probability of each scenario, the number of the Company's shares to be issued, the probability and timing of US legalization, the estimated premium on US legalization, and the control premium.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of the internal control over the Company's key assumptions noted above. We involved valuation professionals with specialized skills and knowledge who assisted in evaluating the Company's key assumptions noted above by assessing each scenario and the probability of each scenario being achieved for the resultant impact at the expected Acreage Triggering Event date. The evaluation was achieved by:

- performing sensitivity analyses on certain assumptions for each scenario
- evaluating the probability of each scenario, including the number of the Company's shares to be issued, and assessing the resulting impact on the fair value of the Acreage financial instrument
- evaluating the probability and timing of US legalization by monitoring political developments and the potential for relevant legislation in the US
- evaluating the assumption about the market impact of US legalization of cannabis and assessing the extent to which the anticipated legalization of cannabis is reflected in the Acreage share price
- comparing the control premium to third party evidence, including publicly available market data for comparable transactions.

/s/ KPMG LLP

We have served as the Company's auditor since 2019.

Ottawa, Canada

May 31, 2022

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Canopy Growth Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited Canopy Growth Corporation's and subsidiaries' (the Company) internal control over financial reporting as of March 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of March 31, 2022 and 2021, the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three year period ended March 31, 2022, and the related notes (collectively, the consolidated financial statements), and our report dated May 31, 2022 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired AV Cannabis Inc. and The Supreme Cannabis Company, Inc. (collectively, the Acquired Entities) during the year ended March 31, 2022, and management excluded the Acquired Entities from its assessment of the effectiveness of the Company's internal control over financial reporting as of March 31, 2022. The Acquired Entities represent approximately 6% of total assets and 9% of total revenues of the consolidated financial statements of the Company as of and for the year ended March 31, 2022. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of the Acquired Entities.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Annual Report on Form 10-K under the section entitled "Item 9A. Controls and Procedures". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

We have served as the Company's auditor since 2019.

Ottawa, Canada

May 31, 2022

CANOPY GROWTH CORPORATION
CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars, except number of shares and per share data)

	March 31, 2022	March 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 776,005	\$ 1,154,653
Short-term investments	595,651	1,144,563
Restricted short-term investments	12,216	11,332
Amounts receivable, net	96,443	92,435
Inventory	204,387	367,979
Prepaid expenses and other assets	52,700	67,232
Total current assets	1,737,402	2,838,194
Other financial assets	800,328	708,167
Property, plant and equipment	942,780	1,074,537
Intangible assets	252,695	308,167
Goodwill	1,866,503	1,889,354
Other assets	15,342	5,061
Total assets	<u>\$ 5,615,050</u>	<u>\$ 6,823,480</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 64,270	\$ 67,262
Other accrued expenses and liabilities	75,278	100,813
Current portion of long-term debt	9,296	9,827
Other liabilities	64,054	106,428
Total current liabilities	212,898	284,330
Long-term debt	1,491,695	1,573,136
Deferred income tax liabilities	15,991	21,379
Liability arising from Acreage Arrangement	47,000	600,000
Warrant derivative liability	26,920	615,575
Other liabilities	190,049	107,240
Total liabilities	1,984,553	3,201,660
Commitments and contingencies		
Redeemable noncontrolling interest	36,200	135,300
Canopy Growth Corporation shareholders' equity:		
Common shares - \$nil par value; Authorized - unlimited number of shares;		
Issued - 394,422,604 shares and 382,875,179 shares, respectively	7,482,809	7,168,557
Additional paid-in capital	2,519,766	2,415,650
Accumulated other comprehensive loss	(42,282)	(34,240)
Deficit	(6,370,337)	(6,068,156)
Total Canopy Growth Corporation shareholders' equity	3,589,956	3,481,811
Noncontrolling interests	4,341	4,709
Total shareholders' equity	3,594,297	3,486,520
Total liabilities and shareholders' equity	<u>\$ 5,615,050</u>	<u>\$ 6,823,480</u>

The accompanying notes are an integral part of these consolidated financial statements.

CANOPY GROWTH CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(in thousands of Canadian dollars, except number of shares and per share data)

	Years ended March 31,		
	2022	2021	2020
Revenue	\$ 582,218	\$ 607,198	\$ 439,626
Excise taxes	61,893	60,549	40,854
Net revenue	520,325	546,649	398,772
Cost of goods sold	713,379	479,689	430,456
Gross margin	(193,054)	66,960	(31,684)
Operating expenses			
Selling, general and administrative expenses	472,756	575,389	693,737
Share-based compensation	47,525	91,149	320,276
Expected credit losses on financial assets and related charges	-	109,480	-
Asset impairment and restructuring costs	369,339	534,398	623,266
Total operating expenses	889,620	1,310,416	1,637,279
Operating loss	(1,082,674)	(1,243,456)	(1,668,963)
Loss from equity method investments	(100)	(52,629)	(64,420)
Other income (expense), net	753,341	(387,876)	224,329
Loss before income taxes	(329,433)	(1,683,961)	(1,509,054)
Income tax recovery	8,948	13,141	121,614
Net loss	(320,485)	(1,670,820)	(1,387,440)
Net (loss) income attributable to noncontrolling interests and redeemable noncontrolling interest	(18,304)	74,100	(66,114)
Net loss attributable to Canopy Growth Corporation	<u>\$ (302,181)</u>	<u>\$ (1,744,920)</u>	<u>\$ (1,321,326)</u>
Basic and diluted loss per share	\$ (0.77)	\$ (4.69)	\$ (3.80)
Basic and diluted weighted average common shares outstanding	391,324,285	371,662,296	348,038,163
Comprehensive loss:			
Net loss	\$ (320,485)	\$ (1,670,820)	\$ (1,387,440)
Other comprehensive income (loss), net of income tax effect			
Fair value changes of own credit risk of financial liabilities	21,180	(100,170)	141,306
Foreign currency translation	(45,352)	(154,969)	85,498
Total other comprehensive income (loss), net of income tax effect	(24,172)	(255,139)	226,804
Comprehensive loss	(344,657)	(1,925,959)	(1,160,636)
Comprehensive income (loss) attributable to noncontrolling interests and redeemable noncontrolling interest	(18,304)	74,100	(66,114)
Comprehensive loss attributable to Canopy Growth Corporation	<u>\$ (326,353)</u>	<u>\$ (2,000,059)</u>	<u>\$ (1,094,522)</u>

The accompanying notes are an integral part of these consolidated financial statements.

CANOPY GROWTH CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands of Canadian dollars)

		Additional paid-in capital				Accumulated other comprehensive income (loss)		Noncontrolling interests	Total
	Common shares	Share-based reserve	Warrants	Ownership changes	Redeemable noncontrolling interest		Deficit		
Balance at March 31, 2021	\$7,168,557	\$ 480,786	\$2,568,438	\$(512,340)	\$(121,234)	\$ (34,240)	\$(6,068,156)	\$ 4,709	\$3,486,520
Other issuances of common shares and warrants	298,145	(30,457)	-	-	-	-	-	-	267,688
Replacement equity instruments from the acquisition of Supreme Cannabis	-	5,566	13,350	-	-	-	-	-	18,916
Exercise of Omnibus Plan stock options	8,855	(3,288)	-	-	-	-	-	-	5,567
Share-based compensation	-	46,686	-	-	-	-	-	-	46,686
Issuance and vesting of restricted share units	7,252	(7,252)	-	-	-	-	-	-	-
Changes in redeemable noncontrolling interest	-	-	-	-	82,003	-	-	17,097	99,100
Ownership changes relating to noncontrolling interests	-	-	-	-	-	-	-	839	839
Redemption of redeemable noncontrolling interest	-	-	-	2,617	(5,109)	-	-	-	(2,492)
Disposal of consolidated entities	-	-	-	-	-	16,130	-	-	16,130
Comprehensive loss	-	-	-	-	-	(24,172)	(302,181)	(18,304)	(344,657)
Balance at March 31, 2022	<u>\$7,482,809</u>	<u>\$ 492,041</u>	<u>\$2,581,788</u>	<u>\$(509,723)</u>	<u>\$(44,340)</u>	<u>\$ (42,282)</u>	<u>\$(6,370,337)</u>	<u>\$ 4,341</u>	<u>\$3,594,297</u>

CANOPY GROWTH CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands of Canadian dollars)

		Additional paid-in capital			Redeemable noncontrolling interest	Accumulated other comprehensive income (loss)	Deficit	Noncontrolling interests	Total
	Common shares	Share-based reserve	Warrants	Ownership changes					
Balance at March 31, 2020	\$6,373,544	\$ 517,741	\$2,638,951	\$(501,403)	\$ (40,134)	\$ 220,899	\$(4,323,236)	\$ 221,758	\$ 5,108,120
Other issuances of common shares and warrants	61,809	(33,953)	-	-	-	-	-	-	27,856
Exercise of warrants	315,699	-	(70,513)	-	-	-	-	-	245,186
Exercise of Omnibus Plan stock options	244,170	(87,273)	-	-	-	-	-	-	156,897
Share-based compensation	-	87,322	-	-	-	-	-	-	87,322
Issuance and vesting of restricted share units	3,051	(3,051)	-	-	-	-	-	-	-
Completion of plan of arrangement with RIV Capital	170,284	-	-	(10,976)	-	-	-	(313,243)	(153,935)
Changes in redeemable noncontrolling interest	-	-	-	-	(83,627)	-	-	18,077	(65,550)
Ownership changes relating to noncontrolling interests	-	-	-	39	2,527	-	-	4,017	6,583
Comprehensive (loss) income	-	-	-	-	-	(255,139)	(1,744,920)	74,100	(1,925,959)
Balance at March 31, 2021	<u>\$7,168,557</u>	<u>\$ 480,786</u>	<u>\$2,568,438</u>	<u>\$(512,340)</u>	<u>\$(121,234)</u>	<u>\$ (34,240)</u>	<u>\$(6,068,156)</u>	<u>\$ 4,709</u>	<u>\$ 3,486,520</u>

CANOPY GROWTH CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands of Canadian dollars)

		Additional paid-in capital				Accumulated other comprehensive income (loss)	Deficit	Noncontrolling interests	Total
	Common shares	Share-based reserve	Warrants	Ownership changes	Redeemable noncontrolling interest				
Balance at March 31, 2019	\$6,029,222	\$ 505,172	\$1,589,925	\$(500,963)	\$ (2,110)	\$ (5,905)	\$ (835,118)	\$ 285,485	\$ 7,065,708
Other issuances of common shares and warrants	271,966	(272,234)	359	-	-	-	-	-	91
Exercise of warrants	932	-	(486)	-	-	-	-	-	446
Exercise of Omnibus Plan stock options	69,951	(28,538)	-	-	-	-	-	-	41,413
Share-based compensation	-	312,929	-	-	-	-	-	-	312,929
Issuance of replacement equity instruments	-	1,885	-	-	-	-	-	-	1,885
Issuance and vesting of restricted share units	1,473	(1,473)	-	-	-	-	-	-	-
CBI warrant modification	-	-	1,049,153	-	-	-	(2,166,792)	-	(1,117,639)
Changes in redeemable noncontrolling interest	-	-	-	-	(38,024)	-	-	(6,489)	(44,513)
Ownership changes relating to noncontrolling interests	-	-	-	(440)	-	-	-	8,876	8,436
Comprehensive income (loss)	-	-	-	-	-	226,804	(1,321,326)	(66,114)	(1,160,636)
Balance at March 31, 2020	<u>\$6,373,544</u>	<u>\$ 517,741</u>	<u>\$2,638,951</u>	<u>\$(501,403)</u>	<u>\$ (40,134)</u>	<u>\$ 220,899</u>	<u>\$(4,323,236)</u>	<u>\$ 221,758</u>	<u>\$ 5,108,120</u>

The accompanying notes are an integral part of these consolidated financial statements.

CANOPY GROWTH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars)

	Years ended March 31,		
	2022	2021	2020
Cash flows from operating activities:			
Net loss	\$ (320,485)	\$ (1,670,820)	\$ (1,387,440)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation of property, plant and equipment	76,247	70,914	73,716
Amortization of intangible assets	38,171	56,204	51,297
Share of loss on equity method investments	100	52,629	64,420
Share-based compensation	47,525	91,149	320,276
Asset impairment and restructuring costs	332,949	519,209	571,719
Expected credit losses on financial assets and related charges	-	109,480	-
Income tax recovery	(8,948)	(13,141)	(121,614)
Non-cash fair value adjustments	(866,739)	380,758	(103,027)
Change in operating assets and liabilities, net of effects from purchases of businesses:			
Amounts receivable	3,741	(11,994)	20,979
Inventory	173,189	23,107	(33,952)
Prepaid expenses and other assets	24,472	77	(26,917)
Accounts payable and accrued liabilities	(35,844)	16,542	(11,222)
Other, including non-cash foreign currency	(10,189)	(89,843)	(190,870)
Net cash used in operating activities	(545,811)	(465,729)	(772,635)
Cash flows from investing activities:			
Purchases of and deposits on property, plant and equipment	(36,684)	(164,502)	(704,944)
Purchases of intangible assets	(11,429)	(9,639)	(16,957)
Proceeds on sale of property, plant and equipment	27,279	45,921	-
Proceeds on sale of intangible assets	-	18,337	-
Redemption (purchases) of short-term investments	545,991	(459,834)	1,427,482
Cash outflow on completion of RIV Arrangement	-	(152,801)	-
Net cash proceeds on sale of subsidiaries	118,149	-	-
Sale of (investments in) equity method investments	-	7,000	(5,135)
Investment in other financial assets	(379,414)	(44,721)	(129,590)
Investment in Acreage Arrangement	-	(49,849)	(395,190)
Loan advanced to Acreage Hempco	-	(66,995)	-
Net cash outflow on acquisition of subsidiaries	(14,947)	-	(498,838)
Other investing activities	(18,126)	(7,022)	(24,482)
Net cash provided by (used in) investing activities	230,819	(884,105)	(347,654)
Cash flows from financing activities:			
Proceeds from issuance of common shares and warrants	2,700	-	-
Proceeds from exercise of stock options	5,567	156,897	41,413
Proceeds from exercise of warrants	-	245,186	446
Issuance of long-term debt	-	893,160	14,761
Repayment of long-term debt	(50,763)	(15,619)	(114,953)
Other financing activities	(3,037)	(14,855)	1,172
Net cash (used in) provided by 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	<u>\$ 776,005</u>	<u>\$ 1,154,653</u>	<u>\$ 1,303,176</u>
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The accompanying notes are an integral part of these consolidated financial statements.

CANOPY GROWTH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars)

	Years ended March 31,		
	2022	2021	2020
Supplemental disclosure of cash flow information			
Cash received during the period:			
Income taxes	\$ 1,299	\$ 4,068	\$ -
Interest	\$ 16,175	\$ 26,279	\$ 66,327
Cash paid during the period:			
Income taxes	\$ 2,641	\$ 22,769	\$ 5,460
Interest	\$ 119,249	\$ 25,649	\$ 25,472
Noncash investing and financing activities			
Additions to property, plant and equipment	\$ 1,408	\$ 9,962	\$ 44,573

The accompanying notes are an integral part of these consolidated financial statements.

CANOPY GROWTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)

1. DESCRIPTION OF BUSINESS

Canopy Growth Corporation is a publicly traded corporation, incorporated in Canada, with its head office located at 1 Hershey Drive, Smiths Falls, Ontario. References in these consolidated financial statements to “Canopy Growth” or “the Company” refer to Canopy Growth Corporation and its subsidiaries.

The principal activities of the Company are the production, distribution and sale of a diverse range of cannabis and cannabinoid-based products for both adult recreational and medical purposes under a portfolio of distinct brands in Canada pursuant to the *Cannabis Act*, which came into effect on October 17, 2018 and regulates both the medical and recreational cannabis markets in Canada. The Company has also expanded to jurisdictions outside of Canada where cannabis and/or hemp is federally lawful, permissible and regulated, and the Company, through its’ subsidiaries, operates in the United States, Germany, and certain other global markets. Additionally, the Company produces, distributes and sells a range of other consumer products globally, including vaporizers; beauty, skincare, wellness and sleep products; and sports nutrition beverages.

In the year ended March 31, 2020, the Company commenced an organizational and strategic review of its business which resulted in a restructuring of the Company’s global operations, including the closure of certain of the Company’s production facilities and other organizational and operational changes. The Company’s restructuring actions continued during the years ended March 31, 2021 and March 31, 2022. Please refer to Note 5 for further details regarding these restructuring actions.

On February 23, 2021, the Company completed a plan of arrangement with its partially-owned subsidiary RIV Capital Inc. (formerly Canopy Rivers Inc.) (“RIV Capital”) and its wholly-owned subsidiary, RIV Capital Corporation (formerly Canopy Rivers Corporation) (“RCC”). As a result of this transaction, the Company no longer controlled RIV Capital and derecognized RIV Capital’s consolidated assets and liabilities from its consolidated financial statements. Refer to Note 6 for a description of the plan of arrangement with RIV Capital.

2. BASIS OF PRESENTATION

The consolidated financial statements have been presented in Canadian dollars and are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Canopy Growth has 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. Our consolidated 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.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all entities in which the Company either has a controlling voting interest or is the primary beneficiary of a variable interest entity. All intercompany accounts and transactions have been eliminated on consolidation.

Variable interest entities

A variable interest entity (“VIE”) is an entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to control the entity’s activities or do not substantially participate in the gains and losses of the entity. Upon inception of a contractual agreement, and thereafter, if a reconsideration event occurs, the Company

performs an assessment to determine whether the arrangement contains a variable interest in an entity and whether that entity is a VIE. The primary beneficiary of a VIE is the party that has both the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. Under Accounting Standards Codification ("ASC") 810 – *Consolidations*, where the Company concludes that it is the primary beneficiary of a VIE, the Company consolidates the accounts of that VIE.

Equity method investments

Investments accounted for using the equity method include those investments where the Company (i) can exercise significant influence over the other entity and (ii) holds common stock and/or in-substance common stock of the other entity. Under the equity method, investments are carried at cost, and subsequently adjusted for the Company's share of net income (loss), comprehensive income (loss) and distributions received from the investee. If the current fair value of an investment falls below its carrying amount, this may indicate that an impairment loss should be recorded. Any impairment losses recognized are not reversed in subsequent periods.

Use of estimates

The preparation of these consolidated financial statements and accompanying notes in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

In preparing the financial statements of individual entities, transactions in currencies other than the entity's functional currency are recognized at exchange rates in effect on the date of the transactions. At each reporting date monetary assets and liabilities denominated in foreign currencies are re-translated at the exchange rates applicable at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Realized and unrealized exchange gains and losses are recognized through net income (loss).

For the purposes of presenting consolidated financial statements, the assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rates applicable at the balance sheet date. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates. Exchange differences resulting from translating foreign operations are recognized in accumulated other comprehensive income (loss).

Cash equivalents and short-term investments

Cash equivalents consist of highly liquid investments with original maturities of three months or less. Investments with maturities greater than 90 days but less than one year at the date of purchase are included in short-term investments.

The Company's investments in debt securities, which consist primarily of U.S. government securities and U.S. commercial paper, have been classified and accounted for using the fair value option. Unrealized gains and losses on debt securities are recognized in net income (loss). All other short-term investments are recorded at fair value with gains or losses recognized in net income (loss).

Inventory

Inventory consists of raw materials, supplies and consumables used in the inventory process, merchandise for sale, finished goods and work-in-process such as pre-harvested cannabis plants, by-products to be extracted, oils, gel capsules and edible products. Inventory is valued at the lower of cost and net realizable value. Costs include direct and indirect labor, consumables, materials, packaging supplies, utilities, facilities costs, quality and testing costs, production related depreciation and other overhead costs. The Company records inventory reserves for obsolete and slow-moving inventory. Inventory reserves are based on inventory obsolescence trends, age of inventory, historical experience and application of the specific identification method. The Company classifies cannabis inventory as a current asset, although part of such inventory, because of the duration of the cultivation, drying, and conversion process, ordinarily would not be utilized within one year.

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation. Major additions and improvements are capitalized, while maintenance and repairs are expensed as incurred. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items or components of property, plant and equipment. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the respective accounts and any related gain or loss is recognized in net income (loss).

Depreciation is calculated on a straight-line basis over the expected useful lives of the assets, which are as follows:

	Years
Buildings and greenhouses	20 - 50
Production and warehouse equipment	5 - 30
Leasehold improvements	3 - 20
Office and lab equipment	3 - 10
Computer equipment	3 - 10

Estimates of useful life and residual value, and the method of depreciation, are reviewed only when events or changes in circumstances indicate that the current estimates or depreciation method are no longer appropriate. Any changes are accounted for on a prospective basis as a change in estimate.

Intangible assets

Finite lived intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is provided on a straight-line basis over the following terms:

	Years
Intellectual property	5 - 15
Distribution channel	5 - 11
Operating licenses	8
Software and domain names	3 - 5
Brands	2 - 5

The estimated useful life and amortization method are reviewed at the end of each reporting year, with the effect of any changes in estimate being accounted for on a prospective basis.

Goodwill and indefinite lived intangible assets

Goodwill is allocated to the reporting unit in which the business that created the goodwill resides. A reporting unit is an operating segment, or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. The Company reviews goodwill and indefinite lived intangible assets annually for impairment in the fourth quarter, or sooner, if events or circumstances indicate that the carrying amount of an asset may not be recoverable. The Company may elect to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If factors indicate this is the case, then a quantitative test is performed and an impairment is recorded for any excess carrying value above the reporting unit's fair value, not to exceed the amount of goodwill.

Until the three months ended March 31, 2021, the Company had two operating segments, which were also its reportable segments: (i) cannabis, hemp and other consumer products; and (ii) RIV Capital. The goodwill associated with all acquisitions was allocated to the one reporting unit within the cannabis, hemp and other consumer products operating and reportable segment, as this reporting unit held the acquired entities. The Company changed the structure of its internal management reporting in the fourth quarter of the year ended March 31, 2021 (refer to Note 35), and accordingly, identified two operating and reportable segments: (i) global cannabis; and (ii) other consumer products. The reorganization of the Company's reporting structure changed the composition of its reporting units and required that goodwill be reassigned to the reporting units using a relative fair value allocation approach. Assets and liabilities were also reassigned to the reporting units affected based on the assets that would be employed in, or the liabilities related to, the operations of each reporting unit, and the assets or liabilities that would be considered in determining the fair value of each reporting unit. After this reorganization, the Company's reporting units with goodwill in the global cannabis segment included (i) cannabis operations, and (ii) C³ Cannabinoid Compound Company GmbH ("C³"); and in the other consumer products segment included (i) Storz & Bickel, (ii) This Works, and (iii) BioSteel.

In the three months ended March 31, 2022, the Company further changed the composition of its reporting units within the global cannabis segment as a result of (i) the completion of the Company's divestiture (the "C³ Divestiture") of its interest in C³ (see Note 30); and (ii) a strategic shift in the Company's KeyLeaf Life Sciences ("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. There were no changes to the reporting units included in the Company's other consumer products segment in the year ended March 31, 2022.

The Company performed its annual goodwill impairment test in the fourth quarter of the year ended March 31, 2022, and recognized an impairment loss in relation to its KeyLeaf and This Works reporting units. Refer to Note 15 for further details.

Indefinite lived intangible assets are comprised of certain acquired brand names and operating licenses, which are carried at cost less accumulated impairment losses. The Company reviews the classification each reporting period to decide whether the assessment made about the useful life as indefinite or finite is still appropriate. Any change is accounted for on a prospective basis as a change in estimate.

Impairment of long-lived assets

The Company evaluates the recoverability of long-lived assets, including property, plant and equipment and finite lived intangible assets whenever events or changes in circumstances indicate a potential impairment exists. The Company groups assets at the lowest level for which cash flows are separately identifiable, referred to as an asset group. When indicators of potential impairment are present the Company prepares a projected undiscounted cash flow analysis for the respective asset or asset group. If the sum of the undiscounted cash flow is less than the carrying value of the asset or asset group, an impairment loss is recognized equal to the excess of the carrying value over the fair value, if any.

Restricted short-term investments

The Company considers short-term investments to be restricted when withdrawal or general use is legally restricted. The Company records restricted short-term investments as current or non-current in the consolidated balance sheets based on the classification of the underlying securities.

Redeemable noncontrolling interest

Redeemable noncontrolling interest is presented as mezzanine equity. The balance of the redeemable noncontrolling interest is reported at the greater of the initial carrying amount adjusted for the redeemable noncontrolling interest's share of earnings or losses and other comprehensive income or loss, or its estimated redemption value. The Company adjusts the carrying amount of the redeemable interest to the redemption amount each period, assuming the interest was redeemable at the balance sheet date with changes in fair value recorded in equity.

Revenue recognition

The Company's cannabis revenue is comprised of sales of (i) recreational cannabis products in Canada, either to government agencies or third-party retailers under a "business-to-business" wholesale model, or directly to consumers through the Company's network of retail stores and e-commerce platforms; and (ii) medical and other cannabis products in Canada and certain other countries. The Company's other revenue is comprised of sales of vaporizers, beauty, wellness and sleep products, sports nutrition beverages, merchandise, and revenue from other sources.

The Company's revenue-generating activities have a single performance obligation and revenue is recognized at the point in time when control of the product transfers and the Company's obligations have been fulfilled. This generally occurs when the product is shipped or delivered to the customer, depending upon the method of distribution and shipping terms set forth in the customer contract. In accordance with contracts with certain of the Company's Canadian provincial customers, the Company fulfills its obligations only when the customer transfers control of the product to the end consumer. Revenue is measured as the amount of consideration the Company expects to receive in exchange for the sale of the Company's product. Certain of the Company's customer contracts, most notably those with the Canadian provincial and territorial agencies, may provide the customer with a right of return. In certain circumstances the Company may also provide a retrospective price adjustment to a customer. These items give rise to variable consideration, which is recognized as a reduction of the transaction price based upon the expected amounts of the product returns and price adjustments at the time revenue for the corresponding product sale is recognized. The determination of the reduction of the transaction price for variable consideration requires that the Company make certain estimates and assumptions that affect the timing and amounts of revenue recognized. The Company estimates this variable consideration by taking into account factors such as historical information, current trends, forecasts, provincial and territorial inventory levels, availability of actual results and expectations of demand. The Company recognizes a liability for sales refunds within other current liabilities, and an asset for the value of inventory which is expected to be returned is recognized within prepaid expenses and other assets on the consolidated balance sheets.

Sales of products are for cash or otherwise agreed-upon credit terms. The Company's payment terms vary by location and customer; however, the time period between when revenue is recognized and when payment is due is not significant. The Company estimates and reserves for its bad debt exposure based on its experience with past due accounts and collectability, write-off history, the aging of accounts receivable and an analysis of customer data.

Cost of goods sold

The types of costs included in cost of goods sold are raw materials, packaging materials, manufacturing costs, plant facilities administrative support and overheads, and freight and warehouse costs, including distribution costs.

Advertising

Advertising costs are expensed as incurred. Advertising expenses totaled \$104,221, \$72,377 and \$78,474 in the years ended March 31, 2022, 2021, and 2020, respectively.

Research and development

Research and development costs are expensed as incurred. Research and development expenses totaled \$32,344, \$57,582, and \$61,812 in the years ended March 31, 2022, 2021, and 2020, respectively.

Asset impairment and restructuring costs

Asset impairment and restructuring costs consist of property, plant and equipment, intangible asset and goodwill impairment charges, asset abandonment costs, contractual and other settlement costs, and employee-related and other restructuring costs recognized in connection with (i) the restructuring of the Company's global operations that commenced in the year ended March 31, 2020 and continued during the years ended March 31, 2021 and March 31, 2022; and (ii) other impairments. When a long-lived asset is abandoned its carrying amount is adjusted to its salvage value, if any. In determining the salvage value of our long-lived assets, management considers information from manufacturers, historical data, and industry standards. In certain cases, management may obtain third party appraisals to estimate salvage value.

Share-based compensation

The Company accounts for share-based compensation using the fair value method. With the exception of a limited number of share-based awards subject to market-based performance conditions that are valued using the Monte Carlo simulation model, the fair value of awards granted is estimated at the date of grant using the Black-Scholes model. The share-based compensation expense is based on the fair value of share-based awards at the grant date and the expense is recognized over the related service period following a graded vesting expense schedule. Forfeitures are estimated at the time of grant and revised in subsequent periods if there is a difference in actual forfeitures and the estimate. Effective April 1, 2018, the Company early-adopted ASU 2018-07 – *Compensation - Stock Compensation (Topic 718)*, which among other items, aligns the accounting for non-employee awards with that of employee awards.

For awards with service and/or non-market based performance conditions, the amount of compensation expense recognized is based on the number of awards expected to vest, reflecting estimated expected forfeitures, and is adjusted to reflect those awards that do ultimately vest. For awards with performance conditions, the Company recognizes the compensation expense if and when the Company concludes that it is probable that the performance condition will be achieved. The Company reassesses the probability of achieving the performance condition at each reporting date. Restricted stock units ("RSUs") that are settled in cash or common stock at the election of the employee are remeasured to fair value at the end of each reporting period until settlement. This fair value is based on the closing price of the Company's common shares on the last business day before each period end.

Income taxes

Income taxes are comprised of current and deferred taxes. These taxes are accounted for using the liability method. Current tax is recognized in connection with income for tax purposes, unrealized tax benefits and the recovery of tax paid in a prior period and measured using the enacted tax rates and laws applicable to the taxation period during which the income for tax purposes arose. Deferred tax is recognized on the difference between the carrying amount of an asset or a liability, as reflected in the financial statements, and the corresponding tax base, used in the computation of income for tax purposes (“temporary difference”) and measured using the enacted tax rates and laws as at the balance sheet date that are expected to apply to the income that the Company expects to arise for tax purposes in the period during which the difference is expected to reverse. Management assesses the likelihood that a deferred tax asset will be realized and a valuation allowance is provided to the extent that it is more likely than not that all or a portion of a deferred tax asset will not be realized. The determination of both current and deferred taxes reflects the Company's interpretation of the relevant tax rules and judgement.

An unrealized tax benefit may arise in connection with a period that has not yet been reviewed by the relevant tax authority. A change in the recognition or measurement of an unrealized tax benefit is reflected in the period during which the change occurs.

Income taxes are recognized in the consolidated statement of operations, except when they relate to a pre-tax item that is recognized in other comprehensive income (loss) or directly in equity, respectively. Income taxes recognized in other comprehensive income (loss) or equity are reclassified to the consolidated statement of operations if the corresponding pre-tax item is reclassified to the consolidated statement of operations. Where income taxes arise from the initial accounting for a business combination, these are embedded in the pre-tax accounting for the business combination.

Interest and penalties in respect of income taxes are not recognized in the consolidated statement of operations as a component of income taxes but as a component of interest expense.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing reported net income (loss) by the weighted average number of common shares outstanding for the reporting period. Diluted earnings (loss) per share is computed by dividing earnings (loss) by the sum of the weighted average number of common shares and the number of dilutive potential common share equivalents outstanding during the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common shares of the Company during the reporting periods. Potential dilutive common share equivalents consist of the incremental common shares issuable upon the exercise of warrants, vested share options, RSUs and the incremental shares issuable upon conversion of the convertible senior notes. As at March 31, 2022, March 31, 2021, and March 31, 2020, all instruments were anti-dilutive.

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company calculates the estimated fair value of financial instruments using quoted market prices whenever available. When quoted market prices are not available, the Company uses standard pricing models.

For other financial assets measured at fair value that earn interest, the Company has elected to present interest income as part of the fair value change in other income (expense), net.

COVID-19 estimation uncertainty

In March 2020, the World Health Organization recognized the outbreak of COVID-19 as a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, did not materially impact the Company's operations during the years ended March 31, 2022, March 31, 2021 and March 31, 2020. The production and sale of cannabis have been recognized as essential services in Canada and across Europe. Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Company's business, financial position and operating results in the future. Additionally, it is possible that estimates in the Company's consolidated financial statements will change in the near term as a result of COVID-19. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

4. NEW ACCOUNTING POLICIES

Recently Adopted Accounting Pronouncements

Income Taxes

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which among other things, eliminates certain exceptions in the current rules regarding the approach for intraperiod tax allocations and the methodology for calculating income taxes in an interim period, and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. Canopy Growth prospectively adopted ASU 2019-12 as of April 1, 2021. There was no material impact of adopting ASU 2019-12 on the consolidated financial statements.

Investments-Equity Securities

In January 2020, the FASB issued ASU 2020-01, *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*. ASU 2020-01 clarifies the interaction of accounting for the transition into and out of the equity method. The new standard also clarifies the accounting for measuring certain purchased options and forward contracts to acquire investments. The Company adopted ASU 2020-01 as of April 1, 2021. There was no impact of adopting ASU 2020-01 on the consolidated financial statements.

Accounting Guidance not yet adopted

Convertible Instruments and Contracts in an Entity's Own Equity

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* ("ASU 2020-06"), which simplifies the accounting for convertible instruments by reducing the number of accounting models for convertible debt instruments and convertible preferred stock. In addition, ASU 2020-06 enhances information transparency by making targeted improvements to the disclosures for convertible instruments and earnings-per-share guidance and amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions. ASU 2020-06 is effective for interim and annual periods beginning after December 15, 2021, with early adoption permitted after December 15, 2020. The Company is evaluating the impact on the consolidated financial statements and expects to implement the provisions of ASU 2020-06 effective April 1, 2022.

5. ASSET IMPAIRMENT AND RESTRUCTURING COSTS

Year Ended March 31, 2022

Restructuring and other charges

In the year ended March 31, 2022, the Company recorded charges associated with operational changes resulting from its continuing strategic review of its business. The Company recorded charges in the three months ended June 30, 2021 related to a strategic review of the business conducted as a result of acquisitions completed in that period (see Note 29), which resulted in the closure of the Company's Niagara-on-the-Lake, Ontario and Langley, British Columbia facilities. In the three months ended March 31, 2022, the Company recorded further charges related to further restructuring actions aligned to its strategic review of the 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 the Company's supply chain and procurement; (iv) aligning general and administrative costs with short-term business expectations; and (v) further streamlining the organization to drive process-related efficiencies.

The Company also recorded charges associated with changes in the estimated fair value of certain of the Company's Canadian sites that were closed in December 2020, and costs associated with the closure of those sites. Refer to discussion below for restructuring actions in the year ended March 31, 2021.

The Company recorded total inventory write-downs and associated restructuring charges of \$123,669 in the year ended March 31, 2022, 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.

As a result of these actions, the Company recognized aggregate pre-tax charges of \$429,810 in the year ended March 31, 2022, and reduced headcount by approximately 250 full-time positions.

Other impairments

Goodwill

The Company performed its annual goodwill impairment test in the three months ended March 31, 2022, and recognized impairment losses totaling \$40,748, of which \$22,355 relates to the KeyLeaf reporting unit and \$18,393 relates to the This Works reporting unit. Refer to Note 15 for further details.

Intangible assets

In the year ended March 31, 2022, the Company recognized asset impairment charges totaling \$26,065 related to certain of its acquired brands and operating licenses. These impairment charges were identified by the Company during its annual impairment testing process, which was conducted in the three months ended March 31, 2022, and reflected in asset impairment and restructuring costs.

These other impairment charges related to goodwill and intangible assets are in addition to the restructuring and impairment costs described above and which are associated with the Company's restructuring actions.

A summary of the pre-tax charges totaling \$496,623 recognized in connection with the Company's restructuring actions and other impairments 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	<u>\$ 429,810</u>	<u>\$ 66,813</u>	<u>\$ 496,623</u>

Costs recorded in cost of goods sold

In the year ended March 31, 2022, the Company recognized charges of \$123,669 relating to inventory write-downs and associated restructuring charges, as described above.

Costs recorded in operating expenses

The Company recognized asset impairment and restructuring costs of \$302,526 in the year ended March 31, 2022 as a result of the restructuring actions described above. The Company impaired and abandoned certain production facilities and brand and intellectual property intangible assets, and a loss totaling \$266,130 was recognized in the year ended March 31, 2022, representing the difference between the net book value of the long-lived assets and their estimated salvage value or fair value. Of this loss, \$224,726 related to property, plant and equipment, and related primarily to buildings and greenhouses, and production and warehouse equipment, and \$41,404 related to brand and intellectual property intangible assets.

In the year ended March 31, 2022, the Company recognized contractual and other settlement obligations of \$6,610 and employee-related and other restructuring costs of \$29,786.

In the year ended March 31, 2022, as a result of the restructuring actions described above, the Company accelerated share-based compensation expense relating to the unvested milestones associated with acquisitions completed in prior fiscal years. Accordingly, the Company recognized share-based compensation expense of \$3,615 in the year ended March 31, 2022.

Year Ended March 31, 2021

Restructuring and other charges

In the three months ended June 30, 2020, the Company completed certain of the restructuring actions that had commenced in the year ended March 31, 2020 (refer to discussion below for restructuring actions in the year ended March 31, 2020), including completing the exit of the Company's operations in South Africa and Lesotho, and the Company recorded final adjustments related to changes in certain estimates recorded at March 31, 2020. In addition, the Company incurred additional costs related primarily to the rationalization of its marketing organization in April 2020. In the three months ended September 30, 2020, the Company recorded (i) adjustments related to changes in the estimated fair value of certain of its Canadian production facilities from March 31, 2020, and (ii) charges related to rationalizing certain research and development activities.

In December 2020, as the partial outcome of an ongoing end-to-end strategic review of its operations, the Company announced a series of Canadian operational changes designed to streamline its operations and further improve its gross margins. The Company has ceased operations at its sites in St. John's, Newfoundland and Labrador; Fredericton, New Brunswick; Edmonton, Alberta; Bowmanville, Ontario; as well as its outdoor cannabis grow operations in Saskatchewan. As a result of these restructuring actions, the Company reduced headcount by approximately 220 full-time positions, and abandoned or impaired certain of its production facilities and intangible assets. Additionally, the Company (i) completed the sale of its production facilities in Aldergrove and Delta, British Columbia in December 2020 and January 2021, respectively, for combined proceeds of \$40,650; and (ii) recorded additional charges related to the shifting of the Company's strategy in Latin America, which the Company commenced in the three months ended March 31, 2020.

In addition to recording adjustments associated with changes in certain estimates related to the closure of its Canadian production facilities, in the three months ended March 31, 2021, the Company recognized costs associated with the closure of the production facilities, and rationalizing certain licensing arrangements. This included (i) the impairment of the Company's equity method investment in More Life in the amount of \$10,300; (ii) the difference between the termination payment made by the Company to More Life, and the remaining minimum royalty obligations owing to More Life that were derecognized (refer to Note 29(d)); and (iii) charges associated with terminating a licensing agreement with a third party (which included derecognizing the remaining minimum royalty obligations owing to the third party in the amount of \$18,810).

The Company recorded total inventory write-downs of \$25,985 in the year ended March 31, 2021 related to the closure of certain of its Canadian and international production facilities.

As a result of these actions the Company recognized aggregate pre-tax charges of \$564,049 in the year ended March 31, 2021.

Other impairments

In the year ended March 31, 2021, the Company recognized licensed brand intangible asset impairment charges totaling \$6,634, which were identified during its annual impairment testing process and reflected in asset impairment and restructuring costs. These other impairment charges are in addition to the restructuring and impairment costs described above and associated with the Company's restructuring actions.

A summary of the pre-tax charges totaling \$570,683 recognized in connection with the Company's restructuring actions and other impairments 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	<u>\$ 564,049</u>	<u>\$ 6,634</u>	<u>\$ 570,683</u>

Costs recorded in cost of goods sold

In the year ended March 31, 2021, the Company recognized charges of \$25,985 relating to inventory write-downs associated with its restructuring activities, as described above.

Costs recorded in operating expenses

The Company recognized asset impairment and restructuring costs of \$527,764 in the year ended March 31, 2021 as a result of the restructuring actions described above.

As a result of the restructuring actions described above the Company impaired and abandoned certain production facilities, and operating license intangible assets. A loss totaling \$481,259 was recognized in the year ended March 31, 2021 representing the difference between the net book value of the long-lived assets and their estimated salvage value or fair value. Of this loss, \$426,748 related to property, plant and equipment and \$54,511 related to facility operating license intangible assets. The losses relating to property, plant and equipment were primarily attributable to buildings and greenhouses, and production and warehouse equipment.

In the year ended March 31, 2021, the Company recognized contractual and other settlement obligations of \$22,352 and employee-related and other restructuring costs of \$24,153, which included costs associated with the remediation of damages caused by the fire at the Delta facility in November, the closure of the Canadian facilities as described above, and the sale of the British Columbia facilities.

Year Ended March 31, 2020

Restructuring and other charges

In the three months ended March 31, 2020, the Company commenced an organizational and strategic review of its business which resulted in the following restructuring actions designed to improve organizational focus, streamline operations and align the Company's production capability with projected demand: (i) the closure of certain of the Company's greenhouses as they are no longer essential to our Canadian cannabis cultivation footprint; (ii) exiting non-strategic geographies, including South Africa and Lesotho and the Company's hemp farming operations in New York, and shifting the Company's strategy in Colombia; and (iii) rationalizing certain marketing and research and development activities. The Company recorded a write-down

of inventory in the amount of \$55,890 related to these restructuring actions, as well as additional amounts totaling \$76,199 deemed excess based on current and projected market demand.

As a result of these actions the Company recognized aggregate pre-tax charges of \$742,929 in the year ended March 31, 2020 and reduced headcount by approximately 600 full-time positions.

Other impairments

In the year ended March 31, 2020, the Company recognized contractual and other settlement obligations and brand and license impairment charges totaling \$60,020, which were identified during its annual impairment testing process. These charges are reflected in asset impairment and restructuring costs. Additionally, the Company recognized impairment charges relating to certain of its equity method investments totaling \$40,326. These charges are recorded in other income (expense), net within the consolidated statements of operations. These other impairment charges are in addition to the restructuring and impairment costs described above and associated with the Company's restructuring actions.

A summary of the pre-tax charges totaling \$843,275 recognized in connection with the Company's restructuring actions and other impairments 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	<u>\$ 742,929</u>	<u>\$ 100,346</u>	<u>\$ 843,275</u>

Costs recorded in cost of goods sold

In the year ended March 31, 2020, the Company recognized charges of \$132,089 relating to restructuring charges and inventory write-downs, as described above.

Costs recorded in operating expenses

The Company recognized asset impairment and restructuring costs of \$563,246 in the year ended March 31, 2020 as a result of the restructuring actions described above.

As a result of the restructuring actions described above the Company impaired and abandoned certain production facilities, operating licenses and other intangible assets. A loss totaling \$527,951 was recognized in the year ended March 31, 2020 representing the difference between the net book value of the long-lived assets

and their estimated salvage value or fair value. Of this loss, \$334,964 related to property, plant and equipment and \$192,987 related to brand, intellectual property and license intangible assets. The losses relating to property, plant and equipment were primarily attributable to buildings and greenhouses, and production and warehouse equipment.

In the year ended March 31, 2020, the Company recognized contractual and other settlement obligations of \$18,712 and employee-related and other restructuring costs of \$16,583.

In the year ended March 31, 2020, as a result of the restructuring of our operations in Colombia and Lesotho, the Company accelerated share-based compensation expense relating to the unvested milestones associated with the acquisitions of Spectrum Cannabis Colombia S.A.S. (“Spectrum Colombia”), Canindica Capital Ltd. (“Canindica”), and DaddyCann Lesotho PTY Limited (“DCL”) in the year ended March 31, 2019. Accordingly, the Company recognized share-based compensation expense of \$32,694 in the year ended March 31, 2020.

6. PLAN OF ARRANGEMENT WITH RIV CAPITAL

On December 21, 2020, the Canopy Growth entered into an arrangement agreement (the “RIV Arrangement Agreement”) with its wholly-owned subsidiary The Tweed Tree Lot Inc. (“Tweed NB”), RIV Capital and its wholly-owned subsidiary RCC, pursuant to which Canopy Growth acquired certain assets from RCC, as set out below, in exchange for cash, Canopy Growth common shares and the surrender of all shares in the capital of RIV Capital held by Canopy Growth in accordance with a plan of arrangement under the *Business Corporations Act* (Ontario) (the “RIV Arrangement”). The RIV Arrangement was completed on February 23, 2021.

Pursuant to the RIV Arrangement, Canopy Growth increased its conditional ownership interest in TerrAscend Corp. (“TerrAscend”) through the acquisition of (i) 19,445,285 exchangeable shares in the capital of TerrAscend (the “TerrAscend Exchangeable Shares”) held by RCC; (ii) 2,225,714 common share purchase warrants in the capital of TerrAscend with an exercise price of \$5.95 per share held by RCC; (iii) 333,723 common share purchase warrants in the capital of TerrAscend with an exercise price of \$6.49 per share held by RCC; and (iv) a loan receivable owing by TerrAscend Canada Inc. (“TerrAscend Canada”) to RCC. The securities in the capital of TerrAscend held by Canopy Growth are not currently convertible or exercisable and will not be convertible or exercisable until federal laws in the United States with respect to marijuana are amended. Pursuant to the RIV Arrangement, Canopy Growth also acquired (i) all of the Class A preferred shares in the capital of Les Serres Vert Cannabis Inc. (“Vert Mirabel”) held by RCC; and (vi) 143 common shares in the capital of Vert Mirabel, thereby increasing Canopy Growth’s ownership of the issued and outstanding common shares in the capital of Vert Mirabel to approximately 55%. In addition, all of the obligations of Tweed NB owing to RCC pursuant to a royalty agreement between the parties were terminated.

In exchange for the foregoing, Canopy Growth (i) surrendered 36,468,318 Class B multiple voting shares (“MVS”) and 15,223,938 Class A subordinate voting shares (“SVS”) in the capital of RIV Capital; (ii) made a cash payment to RCC of \$115,000; and (iii) issued 3,647,902 Canopy Growth common shares to RCC. As a result, following completion of the RIV Arrangement, Canopy Growth no longer had any equity, debt or other interest in RIV Capital, and no longer had any representation on the RIV Capital board of directors.

Following completion of the RIV Arrangement, Canopy Growth now owns 38,890,570 TerrAscend Exchangeable Shares, an aggregate of 22,474,130 common share purchase warrants in the capital of TerrAscend (the “TerrAscend warrants”) and is deemed to own an aggregate of 1,072,450 common shares of TerrAscend that are subject to an option agreement entered into in January 2021 (the “TerrAscend Option”). Canopy Growth beneficially owns, and exercise control or direction over approximately 15% of the issued and outstanding TerrAscend common shares on a fully-diluted basis.

Following this transaction, Canopy Growth no longer controls RIV Capital, and Canopy Growth derecognized the consolidated assets and liabilities of RIV Capital from its consolidated financial statements at their carrying amounts. The derecognized assets and liabilities on February 23, 2021, were as follows:

Acquired assets

TerrAscend Exchangeable Shares	\$ 291,500
TerrAscend warrants	32,000
Preferred shares in Vert Mirabel	22,600
Settlement of Tweed NB obligations to RCC	15,000
TerrAscend loan	10,000
Common shares in Vert Mirabel	9,075
Total acquired assets	\$ 380,175
Consideration paid in shares	(170,284)
Consideration paid in cash	(115,000)
	<u>\$ 94,891</u>

Derecognition of RIV Capital net assets

Cash and cash equivalents	\$ 37,801
Amounts receivable, net	4,327
Prepaid expenses and other assets	995
Equity method investments	5,114
Other financial assets	417,256
Property, plant and equipment	729
Intangible assets	86
Accounts payable	(22,038)
Other accrued expenses and liabilities	(1,703)
Other current liabilities	(32,653)
Other long-term liabilities	(303)
Noncontrolling interests and other	(315,144)
	<u>\$ 94,467</u>
Gain on completion of RIV Arrangement	<u>\$ 424</u>

The gain calculated on the derecognition of RIV Capital's assets and liabilities is the difference between the carrying amounts of the derecognized assets and liabilities of RIV Capital and the fair value of the consideration transferred, being the cash payment made to RCC in the amount of \$115,000, the fair value of the Canopy Growth common shares issued to RCC, and the assets acquired.

7. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are as follows:

	March 31, 2022	March 31, 2021
Cash	\$ 470,682	\$ 436,588
Cash equivalents	305,323	718,065
	<u>\$ 776,005</u>	<u>\$ 1,154,653</u>

8. SHORT-TERM INVESTMENTS

The components of short-term investments are as follows:

	March 31, 2022	March 31, 2021
Term deposits	\$ 319,092	\$ 463,824
Government securities	22,253	136,620
Asset-backed securities	21,905	16,342
Commercial paper and other	232,401	527,777
	<u>\$ 595,651</u>	<u>\$ 1,144,563</u>

The amortized cost of short-term investments at March 31, 2022 is \$599,862 (March 31, 2021 – \$1,145,364).

9. AMOUNTS RECEIVABLE, NET

The components of amounts receivable, net are as follows:

	March 31, 2022	March 31, 2021
Accounts receivable, net	\$ 78,059	\$ 67,106
Indirect taxes receivable	7,524	8,281
Interest receivable	4,406	5,140
Other receivables	6,454	11,908
	<u>\$ 96,443</u>	<u>\$ 92,435</u>

Included in the accounts receivable, net balance at March 31, 2022 is an allowance for doubtful accounts of \$4,764 (March 31, 2021 – \$1,411).

10. INVENTORY

The components of inventory are as follows:

	March 31, 2022	March 31, 2021
Raw materials, packaging supplies and consumables	\$ 26,821	\$ 55,554
Work in progress	65,245	223,652
Finished goods	112,321	88,773
	<u>\$ 204,387</u>	<u>\$ 367,979</u>

In the year ended March 31, 2022, the Company recorded write-downs related to inventory in cost of goods sold of \$237,147 (year ended March 31, 2021 – \$79,859), including charges of \$116,770 (year ended March 31, 2021 – \$25,985) associated with the strategic review, as described in Note 5.

11. PREPAID EXPENSES AND OTHER ASSETS

The components of prepaid and other assets are as follows:

	March 31, 2022	March 31, 2021
Prepaid expenses	\$ 23,041	\$ 28,349
Deposits	10,145	18,316
Prepaid inventory	449	1,496
Other assets	19,065	19,071
	<u>\$ 52,700</u>	<u>\$ 67,232</u>

12. OTHER FINANCIAL ASSETS

The following tables outline changes in other financial assets. Additional details on how the fair value of significant investments are calculated are included in Note 24.

Entity	Instrument	Balance at March 31, 2021	Additions	Fair value changes	Foreign currency translation adjustments	Interest income	Exercise of options / disposal of shares	Balance at March 31, 2022
TerrAscend Exchangeable Shares	Exchangeable shares	\$ 385,000	\$ -	\$ (156,000)	\$ -	\$ -	\$ -	\$ 229,000
TerrAscend Canada - October 2019	Term loan / debenture	10,240	-	835	-	(795)	-	10,280
TerrAscend Canada - March 2020	Term loan / debenture	56,330	-	(1,528)	-	(4,912)	-	49,890
Arise Bioscience	Term loan / debenture	13,077	-	308	(42)	-	-	13,343
TerrAscend - October 2019	Warrants	17,250	-	(13,520)	-	-	-	3,730
TerrAscend - March 2020	Warrants	152,910	-	(92,170)	-	-	-	60,740
TerrAscend - December 2020	Warrants	13,240	-	(9,780)	-	-	-	3,460
TerrAscend	Option	10,600	-	(4,300)	-	-	-	6,300
Wana	Option	-	442,227	(74,639)	4,755	-	-	372,343
Acreage Hempco ¹	Debenture	27,448	-	5,337	(94)	(3,867)	-	28,824
Other - at fair value through net income (loss)	Various	14,887	6,457	(10,652)	(204)	-	(92)	10,396
Other - classified as held for investment	Loan receivable	7,185	5,000	-	-	-	(163)	12,022
		<u>\$ 708,167</u>	<u>\$ 453,684</u>	<u>\$ (356,109)</u>	<u>\$ 4,415</u>	<u>\$ (9,574)</u>	<u>\$ (255)</u>	<u>\$ 800,328</u>

¹Refer to Note 31 for information regarding Acreage Hempco.

Entity	Instrument	Balance at March 31, 2020	Additions	Fair value changes	Foreign currency translation adjustments	Allowance for expected credit losses	Exercise of options / disposal of shares / repayments	Derecognition of RIV Capital ¹	Balance at March 31, 2021
TerrAscend Exchangeable Shares	Exchangeable shares	\$ 47,000	\$ -	\$ 338,000	\$ -	\$ -	\$ -	\$ -	\$ 385,000
TerrAscend Canada - October 2019	Term loan / debenture	9,520	8,579	(7,859)	-	-	-	-	10,240
TerrAscend Canada - March 2020	Term loan / debenture	44,300	-	16,942	-	-	(4,912)	-	56,330
Arise Bioscience	Term loan / debenture	-	11,758	1,489	(170)	-	-	-	13,077
TerrAscend - October 2019	Warrants	804	4,315	12,131	-	-	-	-	17,250
TerrAscend - March 2020	Warrants	24,200	-	128,710	-	-	-	-	152,910
TerrAscend - December 2020	Warrants	-	13,720	(480)	-	-	-	-	13,240
TerrAscend	Option	-	13,445	(2,845)	-	-	-	-	10,600
Acreage Hempco ²	Debenture	-	66,995	(37,026)	(2,521)	-	-	-	27,448
SLANG	Warrants	3,500	-	5,900	-	-	-	-	9,400
PharmHouse ³	Loan receivable	40,000	-	-	-	(40,000)	-	-	-
ZeaKal	Shares	14,186	-	(1,486)	-	-	-	(12,700)	-
Agripharm	Royalty interest	12,600	-	(7,200)	-	-	-	(5,400)	-
Greenhouse	Convertible debenture	10,517	-	(4,117)	-	-	(1,300)	(5,100)	-
Other - at fair value through net income (loss)	Various	28,478	11,251	(7,052)	-	-	(4,234)	(22,956)	5,487
Other - classified as held for investment	Loan receivable	14,148	11,106	-	-	(12,956)	(5,113)	-	7,185
		<u>\$ 249,253</u>	<u>\$ 141,169</u>	<u>\$ 435,107</u>	<u>\$ (2,691)</u>	<u>\$ (52,956)</u>	<u>\$ (15,559)</u>	<u>\$ (46,156)</u>	<u>\$ 708,167</u>

¹Refer to Note 6 for information regarding the completion of the plan of arrangement with RIV Capital.

²Refer to Note 31 for information regarding Acreage Hempco.

³Refer to Note 26 for information regarding PharmHouse.

Wana

On October 14, 2021, the Company and Mountain High Products, LLC, Wana Wellness, LLC and The Cima Group, LLC (collectively, “Wana” and each, a “Wana Entity”) entered into definitive agreements (the “Wana Agreements”) providing the Company with the right, upon the occurrence or waiver (at the Company’s discretion) of changes in U.S. federal law to permit the general cultivation, distribution, and possession of marijuana, or to remove the regulation of such activities from the federal laws of the United States (the “Triggering Event”), 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 and Canada.

The Wana Agreements are structured as three separate option agreements whereby the Company has a call option (the “Call Option”) to acquire 100% of the membership interests in each Wana Entity. As consideration for entering into the Wana Agreements, the Company made an upfront cash payment (the “Upfront Payment”) in the aggregate amount of \$368,067 (US\$297,500). Upon the Company’s exercise of its right to acquire Wana, the Company will make payments equal to 15% of the fair market value of Wana at the time the options are exercised (the “Call Option Payments”). As additional consideration for the right to acquire Wana, the Company expects to make additional deferred payments (the “Deferred Payments”) in respect of Wana as of the 2.5- and 5-year anniversary of the Upfront Payment, computed based on a pre-determined contractual formula as follows:

- Deferred Payment 1: 25% of the amount computed as the estimated fair value of Wana at the 2.5-year anniversary, less (i) the Upfront Payment, (ii) Wana debt, and (iii) certain other deductions; plus Wana cash, all at the 2.5-year anniversary.
- Deferred Payment 2: 25% of the amount computed as the estimated fair value of Wana at the 5-year anniversary, less (i) the greater of (a) the Upfront Payment and (b) the estimated fair value of Wana at the 2.5-year anniversary, (ii) Wana debt, and (iii) certain other deductions, all at the 5-year anniversary; plus the difference in Wana cash between the 5-year and 2.5-year anniversaries.

Payment of the Deferred Payments is not contingent upon the occurrence or waiver (at the Company’s discretion) of the Triggering Event or the exercise of the Call Option. At the Company’s option, the Call Option Payments and the Deferred Payments may be satisfied in cash, common shares or a combination thereof at the Company’s sole discretion.

Until such time as the Company exercises its right to acquire Wana, the Company will have no economic or voting interest in Wana, the Company will not control Wana, and the Company and Wana will continue to operate independently.

Upon initial recognition, the Company estimated the fair value of the Wana financial instrument to be \$442,227, consisting of (i) the Upfront Payment as noted above; and (ii) the present value of the estimated Deferred Payments, totaling \$74,160 (see Note 18). The Wana financial instrument, in effect, represents a call 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.

At March 31, 2022, the estimated fair value of the Wana financial instrument was \$372,343, with the change from initial recognition recorded in other income (expense), net. See Note 24 for additional details on how the fair value of the Wana financial instrument is calculated on a recurring basis.

TerrAscend Exchangeable Shares

TerrAscend is a publicly traded licensed producer. The TerrAscend Exchangeable Shares will only become convertible into common shares following changes in U.S. federal laws regarding the cultivation, distribution or possession of cannabis, the compliance of TerrAscend with such laws and the approval of the various securities exchanges upon which the issuer’s securities are listed (the “TerrAscend Triggering Event”). The TerrAscend Exchangeable Shares are not transferrable or monetizable until exchanged into common shares. In the interim, the Company will not be entitled to voting rights, dividends or other rights upon dissolution of TerrAscend. As

a result, the Company does not have significant influence over TerrAscend and accounts for the TerrAscend Exchangeable Shares as a financial asset at estimated fair value with any changes recorded in other income (expense), net. See Note 6 for information regarding the completion of the plan of arrangement with RIV Capital, which included the acquisition, by Canopy Growth, of the TerrAscend Exchangeable Shares held by RCC.

At March 31, 2022 the estimated fair value of the Company's investment in the TerrAscend Exchangeable Shares was estimated to be \$229,000 (March 31, 2021 – \$385,000). See Note 24 for additional details on how the fair value of the Company's investment is calculated on a recurring basis.

TerrAscend Canada Term Loan, Debenture, and Warrants – October 2019

On October 2, 2019, RIV Capital completed a \$13,243 (US\$10,000) investment in TerrAscend Canada, a wholly-owned subsidiary of TerrAscend, which included a term loan with an estimated fair value of \$10,853 and TerrAscend warrants with an estimated fair value of \$2,390. As part of the completion of the plan of arrangement with RIV Capital, as described in Note 6, Canopy Growth acquired these securities from RCC. The non-cash additions in respect to these investments represents the inherent deferred tax liability on the initial acquisition of the assets from RIV Capital, as the accounting carrying value of the assets exceeds the tax basis.

The Company accounts for these instruments as financial assets at estimated fair value, with any changes recorded in other income (expense), net. As of March 31, 2022, the estimated fair value of the term loan was \$10,280 (March 31, 2021 – \$10,240), and the estimated fair value of the warrants was \$3,730 (March 31, 2021 – \$17,250). See Note 24 for additional details on how the fair value of the Company's investment is calculated on a recurring basis.

TerrAscend Canada Term Loan, Debenture, and TerrAscend Warrants – March 2020

On March 11, 2020, Canopy Growth completed an \$80,526 investment in TerrAscend Canada. The investment includes a secured debenture (the "debenture") for \$80,526, that matures the earliest of (i) March 10, 2030 and (ii) the later of March 10, 2025 and the date that is 24 months following the date that is the TerrAscend Triggering Event. The debenture bears interest at a rate of 6.1% and is payable annually.

As additional consideration, TerrAscend issued 17,808,975 common share purchase warrants (collectively, the "TerrAscend Warrants"). The TerrAscend Warrants consist of two tranches. The first tranche TerrAscend Warrants total 15,656,242 and are exercisable at a price of \$5.41 per common share. They are exercisable upon the occurrence or waiver of TerrAscend the Triggering Event until the earliest of (i) March 10, 2030 and (ii) the later of (A) March 10, 2025 and (B) the date that is 24 months following the occurrence of the TerrAscend Triggering Event.

The second tranche TerrAscend Warrants total of 2,152,733 and are exercisable at a price of \$3.74 per common share. They are exercisable upon the occurrence or waiver of the TerrAscend Triggering Event until the earliest of (i) March 10, 2031 and (ii) the later of (A) March 10, 2026 and (B) the date that is 36 months following the occurrence of the TerrAscend Triggering Event.

Canopy Growth has the right to set-off the applicable exercise price payable for the exercise of the TerrAscend Warrants against any amounts owing by TerrAscend, or any amounts owing under the Loan by TerrAscend Canada. The Company accounts for these instruments as financial assets at estimated fair value, with any changes recorded in other income (expense), net. At issuance, the term loan had an estimated fair value of \$54,800 and the TerrAscend Warrants had an estimated fair value of \$25,626 with \$100 of related transaction costs expensed.

As of March 31, 2022, the estimated fair value of the debenture was \$49,890 (March 31, 2021 – \$56,330) and the Warrants had an estimated fair value of \$60,740 (March 31, 2021 – \$152,910). See Note 24 for additional details on how the fair value of the Company's investment is calculated on a recurring basis.

Arise Bioscience and Additional TerrAscend Warrants – December 2020

On December 10, 2020, the Company entered into a loan financing agreement with Arise Bioscience, Inc. (“Arise Bioscience”), a wholly owned subsidiary of TerrAscend. The investment is in the amount of US\$20,000 (\$25,478) (the “Loan”) pursuant to a secured debenture (the “Arise Debenture”). The Arise Debenture bears interest at a rate of 6.1% and is payable beginning in the fourth year after its issuance. The Arise Debenture will mature on December 10, 2030.

In connection with the Loan, TerrAscend issued 2,105,718 common share purchase warrants to the Company (the “Additional TerrAscend Warrants”). 1,926,983 Additional TerrAscend Warrants are exercisable at a price of \$15.28 per share, and expire on December 10, 2030. 178,735 Additional TerrAscend Warrants are exercisable at a price of \$17.19 per share, and expire on December 10, 2031. The Additional TerrAscend Warrants will be exercisable by the Company following the TerrAscend Triggering Event. The Loan is repayable by Arise Bioscience at any time.

The Company accounts for these instruments as financial assets at estimated fair value, with any changes recorded in other income (expense), net. At issuance, the Arise Debenture had an estimated fair value of \$11,758 and the Additional TerrAscend Warrants had an estimated fair value of \$13,720.

As of March 31, 2022, the Arise Debenture had an estimated fair value of \$13,343 and the Additional TerrAscend Warrants had an estimated fair value of \$3,460 (March 31, 2021 – \$13,077 and \$13,240, respectively). See Note 24 for additional details on how the fair value of the Company’s investment is calculated on a recurring basis.

TerrAscend Option

On January 13, 2021, the Company entered into the TerrAscend Option to purchase 1,072,450 common shares of TerrAscend for aggregate consideration of US\$10,529 (\$13,445). The Company accounts for this instrument as a financial asset at estimated fair value, with any changes recorded in other income (expense), net. At March 31, 2022 the estimated fair value of the TerrAscend Option was \$6,300 (March 31, 2021 – \$10,600). See Note 24 for additional details on how the fair value of the Company’s investment is calculated on a recurring basis.

13. PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment are as follows:

	March 31, 2022	March 31, 2021
Buildings and greenhouses	\$ 766,931	\$ 651,166
Production and warehouse equipment	159,314	216,925
Leasehold improvements	69,304	106,837
Office and lab equipment	29,879	30,546
Computer equipment	22,293	26,431
Land	18,917	34,747
Right-of-use-assets		
Buildings and greenhouses	89,228	100,517
Production and warehouse equipment	55	530
Assets in process	19,771	129,428
	1,175,692	1,297,127
Less: Accumulated depreciation	(232,912)	(222,590)
	<u>\$ 942,780</u>	<u>\$ 1,074,537</u>

Depreciation expense included in cost of goods sold for the year ended March 31, 2022 is \$50,200 (year ended March 31, 2021 – \$51,737; year ended March 31, 2020 – \$52,249). Depreciation expense included in selling, general and administrative expenses for the year ended March 31, 2022 is \$26,047 (year ended March 31, 2021 – \$19,177, year ended March 31, 2020 – \$21,467).

See Note 5 for information on the impairment and abandonment of property, plant and equipment that resulted in charges in the amount of \$224,726 that the Company recognized as part of its restructuring actions in the year ended March 31, 2022 (year ended March 31, 2021 – \$426,748; year ended March 31, 2020 – \$334,964).

14. INTANGIBLE ASSETS

The components of intangible assets are as follows:

	March 31, 2022		March 31, 2021	
	Gross Carrying Amount	Net Carrying Amount	Gross Carrying Amount	Net Carrying Amount
Finite lived intangible assets				
Intellectual property	\$ 138,170	\$ 97,638	\$ 212,100	\$ 168,655
Distribution channel	72,642	24,834	73,756	35,176
Operating licenses	24,400	22,052	-	-
Software and domain names	29,822	14,206	27,836	18,149
Brands	5,547	3,680	21,812	8,894
Amortizable intangibles in process	5,476	5,476	1,952	1,952
Total	<u>\$ 276,057</u>	<u>\$ 167,886</u>	<u>\$ 337,456</u>	<u>\$ 232,826</u>
Indefinite lived intangible assets				
Acquired brands		\$ 74,809		\$ 67,341
Operating licenses		10,000		8,000
Total intangible assets		<u>\$ 252,695</u>		<u>\$ 308,167</u>

Amortization expense included in cost of goods sold for the year ended March 31, 2022 is \$81 (year ended March 31, 2021 – \$80; year ended March 31, 2020 – \$1,030). Amortization expense included in selling, general and administrative expenses for the year ended March 31, 2022 is \$38,090 (year ended March 31, 2021 – \$56,124; year ended March 31, 2020 – \$50,267).

Estimated amortization expense for each of the five succeeding fiscal years and thereafter is as follows:

2023	\$ 25,318
2024	\$ 24,660
2025	\$ 21,040
2026	\$ 18,472
2027	\$ 17,727
Thereafter	\$ 60,669

See Note 5 for information on (i) the impairment and abandonment of intangible assets that resulted in charges in the amount of \$41,404 that the Company recognized as part of its restructuring actions in the year ended March 31, 2022 (year ended March 31, 2021 – \$54,511; year ended March 31, 2020 – \$192,987) and (ii)

impairment charges of \$26,065 in the year ended March 31, 2022 (year ended March 31, 2021 – \$6,634; year ended March 31, 2020 – \$54,020).

15. GOODWILL

The changes in the carrying amount of goodwill are as follows:

Balance, March 31, 2020	\$ 1,954,471
Foreign currency translation adjustments	(65,117)
Balance, March 31, 2021	\$ 1,889,354
Purchase accounting allocations	105,323
Disposal of consolidated entities	(58,786)
Impairment losses	(40,748)
Foreign currency translation adjustments	(28,640)
Balance, March 31, 2022	<u>\$ 1,866,503</u>

At March 31, 2022, the Company performed its annual goodwill impairment analysis using the quantitative assessment. The Company concluded that the carrying values of its 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 \$40,748 was recognized in the year ended March 31, 2022 (year ended March 31, 2021 - \$nil). The goodwill impairment loss was comprised of (i) \$22,355 related to the KeyLeaf reporting unit, representing the entirety of the goodwill assigned to the KeyLeaf reporting unit; and (ii) \$18,393 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 the Company's 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 the Company's common shares; and (ii) the estimated control premium associated with ownership of the Company's 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 by the Company for its annual impairment test conducted at March 31, 2021, and for the quantitative interim goodwill assessment conducted by the Company for the cannabis operations reporting unit at December 31, 2021.

The carrying value, at March 31, 2022, of the goodwill associated with the Company's cannabis operations reporting unit was \$1,727,848. 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 the Company's BioSteel reporting unit was \$57,339. 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 the Company's Storz & Bickel reporting unit was \$79,027. 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. The Company may be required to perform a quantitative goodwill impairment assessment in future periods for the cannabis operations reporting unit, to the extent the Company continues to experience declines in the price of its common shares from March 31, 2022, reductions in the estimated control premium associated with ownership of the Company's common shares, or other indicators of impairment arise.

The carrying value, at March 31, 2022, of the goodwill associated with the Company's This Works reporting unit was \$2,289.

16. OTHER ACCRUED EXPENSES AND LIABILITIES

The components of other accrued expenses and liabilities are as follows:

	March 31, 2022	March 31, 2021
Employee compensation	\$ 24,873	\$ 47,237
Inventory	10,096	5,426
Professional fees	7,640	11,544
Taxes and government fees	7,144	13,550
Other	25,525	23,056
	<u>\$ 75,278</u>	<u>\$ 100,813</u>

17. DEBT

The components of debt are as follows:

	Maturity Date	March 31, 2022	March 31, 2021
Convertible senior notes at 4.25% interest with semi-annual interest payments	July 15, 2023		
Principal amount		\$ 600,000	\$ 600,000
Accrued interest		5,958	5,664
Non-credit risk fair value adjustment		7,140	109,710
Credit risk fair value adjustment		(49,140)	(27,960)
		563,958	687,414
Convertible debentures	September 10, 2025	32,858	-
Accretion debentures	September 10, 2025	7,720	-
Credit facility	March 18, 2026	893,647	891,677
Other revolving debt facility, loan, and financings		2,808	3,872
		1,500,991	1,582,963
Less: current portion		(9,296)	(9,827)
Long-term portion		<u>\$ 1,491,695</u>	<u>\$ 1,573,136</u>

Credit Facility

On March 18, 2021, the Company entered into a credit agreement (the “Credit Agreement”) providing for a five-year, first lien senior secured term loan facility in an aggregate principal amount of US\$750,000 (the “Credit Facility”). The Company also has the ability to obtain up to an additional US\$500,000 of incremental senior secured debt pursuant to the Credit Agreement.

The Credit Facility has no principal payments, matures on March 18, 2026, has a coupon of LIBOR plus 8.50% and is subject to a LIBOR floor of 1.00%. In the event that LIBOR can no longer be adequately ascertained or is no longer available, an alternative rate as permitted under the Credit Agreement will be used. The Company’s obligations under the Credit Facility are guaranteed by material wholly-owned Canadian and U.S. subsidiaries of the Company. The Credit Facility is secured by substantially all of these assets, including material real property, of the borrowers and each of the guarantors. The Credit Agreement contains representations and warranties, and affirmative and negative covenants, including a financial covenant requiring minimum liquidity of US\$200,000 at the end of each fiscal quarter.

The proceeds from the Credit Facility were \$893,160, and the carrying amount is reflected net of financing costs.

Convertible Notes

On June 20, 2018, the Company issued convertible senior notes (the “Notes”) with an aggregate principal amount of \$600,000. The Notes bear interest at a rate of 4.25% per annum, payable semi-annually on January 15th and July 15th of each year commencing from January 15, 2019. The Notes will mature on July 15, 2023. The Notes are subordinated in right of payment to any existing and future senior indebtedness, including indebtedness under the revolving debt facility with FCC (as defined below). The Notes will rank senior in right of payment to any future subordinated borrowings. The Notes are effectively junior to any secured indebtedness and the Notes are structurally subordinated to all indebtedness and other liabilities of the Company’s subsidiaries.

Holders of the Notes may convert the Notes at their option at any time from January 15, 2023 to the maturity date. The Notes will be convertible, at the holder’s option, at a conversion rate of 20.7577 common

shares for every \$1 principal amount of Notes (equal to an initial conversion price of approximately \$48.18 per common share), subject to adjustments in certain events. In addition, the holder has the right to exercise the conversion option from September 30, 2018 to January 15, 2023, if (i) the market price of the Company common shares for at least 20 trading days during a period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day, (ii) during the 5 business day period after any consecutive 5 trading day period (the “Measurement Period”) in which the trading price per \$1 principal amount of the Notes for each trading day in the Measurement Period was less than 98% of the product of the last reported sales price of the Company’s common shares and the conversion rate on each such trading day, (iii) the Notes are called for redemption or (iv) upon occurrence of certain corporate events (a “Fundamental Change”). A Fundamental Change occurred upon completion of the investment by Constellation Brands, Inc. (“CBI”) in the Company in November 2018, and no holders of Notes surrendered any portion of their Notes in connection therewith.

The Company may, upon conversion by the holder, elect to settle in either cash, common shares, or a combination of cash and common shares, subject to certain circumstances. Under the terms of the indenture if a Fundamental Change occurs and a holder elects to convert its Notes from and including on the date of the Fundamental Change up to, and including, the business day immediately prior to the Fundamental Change repurchase date, the Company may be required to increase the conversion rate for the Notes surrendered for conversion by a number of additional common shares.

Prior to July 20, 2021, the Company could not redeem the Notes except in the event of certain changes in Canadian tax law. On or after July 20, 2021, the Company could redeem for cash, subject to certain conditions, any or all of the Notes, at its option, if the last reported sales price of the Company’s common shares for at least 20 trading days during any 30 consecutive trading day period ending within 5 trading days immediately preceding the date on which the Company provides notice of redemption exceeds 130% of the conversion price on each applicable trading day. The Company may also redeem the Notes, if certain tax laws related to Canadian withholding tax change subject to certain further conditions. The redemption of Notes in either case shall be at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

For accounting purposes, the equity conversion feature did not meet the equity classification guidance, therefore the Company elected the fair value option under ASC 825 – *Financial Instruments*. The Notes were initially recognized at fair value on the balance sheet. All subsequent changes in fair value, excluding the impact of the change in fair value related to the Company’s own credit risk are recorded in other income (expenses), net. The changes in fair value related to the Company’s own credit risk are recorded through other comprehensive income (loss).

The overall change in fair value of the Notes during the years ended March 31, 2022 and March 31, 2021 was a decrease of \$123,456 and an increase of \$237,210, respectively, which included contractual interest of \$25,794 and \$25,710, respectively. Refer to Note 24 for additional details on how the fair value of the Notes is calculated.

Supreme Cannabis Convertible Debentures and Accretion Debentures

On October 19, 2018, Supreme Cannabis (as defined below) entered into an indenture with Computershare Trust Company of Canada (the “Trustee”) pursuant to which Supreme Cannabis issued 6.0% senior unsecured convertible debentures (the “Supreme Debentures”) for gross proceeds of \$100,000. On September 9, 2020, Supreme Cannabis and the Trustee entered into a supplemental indenture to effect certain amendments to the Supreme Debentures, which included among other things: (i) the cancellation of \$63,500 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 \$36,500 to a maximum of \$13,500, 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 (as defined below). The principal amount of the Accretion Debentures will amortize, or be paid, at 1.0% per month over the 24 months prior to maturity.

As a result of the Supreme Arrangement (as defined below), 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, the Company, Supreme Cannabis and the Trustee entered into a supplemental indenture whereby the Company agreed to issue common shares upon conversion of any Supreme Debenture. In addition, the Company may force conversion of the Supreme Debentures outstanding with 30 days' notice if the daily volume weighted average trading price of the Company's common shares is greater than \$38.59 for any 10 consecutive trading days. The Company, Supreme Cannabis and the Trustee entered into a further supplemental indenture whereby the Company agreed to guarantee the obligations of Supreme Cannabis pursuant to the Supreme Debentures and the Accretion Debentures.

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

Other revolving debt facility, loans, and financings

On August 13, 2019 the Company, through its wholly owned subsidiary, Tweed Inc., entered into a \$40,000 revolving debt facility with Farm Credit Canada ("FCC"). The facility is secured by the Company's property in Niagara-on-the-Lake. The extinguishment of \$4,912 in previous FCC debt resulted in no gain or loss.

The current outstanding balance of the FCC debt facility is \$nil (March 31, 2021 – \$nil) with an interest rate of 3.70%, or FCC prime rate plus 1.0%. The facility expires on September 3, 2024.

Debt payments

As of March 31, 2022, the required principal repayments under long-term debt obligations for each of the five succeeding fiscal years and thereafter are as follows:

2023	\$ 865
2024	603,865
2025	6,865
2026	966,470
2027	-
Thereafter	-
	<u>\$ 1,578,065</u>

18. OTHER LIABILITIES

The components of other liabilities are as follows:

	As at March 31, 2022			As at March 31, 2021		
	Current	Long-term	Total	Current	Long-term	Total
Lease liabilities	\$ 38,035	\$ 101,125	\$ 139,160	\$ 42,061	\$ 94,164	\$ 136,225
Acquisition consideration and other investment related liabilities	4,020	77,834	81,854	16,577	7,808	24,385
Refund liability	3,437	-	3,437	6,441	-	6,441
Settlement liabilities and other	18,562	11,090	29,652	41,349	5,268	46,617
	<u>\$ 64,054</u>	<u>\$ 190,049</u>	<u>\$ 254,103</u>	<u>\$ 106,428</u>	<u>\$ 107,240</u>	<u>\$ 213,668</u>

On October 14, 2021, upon entering into the Wana Agreements, the Company recognized the present value of the estimated Deferred Payments associated with the Wana financial instrument within acquisition consideration and other investment related liabilities, in the amount of \$74,160 (see Note 12). At March 31, 2022, the estimated fair value of the Deferred Payments was \$70,066, with the change from initial recognition recorded in other income (expense), net. See Note 24 for additional details on how the fair value of the estimated Deferred Payments are calculated on a recurring basis.

19. REDEEMABLE NONCONTROLLING INTEREST

The net change in the redeemable noncontrolling interests is as follows:

	Vert Mirabel	BioSteel	Total
As at March 31, 2019	\$ 6,400	\$ -	\$ 6,400
Initial recognition of noncontrolling interest	-	18,733	18,733
Income (loss) attributable to noncontrolling interest	8,220	(1,731)	6,489
Adjustments to redemption amount	5,630	32,498	38,128
As at March 31, 2020	20,250	49,500	69,750
Net loss attributable to redeemable noncontrolling interest	(11,906)	(6,171)	(18,077)
Adjustments to redemption amount	3,156	80,471	83,627
As at March 31, 2021	11,500	123,800	135,300
Net loss attributable to redeemable noncontrolling interest	(3,165)	(13,932)	(17,097)
Adjustments to redemption amount	(7,335)	(69,559)	(76,894)
Redemption of redeemable noncontrolling interest	-	(5,109)	(5,109)
As at March 31, 2022	<u>\$ 1,000</u>	<u>\$ 35,200</u>	<u>\$ 36,200</u>

20. SHARE CAPITAL

CANOPY GROWTH

Authorized

An unlimited number of common shares.

(i) Equity financings

There were no equity financings during the years ended March 31, 2022, March 31, 2021 and March 31, 2020.

(ii) Other issuances of common shares

During the year ended March 31, 2022, the Company issued the following common shares, net of share issuance costs, as a result of business combinations, milestones being met, and other equity-settled transactions:

	Number of common shares	Share capital	Share based reserve
Acquisition of Supreme Cannabis	9,013,400	\$ 260,668	\$ -
Completion of acquisition milestones	1,295,285	29,276	(29,721)
Other issuances	492,741	8,201	(736)
Total	<u>10,801,426</u>	<u>\$ 298,145</u>	<u>\$ (30,457)</u>

During the year ended March 31, 2021, the Company issued the following common shares, net of share issuance costs, as a result of business combinations, milestones being met, and other equity-settled transactions:

	Number of common shares	Share capital	Share based reserve
Completion of acquisition milestones	2,598,978	\$ 46,903	\$ (19,059)
Other issuances	449,729	14,906	(14,894)
Total	<u>3,048,707</u>	<u>\$ 61,809</u>	<u>\$ (33,953)</u>

During the year ended March 31, 2020, the Company issued the following common shares, net of share issuance costs, as a result of business combinations, milestones being met, and other equity-settled transactions:

	Number of common shares	Share capital	Share based reserve
Acquisition of BC Tweed NCI release from escrow	6,940,531	\$ 223,036	\$ (223,036)
Completion of acquisition milestones	1,121,605	29,561	(29,687)
Other issuances	597,936	19,369	(19,511)
Total	<u>8,660,072</u>	<u>\$ 271,966</u>	<u>\$ (272,234)</u>

(iii) Warrants

	Number of whole warrants	Average exercise price	Warrant value
Balance outstanding at March 31, 2019	107,848,322	\$ 43.80	\$ 1,589,925
Tranche A warrant modification	-	-	1,049,153
Issuance of Tranche B warrants	38,454,444	76.68	-
Other issuance of warrants	9,200	32.83	359
Exercise of warrants	(12,523)	35.55	(486)
Balance outstanding at March 31, 2020 ¹	146,299,443	\$ 52.44	\$ 2,638,951
Exercise of warrants	(18,882,927)	12.98	(70,513)
Expiry of warrants	(343,380)	41.49	-
Balance outstanding at March 31, 2021 ¹	127,073,136	\$ 58.33	\$ 2,568,438
Supreme Cannabis warrants	1,265,742	25.61	13,350
Expiry of warrants	(145,831)	32.61	-
Balance outstanding at March 31, 2022 ¹	128,193,047	\$ 58.04	\$ 2,581,788

¹ This balance excludes the Tranche C Warrants, which represent a derivative liability and have nominal value, see note 31.

RIV CAPITAL

Completion of RIV Arrangement

As described in Note 6, the RIV Arrangement was completed on February 23, 2021. Pursuant to the RIV Arrangement, Canopy Growth surrendered 36,468,318 MVS and 15,223,938 SVS in the capital of RIV Capital and as a result held no MVS (March 31, 2020 – 36,468,318) and no SVS (March 31, 2020 – 15,223,938). The Company's MVS and SVS holdings at March 31, 2020 represented a 27.3% ownership interest and 84.4% voting interest in RIV Capital at that time. The voting rights allowed the Company to direct the relevant activities of RIV Capital such that the Company had control over RIV Capital until the completion of the RIV Arrangement on February 23, 2021, and RIV Capital was consolidated in these financial statements until that date. Upon completion of the RIV Arrangement, the Company no longer controlled RIV Capital, and the Company derecognized RIV Capital's consolidated assets and liabilities from its consolidated financial statements.

Share buyback

On April 2, 2020, RIV Capital received approval from the Toronto Stock Exchange ("TSX") to commence a normal course issuer bid ("NCIB") to purchase up to 10,409,961 SVS, representing 10% of RIV Capital's issued and outstanding SVS, in the open market or as otherwise permitted by the TSX, subject to the normal terms and limitations of such bids. The NCIB expired on April 1, 2021.

Daily purchases were limited to 70,653 SVS, representing 25% of the average daily trading volume on the TSX over a specified period. The NCIB was utilized at the sole discretion of RIV Capital, with no contractual obligation to purchase any specified number of shares. All SVS purchases made by RIV Capital under the NCIB were funded out of RIV Capital's working capital and were cancelled immediately.

During the period from April 1, 2020 to February 23, 2021, RIV Capital repurchased and cancelled a total of 273,300 SVS under the NCIB program for \$307, at a weighted average acquisition price of \$1.11 per share.

Financings

Period from April 1, 2020 to February 23, 2021

There were no financings during the period from April 1, 2020 to February 23, 2021.

Year ended March 31, 2020

There were no financings during the year ended March 31, 2020.

21. SHARE-BASED COMPENSATION

CANOPY GROWTH CORPORATION SHARE-BASED COMPENSATION PLAN

Canopy Growth's eligible employees participate in a share-based compensation plan as noted below.

On September 21, 2020, the Company's shareholders approved amendments to the Company's Amended and Restated Omnibus Incentive Plan (as amended and restated, the "Omnibus Plan") pursuant to which the Company can issue share-based long-term incentives. The Omnibus Plan approved by the shareholders extended the maximum term of each Option (as defined below) to be granted by the Company to ten years from the date of grant rather than six years from the date of grant. On May 27, 2021, the Board of Directors of the Company approved certain amendments to the Omnibus Plan in order to reduce the maximum number of shares available for issuance under the Omnibus Plan from 15% of the issued and outstanding shares to 10% of the issued and outstanding shares from time to time less the number of shares issuable pursuant to other security-based compensation arrangements of the Company. All directors, officers, employees and independent contractors of the Company are eligible to receive awards of common share purchase options ("Options"), restricted share units ("RSUs"), performance share units ("PSUs"), deferred share units, stock appreciation rights, performance awards, or other shares-based awards (collectively, the "Awards") under the Omnibus Plan.

The maximum number of common shares reserved for Awards is 39,442,260 at March 31, 2022 (March 31, 2021 – 57,431,277). As of March 31, 2022, the only Awards issued have been options, RSUs, and PSUs under the Omnibus Plan.

The Omnibus Plan is administered by the Corporate Governance, Compensation and Nominating Committee of the Board of Directors of the Company (the "CGC&N Committee") which establishes exercise prices, at not less than the market price at the date of grant, and expiry dates. Awards under the Omnibus Plan generally vest in increments with 1/3 vesting on each of the first, second and third anniversaries from the date of grant, with expiry dates set at ten years from issuance, subject to the discretion of the CGC&N Committee pursuant to the Omnibus Plan to provide for an alternative expiry date or vesting period in an award agreement for the grant of Awards, subject to limits contained in the Omnibus Plan.

Under the Company's Employee Share Purchase Plan (the "Purchase Plan") the aggregate number of common shares that may be issued is 600,000, and the maximum number of common shares which may be issued in any one fiscal year shall not exceed 300,000. As of March 31, 2022, the Company has issued a total of 235,813 common shares under the Purchase Plan (March 31, 2021 – 37,312) with 198,501 being issued in the current fiscal year (March 31, 2021 – 37,312).

The following is a summary of the changes in the Company's Omnibus Plan employee options during the years ended March 31, 2020, 2021 and 2022:

	Options issued	Weighted average exercise price
Balance outstanding at March 31, 2019	32,831,895	\$ 34.10
Options granted	9,454,714	33.87
Options exercised	(3,900,032)	10.63
Options forfeited/cancelled	(5,878,182)	44.95
Balance outstanding at March 31, 2020	32,508,395	\$ 34.89
Options granted	478,215	28.15
Options exercised	(7,062,317)	22.22
Options forfeited	(8,219,982)	41.27
Balance outstanding at March 31, 2021	17,704,311	\$ 36.79
Options granted	2,537,290	17.40
Replacement options issued as a result of the acquisition of Supreme Cannabis	140,159	80.53
Options exercised	(445,680)	12.27
Options forfeited	(3,153,118)	42.03
Balance outstanding at March 31, 2022	<u>16,782,962</u>	<u>\$ 33.89</u>

The following is a summary of the outstanding stock options as at March 31, 2022:

Range of Exercise Prices	Options Outstanding		Options Exercisable	
	Outstanding at March 31, 2022	Weighted Average Remaining Contractual Life (years)	Exercisable at March 31, 2022	Weighted Average Remaining Contractual Life (years)
\$0.06 - \$24.62	3,705,144	4.05	1,312,215	2.12
\$24.63 - \$33.53	4,036,819	3.25	2,285,789	2.68
\$33.54 - \$36.80	2,984,264	2.24	2,984,264	2.24
\$36.81 - \$42.84	2,641,567	2.85	2,488,993	2.65
\$42.85 - \$67.64	3,415,168	2.88	3,005,487	2.83
	<u>16,782,962</u>	<u>3.11</u>	<u>12,076,748</u>	<u>2.54</u>

At March 31, 2022, the weighted average exercise price of options outstanding and options exercisable was \$33.89 and \$38.33, respectively (March 31, 2021 – \$36.79 and \$36.97, respectively).

The Company recorded \$27,163 in share-based compensation expense related to Options issued to employees and contractors for the year ended March 31, 2022 (for the year ended March 31, 2021 – \$67,737, for the year ended March 31, 2020 – \$248,450). The share-based compensation expense for the year ended March 31, 2022 includes an amount related to 1,336,249 options being provided in exchange for services which are subject to performance conditions (for the year ended March 31, 2021 – 2,152,938, for the year ended March 31, 2020 – 2,160,068).

The Company issued replacement options to employees in relation to the acquisition of Supreme Cannabis (Note 29) and during the year ended March 31, 2022, recorded share-based compensation expense \$823.

With the exception of nil options which are subject to market-based performance conditions (March 31, 2021 – 17,559, March 31, 2020 – 571,689) and valued using the Monte Carlo simulation model, the Company uses the Black-Scholes option pricing model to establish the fair value of options granted during the years ended March 31, 2022, 2021 and 2020 on their measurement date by applying the following assumptions:

	March 31, 2022	March 31, 2021	March 31, 2020
Risk-free interest rate	1.09%	0.36%	1.38%
Expected life of options (years)	3 - 5	1 - 7	3 - 5
Expected volatility	75%	76%	73%
Expected forfeiture rate	18%	17%	12%
Expected dividend yield	nil	nil	nil
Black-Scholes value of each option	\$9.69	\$15.24	\$19.83

Volatility was estimated by using the historical volatility of the Company. The expected life in years represents the period of time that Options granted are expected to be outstanding. The risk-free rate was based on zero coupon Canada government bonds with a remaining term equal to the expected life of the Options.

During the year ended March 31, 2022, 445,680 Options were exercised ranging in price from \$0.06 to \$36.34 for gross proceeds of \$5,567 (for the year ended March 31, 2021 – 7,062,317 Options were exercised ranging in price from \$0.06 to \$67.64 for gross proceeds of \$156,897, for the year ended March 31, 2020 – 3,900,032 Options were exercised ranging in prices from \$0.06 to \$40.68 for gross proceeds of \$41,413).

For the year ended March 31, 2022, the Company recorded \$10,709 in share-based compensation expense related to RSUs and PSUs (for the year ended March 31, 2021 – \$11,448, for the year ended March 31, 2020 – \$2,308). The following is a summary of changes in the Company's RSUs during the years ended March 31, 2020, 2021 and 2022:

	Number of RSUs and PSUs
Balance outstanding at March 31, 2019	137,228
RSUs granted	875,673
RSUs released	(29,892)
RSUs cancelled and forfeited	(100,000)
Balance outstanding at March 31, 2020	883,009
RSUs granted	142,826
RSUs released	(120,399)
RSUs cancelled and forfeited	(152,126)
Balance outstanding at March 31, 2021	753,310
RSUs and PSUs granted	3,253,671
RSUs and PSUs released	(300,319)
RSUs and PSUs cancelled and forfeited	(229,370)
Balance outstanding at March 31, 2022	3,477,292

During the year ended March 31, 2022, the Company recorded \$7,991 in share-based compensation expense related to acquisition milestones (for the year ended March 31, 2021 – \$8,136, for the year ended March 31, 2020 – \$62,172).

During the year ended March 31, 2022, 1,295,285 shares (during the year ended March 31, 2021 – 2,598,978, during the year ended March 31, 2020 – 1,121,605) were released on completion of acquisition milestones. At March 31, 2022, there were up to 275,468 shares to be issued on the completion of acquisition and asset purchase milestones. In certain cases, the number of shares to be issued is based on the volume

weighted average share price at the time the milestones are met. The number of shares has been estimated assuming the milestones were met at March 31, 2022. The number of shares excludes shares that were to be issued on July 4, 2023 to the previous shareholders of Spectrum Colombia and Canindica based on the fair market value of the Company's Latin American business on that date.

In the year ended March 31, 2020, as a result of the restructuring of our operations in Colombia and Lesotho, the Company accelerated share-based compensation expense relating to the unvested milestones associated with the acquisitions of Spectrum Colombia, Canindica, and DCL in the year ended March 31, 2019. Accordingly, the Company recognized share-based compensation expense of \$32,694 in the year ended March 31, 2020. See Note 5 for further information.

BioSteel share-based payments

On October 1, 2019, the Company purchased 72% of the outstanding shares of BioSteel Sports Nutrition Inc. ("BioSteel") (see Note 29(c)(iii)). BioSteel has a stock option plan under which non-transferable options to purchase common shares of BioSteel may be granted to directors, officers, employees, or independent contractors of the BioSteel. As at March 31, 2022, the Company had 1,565,300 (March 31, 2021 – 1,581,000, March 31, 2020 – 1,008,000) options outstanding which vest in equal tranches over a 5-year period. In determining the amount of share-based compensation related to these options, BioSteel used the Black-Scholes option pricing model to establish the fair value of options on their measurement date. The Company recorded \$839 of share-based compensation expense related to the BioSteel options during the year ended March 31, 2022 with a corresponding increase in noncontrolling interest (year ended March 31, 2021 – \$1,169, March 31, 2020 – \$489).

RIV Capital Inc. ("RIV Capital") share-based payments

For the period from April 1, 2020 to February 23, 2021, the Company recorded \$2,659 in share-based compensation expense related to its former subsidiary, RIV Capital (year ended March 31, 2020 – \$6,857). As described in Note 6, the Company disposed of its investment in RIV Capital on February 23, 2021.

22. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income includes the following components:

	Foreign currency translation adjustments	Changes of own credit risk of financial liabilities	Accumulated other comprehensive income (loss)
As at March 31, 2019	\$ 41,225	\$ (47,130)	\$ (5,905)
Other comprehensive income	85,498	175,260	260,758
Income tax expense	-	(33,954)	(33,954)
As at March 31, 2020	126,723	94,176	220,899
Other comprehensive loss	(154,969)	(100,170)	(255,139)
As at March 31, 2021	(28,246)	(5,994)	(34,240)
Disposal of consolidated entities	16,130	-	16,130
Other comprehensive income (loss)	(45,352)	21,180	(24,172)
As at March 31, 2022	<u>\$ (57,468)</u>	<u>\$ 15,186</u>	<u>\$ (42,282)</u>

23. NONCONTROLLING INTERESTS

The net change in the noncontrolling interests is as follows:

	RIV Capital	Vert Mirabel	BioSteel	Other	Total
As at March 31, 2019	\$ 280,012	\$ 2,422	\$ -	\$ 3,051	\$ 285,485
Comprehensive (loss) income	(77,313)	12,930	(1,731)	-	(66,114)
Net (loss) income loss attributable to redeemable noncontrolling interest	-	(8,220)	1,731	-	(6,489)
Share-based compensation	6,857	-	489	-	7,346
Ownership changes	1,530	-	-	-	1,530
As at March 31, 2020	211,086	7,132	489	3,051	221,758
Comprehensive income (loss)	94,532	(14,261)	(6,171)	-	74,100
Net loss attributable to redeemable noncontrolling interest	-	11,906	6,171	-	18,077
Share-based compensation	2,659	-	1,169	-	3,828
Ownership changes	(308,527)	(4,777)	-	-	(313,304)
Warrants	250	-	-	-	250
As at March 31, 2021	-	-	1,658	3,051	4,709
Comprehensive loss	-	(3,165)	(13,932)	(1,207)	(18,304)
Net loss attributable to redeemable noncontrolling interest	-	3,165	13,932	-	17,097
Share-based compensation	-	-	839	-	839
Ownership changes	-	-	-	-	-
Warrants	-	-	-	-	-
As at March 31, 2022	\$ -	\$ -	\$ 2,497	\$ 1,844	\$ 4,341

¹ Refer to Note 6 for information regarding the completion of the plan of arrangement with RIV Capital.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements are made using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value:

- Level 1 - defined as observable inputs such as quoted prices in active markets;
- Level 2 - defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The fair value measurement is categorized in its entirety by reference to its lowest level of significant input.

The Company records cash, accounts receivable, interest receivable and, accounts payable, and other accrued expenses and liabilities at cost. The carrying values of these instruments approximate their fair value due to their short-term maturities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

Assets and liabilities recognized or disclosed at fair value on a nonrecurring basis may include items such as property, plant and equipment, goodwill and other intangible assets, equity and other investments and other assets. We determine the fair value of these items using Level 3 inputs, as described in the related sections below.

The following table represents our financial assets and liabilities measured at estimated fair value on a recurring basis:

	Fair value measurement using			
	Quoted prices prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
<u>March 31, 2022</u>				
Assets:				
Short-term investments	\$ 595,651	\$ -	\$ -	\$ 595,651
Restricted short-term investments	12,216	-	-	12,216
Other financial assets	490	-	787,816	788,306
Liabilities:				
Convertible senior notes	-	563,958	-	563,958
Liability arising from Acreage Arrangement	-	-	47,000	47,000
Warrant derivative liability	-	-	26,920	26,920
Other liabilities	-	-	70,066	70,066
<u>March 31, 2021</u>				
Assets:				
Short-term investments	\$ 1,144,563	\$ -	\$ -	\$ 1,144,563
Restricted short-term investments	11,332	-	-	11,332
Other financial assets	254	-	700,728	700,982
Liabilities:				
Convertible senior notes	-	687,414	-	687,414
Liability arising from Acreage Arrangement	-	-	600,000	600,000
Warrant derivative liability	-	-	615,575	615,575

See Note 5 for further details regarding the abandonment and impairment of long-lived assets as a result of the Company's restructuring of its global operations and its annual impairment testing for the years ended March 31, 2022, 2021 and 2020.

The following table summarizes the valuation techniques and significant unobservable inputs in the fair value measurement of significant level 2 financial instruments:

Financial asset / financial liability	Valuation techniques	Key inputs
Convertible senior notes	Convertible note pricing model	Quoted prices in over-the-counter broker market

The following table summarizes the valuation techniques and significant unobservable inputs in the fair value measurement of significant level 3 financial instruments:

Financial asset / financial liability	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Acreage financial instrument	Probability weighted expected return model	Probability of each scenario	Change in probability of occurrence in each scenario will result in a change in fair value
		Number of common shares to be issued	Increase or decrease in value and number of common shares will result in a decrease or increase in fair value
		Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value
		Estimated premium on US legalization	Increase or decrease in estimated premium on US legalization will result in an increase or decrease in fair value
		Control premium	Increase or decrease in estimated control premium will result in an increase or decrease in fair value
		Market access premium	Increase or decrease in estimated market access premium will result in an increase or decrease in fair value
TerrAscend Exchangeable Shares, TerrAscend Option	Put option pricing model	Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value
Hempco Debenture	Discounted cash flow	Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
TerrAscend warrants - October 2019, March 2020	Black-Sholes option pricing model	Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value
TerrAscend warrants - December 2020	Monte Carlo simulation model	Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value
Arise Bioscience term loan, TerrAscend Canada term loan - October 2019, March 2020	Discounted cash flow	Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value
		Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
Wana financial instrument - Call Option	Discounted cash flow	Expected future Wana cash flows	Increase or decrease in expected future Wana cash flows will result in an increase or decrease in fair value
		Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
Wana financial instrument - Deferred Payments	Monte Carlo simulation model	Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value
		Volatility of Wana	Increase or decrease in volatility will result in an increase or decrease in fair value

Warrant derivative liability	Monte Carlo simulation model	Volatility of Canopy Growth share price	Increase or decrease in volatility will result in an increase or decrease in fair value
BioSteel redeemable noncontrolling interest	Discounted cash flow	Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
		Expected future BioSteel cash flows	Increase or decrease in expected future BioSteel cash flows will result in an increase or decrease in fair value
Vert Mirabel redeemable noncontrolling interest	Discounted cash flow	Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
		Future wholesale price and production levels	Increase or decrease in future wholesale price and production levels will result in an increase or decrease in fair value

25. REVENUE

Revenue is disaggregated as follows:

	Years ended		
	March 31, 2022	March 31, 2021	March 31, 2020
Canadian recreational cannabis net revenue			
Business-to-business ¹	\$ 143,732	\$ 163,585	\$ 121,605
Business-to-consumer	61,570	66,016	52,044
	205,302	229,601	173,649
Canadian medical cannabis net revenue ²	52,608	55,448	51,647
	257,910	285,049	225,296
International and other revenue			
C ³	36,113	62,335	53,770
Other	43,193	31,296	15,869
	79,306	93,631	69,639
Global cannabis net revenue	337,216	378,680	294,935
Other consumer products			
Storz & Bickel	85,410	80,998	48,329
This Works	32,296	33,314	24,725
BioSteel	44,626	28,530	4,589
Other	20,777	25,127	26,194
Other consumer products revenue	183,109	167,969	103,837
Net revenue	<u>\$ 520,325</u>	<u>\$ 546,649</u>	<u>\$ 398,772</u>

¹Canadian recreational business-to-business net revenue reflects excise taxes of \$56,666 (year ended March 31, 2021 - \$54,928, and year ended March 31, 2020 - \$35,649).

²Canadian medical cannabis net revenue reflects excise taxes of \$5,227 (year ended March 31, 2021 - \$5,621, and year ended March 31, 2020 - \$5,205).

The Company recognizes variable consideration related to estimated future product returns and price adjustments as a reduction of the transaction price at the time revenue for the corresponding product sale is

recognized. Net revenue reflects actual returns and variable consideration related to estimated returns and price adjustments in the amount of \$21,464 for the year ended March 31, 2022 (year ended March 31, 2021 – \$23,935, and year ended March 31, 2020 – \$51,500). As of March 31, 2022, the liability for estimated returns and price adjustments was \$3,437 (March 31, 2021 – \$6,441).

26. PHARMHOUSE

PharmHouse Inc. (“PharmHouse”), a joint venture formed on May 7, 2018, between RIV Capital and 2615975 Ontario Limited (the “PharmHouse JV Partner”), is a company licensed to cultivate cannabis under the Cannabis Act. Upon completion of the RIV Arrangement on February 23, 2021, the Company no longer controlled RIV Capital and RIV Capital’s consolidated assets and liabilities were derecognized from the Company’s consolidated financial statements. The assets and liabilities that were derecognized include those described below in relation to RIV Capital’s investments in, and obligations with respect to, PharmHouse. Refer to Note 6 for further details on the RIV Arrangement.

CCAA Proceedings

During the year ended March 31, 2021, PharmHouse determined that the previously anticipated timeline to generate cash flows from its offtake agreements with the Company and TerrAscend Canada would not be met, and the ultimate timing and receipt of cash inflows pursuant to these agreements became uncertain. As a result of this, as well as broader sector-wide challenges impacting the Canadian cannabis industry, PharmHouse did not have sufficient liquidity and capital resources to meet its business objectives and became unable to meet its financial obligations as they became due.

Accordingly, on September 15, 2020, PharmHouse obtained an order (the “Initial Order”) from the Ontario Superior Court of Justice (the “Court”) granting PharmHouse creditor protection under the Companies’ Creditors Arrangement Act (“CCAA”) (the “CCAA Proceedings”). The Court appointed an independent professional services firm to act as the Monitor of PharmHouse in the CCAA Proceedings while PharmHouse explored a restructuring of its business and operations (the “Restructuring”).

On October 29, 2020, PharmHouse received approval from the Court to commence its Sale and Investor Solicitation Process (“SISP”). The SISP process concluded in March 2021, subsequent to the completion of the RIV Arrangement, when PharmHouse entered into a binding asset purchase agreement to sell various operating assets including its facility and certain equipment at the facility. The asset purchase agreement was approved by the Court in March 2021.

PharmHouse Recoverability Assessment

As a result of the CCAA Proceedings and the Restructuring, RIV Capital determined that there were indicators of impairment present for its investments in various PharmHouse-related financial assets.

RIV Capital performed impairment testing for its various PharmHouse-related financial assets by estimating the fair value of PharmHouse en bloc. Due to the lack of profitable operating history for PharmHouse as a cannabis entity, RIV Capital estimated the fair value of PharmHouse en bloc using an asset-based approach to value PharmHouse’s assets under an orderly liquidation scenario where cannabis operations are not continued at PharmHouse’s facility and the greenhouse is sold for purposes other than cannabis cultivation. This amount was then compared to the carrying values of the various PharmHouse-related financial instruments held by RIV Capital, in sequence based on the priority of claims on PharmHouse’s assets (the “PharmHouse Recoverability Assessment”). The significant components of this fair value analysis included PharmHouse’s greenhouse facility and retrofits, separable machinery and equipment, saleable inventory, and cash. Significant unobservable inputs used by RIV Capital to determine the fair value of PharmHouse’s assets include the selling price per square foot for PharmHouse’s greenhouse facility; the recoverability percentage on the liquidation of PharmHouse’s property, plant and equipment; the selling price per gram of PharmHouse’s

existing cannabis inventory; and adjustments for the risk of fair value changes and liquidity. Based on the foregoing, the Company estimated the recoverable value of PharmHouse's assets in an orderly liquidation scenario to be approximately \$57,500.

The impact of the PharmHouse Recoverability Assessment on RIV Capital's various PharmHouse-related financial instruments is described below.

PharmHouse Financial Guarantee

Prior to February 23, 2021, PharmHouse had entered into a syndicated credit agreement (as amended, the "PharmHouse Credit Agreement") with a number of Canadian banks (the "PharmHouse Lenders") to provide PharmHouse with a committed, non-revolving credit facility (the "PharmHouse Credit Facility") with a maximum principal amount of \$90,000, which was fully drawn. The obligations of PharmHouse under the PharmHouse Credit Facility were secured by guarantees of RIV Capital and RCC, and a pledge by RCC of all of the shares of PharmHouse held by it (the "PharmHouse Financial Guarantee"). Accordingly, if PharmHouse was unable to generate sufficient cash flows to service its obligations pursuant to the PharmHouse Credit Facility, RIV Capital and RCC were required to compensate the PharmHouse Lenders for their loss incurred on the PharmHouse Credit Facility. The PharmHouse Credit Agreement also contains other covenants applicable to RIV Capital and RCC.

Based on the PharmHouse Recoverability Assessment described above, the Company determined that the fair value of PharmHouse's assets under an orderly liquidation scenario where the facility is not used for cannabis operations may be less than the principal amount owed by PharmHouse pursuant to the PharmHouse Credit Facility. Accordingly, the Company estimated that, prior to February 23, 2021, it had a financial liability related to the PharmHouse Financial Guarantee, reflecting the estimated shortfall between the recoverable amount of PharmHouse en bloc and the Company's exposure to the PharmHouse Credit Facility.

As at February 23, 2021, the Company estimated the current expected credit loss related to its contingent obligation under the PharmHouse Financial Guarantee to be \$32,500, and recognized a financial liability for this amount in the consolidated balance sheet (March 31, 2020 – \$nil). Upon completion of the RIV Arrangement on February 23, 2021, this liability was derecognized from the Company's consolidated balance sheet. During the year ended March 31, 2021, the Company recognized an associated current expected credit loss of \$32,500 in net income (loss) (year ended March 31, 2020 – \$nil).

Other financial assets, including loans receivable

Prior to February 23, 2021, RCC had advanced to PharmHouse (i) \$40,000 of secured debt financing pursuant to a shareholder loan agreement (March 31, 2020 – \$40,000); (ii) \$2,450 pursuant to a secured demand promissory note (March 31, 2020 – \$2,450); and (iii) \$1,206 between August 4, 2020, and September 8, 2020 pursuant to an unsecured promissory note. The Company recognized these instruments as financial assets, initially recorded them at fair value and subsequently measured them at amortized cost. Additionally, pursuant to the Initial Order, RCC entered into an agreement to provide a super-priority, debtor-in-possession interim, non-revolving credit facility to PharmHouse (the "DIP Financing"), with a maximum principal amount available to be drawn by PharmHouse of \$9,700, and a maturity date of February 28, 2021. As at February 23, 2021, RCC had advanced \$9,300 pursuant to the DIP Financing.

As a result of the PharmHouse Recoverability Assessment described above, the Company recognized a current expected credit loss of \$32,500 in the year ended March 31, 2021, related to its contingent obligation under the PharmHouse Financial Guarantee that existed prior to the completion of the RIV Arrangement on February 23, 2021 and the resulting derecognition of RIV Capital's consolidated assets and liabilities. The Company also concluded that the following amounts, as described above, may not be recoverable: (i) \$9,300 advanced pursuant to DIP Financing; (ii) \$40,000 advanced under the shareholder loan agreement; (iii) \$2,450 advanced under the secured demand promissory note; (iv) \$1,206 advanced under the unsecured demand promissory note; and (v) \$8,989 in interest receivable in relation to these financial instruments. Additionally, it

was determined that certain advances in the amount of \$15,000 provided to PharmHouse by the Company may not be recoverable, and costs of \$35 were incurred associated with the Restructuring in the year ended March 31, 2021. Accordingly, the Company recorded expected credit losses on financial assets and related charges of \$109,480 for the year ended March 31, 2021 (year ended March 31, 2020 – \$nil).

PharmHouse equity method investment

As at February 23, 2021, RCC owned 10,998,660 common shares of PharmHouse (March 31, 2020 – 10,998,660 common shares), representing a 49% equity interest on a non-diluted basis. RCC had not yet received any distributions on account of its common share investment in PharmHouse.

As a result of the PharmHouse Recoverability Assessment described above, the Company determined that there was an other-than-temporary-impairment and recognized an impairment charge for the full amount of its equity method investment of \$32,369.

27. OTHER INCOME (EXPENSE), NET

Other income (expense), net is disaggregated as follows:

	Years ended		
	March 31, 2022	March 31, 2021	March 31, 2020
Fair value changes on other financial assets	(356,109)	\$ 435,107	\$ (243,965)
Fair value changes on liability arising from Acreage Arrangement	553,000	(399,849)	(645,190)
Fair value changes on convertible senior notes	76,776	(162,540)	184,740
Fair value changes on warrant derivative liability	588,655	(293,084)	795,149
Fair value changes on acquisition related contingent consideration and other	4,417	39,608	12,293
Interest income	6,601	21,367	66,327
Interest expense	(103,944)	(8,459)	(6,716)
Foreign currency gain (loss)	5,415	(18,013)	(1,245)
(Loss) gain on disposal/acquisition of consolidated entity	(6,762)	634	61,775
Other income (expense), net	(14,708)	(2,647)	1,161
	<u>\$ 753,341</u>	<u>\$ (387,876)</u>	<u>\$ 224,329</u>

28. INCOME TAXES

Net loss before income taxes was generated as follows:

	Years ended		
	March 31, 2022	March 31, 2021	March 31, 2020
Domestic - Canada	\$ (163,888)	\$ (1,611,210)	\$ (1,167,000)
Foreign - outside of Canada	(165,545)	(72,751)	(342,054)
	<u>\$ (329,433)</u>	<u>\$ (1,683,961)</u>	<u>\$ (1,509,054)</u>

The income tax recovery consists of the following:

	Years ended		
	March 31, 2022	March 31, 2021	March 31, 2020
Current			
Domestic - Canada	\$ 895	\$ (19,318)	\$ (12,342)
Foreign - outside of Canada	1,476	(2,091)	(4,356)
	<u>\$ 2,371</u>	<u>\$ (21,409)</u>	<u>\$ (16,698)</u>
Deferred			
Domestic - Canada	\$ 6,353	\$ 36,505	\$ 78,624
Foreign - outside of Canada	224	(1,955)	59,688
	<u>6,577</u>	<u>34,550</u>	<u>138,312</u>
Income tax recovery	<u><u>\$ 8,948</u></u>	<u><u>\$ 13,141</u></u>	<u><u>\$ 121,614</u></u>

As more fully described in Note 3, income taxes that are required to be reflected in equity, instead of in the consolidated statements of operations, are included in the consolidated statements of shareholders' equity, if applicable.

Current and deferred income tax referred to above is recognized based on the Company's best estimate of the tax rates expected to apply to the income, loss or temporary difference. The Company is subject to income tax in numerous jurisdictions with varying tax rates. During the current year ended, there were no material changes to the enacted statutory tax rates in the jurisdictions where the majority of the Company's income for tax purposes was earned or where its material temporary differences or losses are expected to be realized or settled, however the impact of commercial decisions and market forces result in changes to the distribution of income for tax purposes amongst taxing jurisdictions that may result in a change of the effective tax rate applicable to such income, loss or temporary difference.

A reconciliation of the amount of income taxes reflected above compared to the expected income taxes calculated at the combined Canadian federal and provincial enacted statutory tax rate of 26.5% for each of the three years ended March 31, 2022, 2021 and 2020 is as follows:

	Years ended		
	March 31, 2022	March 31, 2021	March 31, 2020
Net loss before income taxes	\$ (329,433)	\$ (1,683,961)	\$ (1,509,054)
Expected tax rate	26.5%	26.5%	26.5%
Expected income tax recovery	87,300	446,250	399,899
Non-deductible and non-taxable items	17,557	81,883	22,947
Fair value changes on Acreage Arrangement	146,545	(105,960)	(170,975)
Fair value changes on warrant derivative liability	155,964	(77,663)	210,715
Share-based compensation	(9,908)	(21,121)	(84,873)
Change in valuation allowance	(361,283)	(358,964)	(215,975)
Effect of tax rates outside of Canada	8,459	10,870	(3,248)
Non-taxable portion of capital gains and losses	(38,440)	38,705	(34,961)
Other	2,754	(859)	(1,915)
Income tax recovery	<u><u>\$ 8,948</u></u>	<u><u>\$ 13,141</u></u>	<u><u>\$ 121,614</u></u>

Current income taxes payable in the amount of \$1,927 (March 31, 2021 – \$5,267) is included in accounts payable and current income taxes receivable in the amount of \$6,018 (March 31, 2021 – \$5,259) is included in other accounts receivable.

The Company continues to believe the amount of unrealized tax benefits appropriately reflects the uncertainty of items that are or may in the future be under discussion, audit, dispute or appeal with a tax authority or which otherwise result in uncertainty in the determination of income for tax purposes. If appropriate, an unrealized tax benefit will be realized in the year in which the Company determines that realization is not in doubt. Where the final determined outcome is different from the Company's estimate, such difference will impact the Company's income taxes in the year during which such determination is made.

Significant components of deferred income tax assets (liabilities) consist of the following:

	Years ended	
	March 31, 2022	March 31, 2021
<u>Deferred income tax assets</u>		
Property, plant and equipment	\$ 78,023	\$ 74,603
Intangible assets	671	5,063
Inventory reserves and write-downs	40,324	39,893
Other reserves and accruals	5,939	7,957
Losses carried forward	917,283	608,002
Equity method investments and other financial assets	10,512	14,900
Deferred financing costs	2,740	3,587
Other	5,635	6,226
Gross deferred income tax assets	1,061,127	760,231
Valuation allowances	(1,039,130)	(677,847)
Total deferred income tax assets, net	\$ 21,997	\$ 82,384
<u>Deferred income tax liabilities</u>		
Property, plant and equipment	\$ (4,182)	\$ (25,864)
Intangible assets	(29,832)	(43,449)
Equity method investments and other financial assets	-	(31,176)
Deferred financing costs	(3,353)	(2,785)
Other	(621)	(489)
Total deferred income tax liabilities	(37,988)	(103,763)
Net deferred income tax assets (liabilities)	\$ (15,991)	\$ (21,379)

In evaluating whether it is more likely than not that all or a portion of a deferred income tax asset will be realized consideration is given to the estimated reversal of deferred income tax liabilities and future taxable income. The Company has recognized valuation allowances for operating losses carried forward, capital losses carried forward and other deferred income tax assets when it is believed that it is more likely than not that these items will not be realized.

As at March 31, 2022, the Company had temporary differences associated with investments in foreign subsidiaries for which no deferred income tax liabilities have been recognized, as the Company is able to control the timing of the reversal of these temporary differences and material undistributed earnings are considered permanently invested. Determination of the amount of the unrecognized deferred income tax liability is not practicable due to the inherent complexity of the multi-jurisdictional operations of the Company.

As at March 31, 2022 the Company has the following losses carried forward available to reduce future years' taxable income, which losses expire as follows:

Expiring within 5 years	\$ -
Expiring between 5 and 10 years	1,031
Expiring between 10 and 15 years	156,420
Expiring between 15 and 20 years	2,394,542
Indefinite	377,120
	<u>\$ 2,929,113</u>
 Total in Canada	 \$ 2,547,844
Total in United States	278,458
Total in Europe	55,440
Total in other jurisdictions	47,371
	<u>\$ 2,929,113</u>
 Total operating losses	 \$ 2,929,113
Total capital losses (carried forward indefinitely)	892,360
	<u>\$ 3,821,473</u>

29. ACQUISITIONS

(a) Year ended March 31, 2022

The following table summarizes the consolidated balance sheet impact at acquisition of the Company's business combinations that occurred in the year ended March 31, 2022.

	Ace Valley (i)	Supreme Cannabis (ii)	Other	Total
Cash and cash equivalents	\$ 1,544	\$ 41,306	\$ 1,227	\$ 44,077
Inventory	878	33,426	362	34,666
Other current assets	2,249	14,791	335	17,375
Property, plant and equipment	105	187,407	1,510	189,022
Intangible assets				
Brands	14,000	22,800	-	36,800
Distribution channel	-	3,500	-	3,500
Operating licenses	-	24,400	2,000	26,400
Goodwill	39,152	58,842	7,329	105,323
Accounts payable and other accrued expenses and liabilities	(1,724)	(12,935)	(30)	(14,689)
Debt and other liabilities	-	(88,324)	(1,037)	(89,361)
Deferred income tax liabilities	(1,899)	(5,545)	(540)	(7,984)
Net assets acquired	\$ 54,305	\$ 279,668	\$ 11,156	\$ 345,129
Consideration paid in cash	\$ 51,836	\$ 84	\$ 7,104	\$ 59,024
Consideration paid in shares	-	260,668	4,052	264,720
Replacement options	-	629	-	629
Replacement warrants	-	13,350	-	13,350
Other consideration	2,469	4,937	-	7,406
Total consideration	\$ 54,305	\$ 279,668	\$ 11,156	\$ 345,129
Consideration paid in cash	\$ 51,836	\$ 84	\$ 7,104	\$ 59,024
Less: Cash and cash equivalents acquired	(1,544)	(41,306)	(1,227)	(44,077)
Net cash outflow (inflow)	\$ 50,292	\$ (41,222)	\$ 5,877	\$ 14,947

The table above summarizes the fair value of the consideration given and the fair values assigned to the assets acquired and liabilities assumed for each acquisition. Goodwill arose in these acquisitions because the cost of acquisition included a control premium. In addition, the consideration paid for the combination reflected the benefit of expected revenue growth and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Except for some of the goodwill arising in respect of the Ace Valley and Supreme Cannabis acquisition, none of the goodwill arising on these acquisitions is expected to be deductible in the computation of income for tax purposes.

(i) Ace Valley

On April 1, 2021, the Company entered into a share purchase agreement (the "AV Share Purchase Agreement") with Tweed Inc., AV Cannabis Inc. ("Ace Valley"), and the shareholders of Ace Valley (the "AV Vendors") pursuant to which the Company indirectly acquired 100% of the issued and outstanding shares of Ace Valley for cash consideration of \$51,836. Ace Valley is an Ontario-based cannabis brand with a focus on premium, ready-to-enjoy products including vapes, pre-roll joints and gummies. Pursuant to the terms of the AV Share Purchase Agreement, the Company may be required to make certain earn-out payments to the AV Vendors, which may result in an additional cash payment or the issuance of common shares, subject to the fulfillment of certain conditions by April 1, 2023. This represents liability-classified contingent consideration. Management has estimated the fair value of this consideration to be \$2,469 by assessing the probability and timing of the fulfillment of the specified conditions and discounting the expected cash outflows to present value.

In the year ended March 31, 2022, the Company finalized the purchase price allocation to the individual assets acquired and liabilities assumed using the acquisition method.

(ii) Supreme Cannabis

On June 22, 2021, the Company and The Supreme Cannabis Company, Inc. (“Supreme Cannabis”) completed an arrangement (the “Supreme Arrangement”) pursuant to which the Company acquired 100% of the issued and outstanding common shares of Supreme Cannabis (the “Supreme Shares”). Supreme Cannabis is a producer of recreational, wholesale and medical cannabis products, with a diversified portfolio of distinct cannabis companies, products and brands. Pursuant to the Supreme Arrangement, the Company issued 9,013,400 common shares with a fair value on closing of \$260,668 and made a cash payment of \$84 to former Supreme Cannabis shareholders in consideration for their Supreme Shares.

The Company also assumed the obligation to issue 1,265,742 common shares upon the exercise of outstanding warrants of Supreme Cannabis and issued 140,159 replacement options. The fair value of the obligation upon the exercise of the outstanding warrants of Supreme Cannabis was estimated to be \$13,350 using a Black-Scholes model. The replacement options' fair value totaled \$1,452, calculated using a Black-Scholes model, of which \$629 was included in consideration paid as it related to pre-combination services and the residual \$823 fair value was recognized immediately in share-based compensation expense after the completion of the acquisition.

On June 22, 2021, Supreme Cannabis had convertible debentures outstanding with a principal amount of \$27,045 which were convertible into 94,895,649 Supreme Shares. As a result of the acquisition the conversion feature was adjusted in accordance with an exchange ratio of 0.011659. The fair value of these convertible debentures on June 22, 2021 was estimated to be \$36,593, of which \$4,937 was allocated to the conversion feature and \$31,656 to the debt component.

Due to the timing of this acquisition, the purchase price allocation for the acquisition of Supreme Cannabis is provisional. The fair value assigned to the consideration paid, intangible assets and net assets acquired is based on management's best estimate using the information currently available and may be revised by the Company as additional information is received.

(b) Acquisitions completed in the year ended March 31, 2021

There were no acquisitions during the year ended March 31, 2021.

(c) Acquisitions completed in the year ended March 31, 2020

The following table summarizes the consolidated balance sheet impact at acquisition of the Company's business combinations that occurred in the year ended March 31, 2020:

	C ³ (i)	This Works (ii)	BioSteel (iii)	BCT (iv)	Spectrum UK (iv)	Storz & Bickel 30(c)(v)	Total
Cash and cash equivalents	\$ 2,818	\$ 1,619	\$ 225	\$ 7,886	\$ -	\$ -	\$ 12,548
Other current assets	15,140	8,239	12,972	2,296	67	-	38,714
Property, plant and equipment	8,345	478	391	5	895	-	10,114
Intangible assets							
Brands	10,613	22,114	3,600	-	-	-	36,327
Distribution channel	4,058	12,988	14,700	-	-	-	31,746
Operating licenses	-	-	-	-	1,158	-	1,158
Intellectual property	36,520	16,848	20,900	5,267	-	24,990	104,525
Software and domain names	8	176	541	-	-	-	725
Goodwill	287,010	22,214	35,939	85,700	12,861	(24,990)	418,734
Accounts payable and other accrued expenses and liabilities	(3,652)	(4,100)	(3,852)	(2,176)	(922)	-	(14,702)
Debt and other liabilities	(3,942)	-	(3,659)	-	-	-	(7,601)
Deferred income tax liabilities	(11,219)	(7,911)	(3,817)	(838)	(36)	-	(23,821)
Net assets	\$ 345,699	\$ 72,665	\$ 77,940	\$ 98,140	\$ 14,023	\$ -	\$ 608,467
Noncontrolling interests	-	-	(18,733)	-	-	-	(18,733)
Net assets acquired	\$ 345,699	\$ 72,665	\$ 59,207	\$ 98,140	\$ 14,023	\$ -	\$ 589,734
Consideration paid in cash	\$ 345,699	\$ 72,665	\$ 47,924	\$ 45,098	\$ -	\$ -	\$ 511,386
Fair value of previously held equity interest	-	-	-	37,919	14,023	-	51,942
Replacement options	-	-	-	1,885	-	-	1,885
Other consideration	-	-	11,283	13,238	-	-	24,521
Total consideration	\$ 345,699	\$ 72,665	\$ 59,207	\$ 98,140	\$ 14,023	\$ -	\$ 589,734
Consideration paid in cash	\$ 345,699	\$ 72,665	\$ 47,924	\$ 45,098	\$ -	\$ -	\$ 511,386
Less: Cash and cash equivalents acquired	(2,818)	(1,619)	(225)	(7,886)	-	-	(12,548)
Net cash outflow	\$ 342,881	\$ 71,046	\$ 47,699	\$ 37,212	\$ -	\$ -	\$ 498,838

The table above summarizes the fair value of the consideration given and the fair values assigned to the assets acquired and liabilities assumed for each acquisition. Goodwill arose in these acquisitions because the cost of acquisition included a control premium. In addition, the consideration paid for the combination reflected the benefit of expected revenue growth and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Except for the goodwill arising in respect of the Storz & Bickel GmbH & Co., KG ("Storz & Bickel") acquisition, none of the goodwill arising on these acquisitions is expected to be deductible in the computation of income for tax purposes.

(i) C³

On April 30, 2019, the Company acquired 100% of the shares of C³ for total cash consideration of \$345,699. C³ is a European based biopharmaceutical company that develops, manufactures and commercializes natural and synthetic cannabinoid based active ingredients. In connection with the acquisition, the Company entered into a five-year cooperation agreement with the former majority shareholder of C³, for which the Company paid \$7,804. This amount will be expensed ratably over the contract term.

In the year ended March 31, 2020, the Company finalized the purchase price allocation to the individual assets acquired and liabilities assumed using the acquisition method. The measurement period adjustments include:

Measurement period impact	Adjustments	Useful life (years)	Valuation methodology
Acquisition related intangible assets			
Distribution channel	\$ 4,058	10	Income approach
Intellectual property	36,520	10	Relief-from-royalty
Licensed brands	10,613	2	Relief-from-royalty
Other adjustments			
Inventory step-up	1,814		
Deferred income tax liabilities	(11,219)		
Net impact to goodwill	\$ (41,786)		

(ii) This Works

On May 21, 2019, the Company acquired 100% of the shares of TWP UK Holdings Limited (“This Works”) and its subsidiary companies, This Works Products Limited, TWP USA Inc. and TWP IP Limited for total cash consideration of \$72,665 (GBP 43,296). Based in London, United Kingdom, This Works is a natural skincare and sleep solutions company.

In the year ended March 31, 2020, the Company finalized the purchase price allocation to the individual assets acquired and liabilities assumed using the acquisition method. The measurement period adjustments include:

Measurement period impact	Adjustments	Useful life (years)	Valuation methodology
Acquisition related intangible assets			
Acquired brands	\$ 19,130	Indefinite	Relief-from-royalty
Distribution channel	12,988	10	Income approach using a multi-period excess earnings method
Intellectual property	16,848	10	Replacement cost
Licensed brands	2,984	5	Income approach using a multi-period excess earnings method
Other adjustments			
Inventory step-up	1,755		
Deferred income tax liabilities	(7,911)		
Net Impact to Goodwill	\$ (45,794)		

(iii) BioSteel

On October 1, 2019, the Company purchased 72% of the outstanding shares of BioSteel, a North America-based producer of sports nutrition products. Initial cash consideration was \$50,707 subject to certain adjustments and holdbacks such that \$47,924 was advanced on closing. The purchase price was to be further adjusted based

on a multiple of BioSteel's calendar 2019 net revenue. Management has concluded that this purchase price adjustment is nominal.

Through its voting rights, the Company controls BioSteel and therefore, the acquisition was accounted for as a business combination. The noncontrolling interests of \$18,733 recognized at acquisition date were recorded at their share of fair value.

Prior to September 30, 2019, the Company had advanced a total of \$8,500 to BioSteel under a secured loan agreement. The acquisition resulted in an effective settlement of the loan payable of \$8,500 which has been recorded as other consideration. Immediately following the October 1 acquisition, the Company subscribed for additional shares of BioSteel for consideration of \$14,000 which was funded through a cash advance of \$10,000 and the conversion of \$4,000 of the loan payable. After completing this investment, the Company's ownership interest in BioSteel is 76.7%.

The shares not purchased by the Company will be retained by certain current shareholders and management for a period of up to 5 years (the "Rollover Shareholders"). On the third anniversary of the closing Canopy Growth will have a right to purchase, and the Rollover Shareholders will have a right to sell one half of the remaining interest held by the Rollover Shareholders to Canopy Growth at a specified valuation based on a multiple of BioSteel's net revenue. On the fifth anniversary of the closing Canopy Growth will have a right to purchase, and the Rollover Shareholders will have a right to sell the balance of the remaining interest held by the Rollover Shareholders to Canopy Growth at a valuation to be mutually agreed upon by the parties. The call and put options represent redeemable noncontrolling interest ("BioSteel Redeemable NCI") and is recorded at fair value on initial recognition. See Note 19 for a continuity of the BioSteel Redeemable NCI. See Note 24 for additional details on how the fair value is calculated.

In the year ended March 31, 2020, the Company finalized the purchase price allocation to the individual assets acquired and liabilities assumed using the acquisition method. The measurement period adjustments include:

Measurement period impact	Adjustments	Useful life (years)	Valuation methodology
Acquisition related intangible assets			
Acquired brands	\$ 3,600	Indefinite	Relief-from-royalty
Distribution channel	14,700	11	Income approach using a multi-period excess earnings method
Intellectual property	20,900	11	Relief-from-royalty, net of product migration
Other adjustments			
Inventory step-up	2,710		
Deferred income tax liabilities	(3,817)		
Net impact to goodwill	\$ (38,093)		

(iv) BCT and Spectrum UK

BCT is a cannabis research and development organization in the United Kingdom which was formed in fiscal 2018 through a collaboration agreement between CHI and Beckley Research and Innovations Limited. In the fourth quarter of fiscal 2019, the Company and BCT had formed another joint venture – Spectrum Biomedical UK ("Spectrum UK"). The purpose of Spectrum UK was to become the exclusive distributor of cannabis-based medicinal products made by the Company. Since their inception the Company had been accounting for its 42% interest in BCT and its 67% interest in Spectrum UK using the equity method. Though BCT and Spectrum UK

are VIE's, due to the fact that both entities are jointly controlled, Canopy Growth is not the primary beneficiary of either entity and therefore is not required to consolidate either entity.

On October 11, 2019, the Company acquired all its unowned interest in BCT to increase its total ownership of BCT's issued and outstanding shares to 100%. Following this transaction, the Company will control both BCT and Spectrum UK, and both BCT and Spectrum UK will be accounted for as wholly owned subsidiaries.

Cash consideration for this transaction was \$58,336 of which \$45,098 was advanced on closing, \$8,750 was paid during October 2020, and \$5,861 was paid on October 1, 2021 and has a fair value of \$5,746.

Consideration also included 155,565 replacement options. The fair value of the replacement options was determined using a Black-Scholes model and \$1,885 of the total fair value has been included as consideration paid to acquire BCT as it related to pre-combination vesting service and \$1,987 of the fair value will be recognized as share-based compensation expense ratably over the post-combination vesting period.

The acquisition of the unowned interests is accounted for as business combinations achieved in stages under ASC 805. The Company remeasured its 42% interest in BCT and its 67% interest in Spectrum UK to fair value and recognized a total gain of \$39,485 which reflects the difference between the carrying value of \$12,457 and the implied fair value \$51,942. The fair value was estimated to be the transaction price less an estimated control premium of 5%.

The consideration paid for BCT included \$250 cash and 16,430 replacement options that were issued to a member of key management of the Company that was a shareholder and option holder in BCT.

In the year ended March 31, 2020, the Company finalized the purchase price allocation to the individual assets acquired and liabilities assumed using the acquisition method. The measurement period adjustments include:

Measurement period impact	Adjustments	Useful life (years)	Valuation methodology
Acquisition related intangible assets			
Intellectual property	\$ 5,267	1	Replacement cost
Operating license	1,158	1	Replacement cost
Other adjustments			
Deferred income tax liabilities	(874)		
Net impact to goodwill	\$ (5,551)		

(d) More Life

On November 7, 2019 the Company entered into agreements with certain entities that are controlled by Aubrey "Drake" Graham to launch the More Life Growth Company ("More Life"). Under the agreements Canopy Growth sold 100% of the shares of 1955625 Ontario Inc., a wholly owned subsidiary of Canopy Growth that holds the Health Canada license for a facility located in Scarborough, Ontario to More Life ("More Life Facility") in exchange for a 40% interest in More Life. Certain entities that are controlled by Drake hold a 60% ownership interest in More Life.

Following this transaction, the Company no longer controlled 1955625 Ontario Inc. and the Company derecognized the assets and liabilities of 1955625 Ontario Inc. from its consolidated financial statements at their carrying amounts. Management has concluded that the subsidiary does not meet the definition of an operation and no goodwill was allocated. The derecognized assets and liabilities on November 7, 2019, were as follows:

Current assets	\$ 100
Intangible assets	2,810
Net assets disposed	<u>\$ 2,910</u>
Fair value of retained interest	<u>25,200</u>
Gain on disposal of consolidated entity	<u>\$ 22,290</u>

The gain calculated on the derecognition of 1955625 Ontario Inc.'s assets and liabilities was the difference between the carrying amounts of the derecognized assets and liabilities of 1955625 Ontario Inc. and the fair value of the consideration received, being the fair value of the Company's interest in More Life. This gain was recognized in other income (expense), net, in the year ended March 31, 2020. The fair value of this interest on the transaction date was estimated to be \$25,200 which was determined using a discounted cash flow approach. The most significant inputs to the fair value measurement are the discount rate and expectations about future royalties.

As consideration for the 60% interest in More Life, certain entities that are controlled by Drake granted More Life the right to exclusively exploit certain intellectual property and brands in association with the growth, manufacture, production, marketing and sale of cannabis and cannabis-related products, accessories, merchandise and paraphernalia in Canada and internationally. More Life sublicensed such rights in Canada to Canopy Growth in exchange for royalty payments. On November 7, 2019, Canopy Growth recorded an intangible asset equal to the present value of the agreed minimum royalty payments. As part of the Company's restructuring of its global operations in the year ended March 31, 2020, the Company recognized an impairment charge related to the remaining intangible assets in the amount of \$32,717. The Company and More Life agreed to terminate the sublicense agreement between the two parties as of March 1, 2021, and as a result the Company derecognized the remaining minimum royalty obligations owing to More Life in the amount of \$33,681. The difference between the termination payment made by the Company to More Life and the remaining minimum royalty obligations was recorded in asset impairment and restructuring costs; refer to Note 5.

Through its ownership and other rights, the Company was determined to have significant influence over More Life and accounts for its interest in More Life using the equity method of accounting. The investment was initially recognized at its fair value of \$25,200 and adjusted thereafter to recognize the Company's share of net income (loss) and other comprehensive income (loss). The fair value of the Company's interest in More Life was estimated to be \$10,300 at March 31, 2020 using the same valuation techniques and inputs as described above. As at March 31, 2021, as a result of the termination of the sublicense agreement between the Company and More Life, the Company determined that the fair value of its' interest in More Life was \$nil, and accordingly, the Company recognized an impairment on its equity method investment in the amount of \$10,300 in the year ended March 31, 2021 (year ended March 31, 2020 – \$14,900) as part of the restructuring of its global operations. See Note 5 for further information.

30. C³ DIVESTITURE

On December 15, 2021, the Company entered into an agreement to divest all of its interest in C³ to a European pharmaceutical company headquartered in Germany. C³ develops and manufactures cannabinoid-based pharmaceutical products for distribution in Germany and certain other European countries.

The C³ Divestiture was completed on January 31, 2022, pursuant to which the Company received a cash payment of \$128,316 (€88,698), inclusive of cash, working capital and debt adjustments. The Company will also be entitled to an earnout payment of up to €42,600, subject to the achievement of certain milestones by C³.

Following the C³ Divestiture, the Company no longer controls C³ and the Company derecognized the assets and liabilities of C³ from these consolidated financial statements at their carrying amounts, including

\$53,541 of goodwill allocated to the C³ reporting unit. The derecognized assets and liabilities on January 31, 2022, were as follows:

Current assets ¹	\$ 44,568
Property, plant and equipment	9,216
Intangible assets	15,548
Goodwill	53,541
Current liabilities	(3,089)
Deferred income tax liabilities	(6,029)
Cumulative translation adjustment	19,178
Net assets disposed	<u>\$ 132,933</u>
Consideration received in cash	\$ 128,316
Future cash consideration	7,233
Costs to sell	(1,153)
Total consideration	<u>\$ 134,396</u>
Gain on disposal of consolidated entity	<u>\$ 1,463</u>

¹ Included in current assets is \$19,338 of cash.

The gain calculated on the derecognition of C³'s assets and liabilities is the difference between the carrying amounts of the derecognized assets and liabilities, inclusive of any cumulative translation adjustment amounts, and the fair value of consideration received, net of costs to sell.

31. ACREAGE ARRANGEMENT AND AMENDMENTS TO CBI INVESTOR RIGHTS AGREEMENT AND WARRANTS

Acreage Arrangement

On September 23, 2020, the Company and Acreage Holdings, Inc. (“Acreage”) entered into a second amendment (the “Acreage Amending Agreement”) to the arrangement agreement (the “Acreage Arrangement Agreement”) and plan of arrangement (the “Original Acreage Arrangement”) between the Company and Acreage dated April 18, 2019, as amended on May 15, 2019. In connection with the Acreage Amending Agreement, the Company and Acreage implemented an amended and restated plan of arrangement (the “Acreage Amended Arrangement”) on September 23, 2020. Pursuant to the terms of the Original Acreage Arrangement, shareholders of Acreage and holders of certain securities convertible into the existing Acreage subordinated voting shares as of June 26, 2019, received an immediate aggregate total payment of US\$300,000 (\$395,190) in exchange for granting Canopy Growth both the right and the obligation to acquire all of the issued and outstanding shares of Acreage following the occurrence or waiver of changes in U.S. federal law to permit the general cultivation, distribution, and possession of marijuana or to remove the regulation of such activities from the federal laws of the United States (the “Triggering Event”) and subject to the satisfaction or waiver of the conditions set out in the Acreage Arrangement Agreement.

The Acreage Amended Arrangement provides for, among other things, the following:

- Following the occurrence or waiver (at the discretion of Canopy Growth) of the Triggering Event and subject to the satisfaction or waiver of the conditions set out in the Acreage Arrangement Agreement (as modified in connection with the Acreage Amending Agreement), Canopy Growth will acquire all of the issued and outstanding Class E subordinated voting shares (the “Fixed Shares”) based on an amended exchange ratio equal to 0.3048 of a common share to be received for each Fixed Share held. The foregoing exchange ratio for the Fixed Shares is subject to adjustment in accordance with the Acreage Amended Arrangement if, among other things, Acreage issues greater than the permitted number of Fixed Shares;
- Upon the occurrence or waiver (at the discretion of Canopy Growth) of the Triggering Event, Canopy Growth will have the right exercisable for a period of 30 days, to acquire all of the issued and outstanding Class D subordinated voting shares (the “Floating Shares”) for cash or common shares or a combination thereof, in Canopy Growth’s sole discretion at a price equal to the 30-day volume weighted average trading price of the Floating Shares on the Canadian Securities Exchange, subject to a minimum call price of US\$6.41 per Floating Share. The foregoing exchange ratio for the Floating Shares is subject to adjustment in accordance with the Acreage Amended Arrangement if Acreage issues greater than the permitted number of Floating Shares. The acquisition of the Floating Shares, if acquired, will take place concurrently with the closing of the acquisition of the Fixed Shares;
- Immediately prior to the acquisition of the Fixed Shares, each issued and outstanding Class F multiple voting share will automatically be exchanged for one Fixed Share and thereafter be acquired by Canopy Growth upon the same terms and conditions as the acquisition of the Fixed Shares;
- If the occurrence or waiver of the Triggering Event does not occur by September 23, 2030, Canopy Growth’s rights to acquire both the Fixed Shares and the Floating Shares will terminate;
- Upon implementation of the Acreage Amended Arrangement, Canopy Growth made a cash payment to the shareholders of Acreage and holders of certain convertible securities in the aggregate amount of US\$37,500 (\$49,849); and
- Acreage is only permitted to issue an aggregate of up to 32,700,000 Fixed Shares and Floating Shares.

At March 31, 2022, the right and the obligation (the “Acreage financial instrument”) to acquire the Fixed Shares represents a financial liability of \$47,000 (March 31, 2021 – \$600,000), as the estimated fair value of the Acreage business is less than the estimated fair value of the consideration to be provided upon the exercise of the Acreage financial instrument. Fair value changes on the Acreage financial instrument are recognized in other income (expense), net; see Note 27. The fair value determination includes a high degree of subjectivity

and judgment, which results in significant estimation uncertainty. See Note 24 for additional details on how the fair value of the Acreage financial instrument is calculated on a recurring basis. From a measurement perspective, the Company has elected the fair value option under ASC 825.

In connection with the Acreage Amended Arrangement, on September 23, 2020, an affiliate of the Company advanced US\$50,000 (\$66,995) to Universal Hemp, LLC, a wholly owned subsidiary of Acreage (“Acreage Hempco”) pursuant to a secured debenture (“Hempco Debenture”). In accordance with the terms of the Hempco Debenture, the funds advanced to Acreage Hempco cannot be used, directly or indirectly, in connection with or for any cannabis or cannabis-related operations in the United States, unless and until such operations comply with all applicable laws of the United States. The Hempco Debenture bears interest at a rate of 6.1% per annum and matures on September 23, 2030, or such earlier date in accordance with the terms of the Hempco Debenture. All interest payments made pursuant to the Hempco Debenture are payable in cash by Acreage Hempco. The Hempco Debenture is not convertible and is not guaranteed by Acreage.

The amount advanced on September 23, 2020 pursuant to the Hempco Debenture has been recorded in other financial assets (see Note 12), and the Company has elected the fair value option under ASC 825 (see Note 24). At March 31, 2022, the estimated fair value of the Hempco Debenture issued to an affiliate of the Company by Acreage Hempco was \$28,824 (March 31, 2021 – \$27,448), measured using a discounted cash flow model (see Note 24). Refer to Note 12 for details on fair value changes, foreign currency translation adjustment, and interest received. An additional US\$50,000 may be advanced pursuant to the Hempco Debenture subject to the satisfaction of certain conditions by Acreage Hempco.

Amendment to the CBI Investor Rights Agreement and warrants

On April 18, 2019, certain wholly owned subsidiaries of CBI and Canopy Growth entered into a second amended and restated investor rights agreement and a consent agreement. In connection with these agreements, on June 27, 2019, Canopy Growth (i) extended the term of the first tranche of warrants, which allow CBI to acquire 88.5 million additional shares of Canopy Growth for a fixed price of \$50.40 per share (the “Tranche A Warrants”), to November 1, 2023; and (ii) replaced the second tranche of warrants with two new tranches of warrants (the “Tranche B Warrants” and the “Tranche C Warrants”) as follows:

- the Tranche B Warrants are exercisable to acquire 38.5 million common shares at a price of C\$76.68 per common share; and
- the Tranche C Warrants are exercisable to acquire 12.8 million common shares at a price equal to the 5-day volume-weighted average price of the common shares immediately prior to exercise.

In connection with the Tranche B Warrants and the Tranche C Warrants, Canopy Growth will provide CBI with a share repurchase credit of up to \$1.583 billion on the aggregate exercise price of the Tranche B Warrants and Tranche C Warrants in the event that Canopy Growth does not purchase for cancellation the lesser of (i) 27,378,866 common shares; and (ii) common shares with a value of \$1.583 billion, during the period commencing on April 18, 2019 and ending on the date that is 24 months after the date that CBI exercises all of the Tranche A Warrants. The share repurchase credit feature is accounted for as a derivative liability, with the fair value continuing to be \$nil at March 31, 2022.

The modifications to the Tranche A Warrants resulted in them meeting the definition of a derivative instrument under ASC 815 - *Derivatives and Hedging* (“ASC 815”). They continue to be classified in equity as the number of shares and exercise price were both fixed at inception.

The Tranche B Warrants are accounted for as derivative instruments (the “warrant derivative liability”) measured at fair value in accordance with ASC 815. At March 31, 2022, the fair value of the warrant derivative liability was \$26,920 (March 31, 2021 – \$615,575), and fair value changes are recognized in other income (expense), net; see Note 27. See Note 24 for additional details on how the fair value of the warrant derivative liability is calculated on a recurring basis.

The Tranche C Warrants are accounted for as derivative instruments, with the fair value continuing to be \$nil at March 31, 2022.

32. LEASES

The Company primarily leases office and production facilities, warehouses, production equipment and vehicles. The Company assesses service arrangements to determine if an asset is explicitly or implicitly specified in the agreement and if we have the right to control the use of the identified asset.

The right-of-use asset is initially measured at cost, which is primarily comprised of the initial amount of the lease liability, plus initial direct costs and lease payments at or before the lease commencement date, less any lease incentives received, and is amortized on a straight-line basis over the remaining lease term. All right-of-use assets are reviewed periodically for impairment. The lease liability is initially measured at the present value of lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. We elected to recognize expenses for leases with a term of 12 months or less on a straight-line basis over the lease term and not to recognize these short-term leases on the balance sheet. Leases have varying terms with remaining lease terms of up to approximately 30 years. Certain of our lease arrangements provide us with the option to extend or to terminate the lease early.

Lease payments included in the measurement of the lease liability comprise (a) fixed payments, including in-substance fixed payments; (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (c) amounts expected to be payable under a residual value guarantee; and (d) the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

At inception or reassessment of a contract that contains lease and non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Balance sheet location

A summary of lease right-of-use assets and liabilities are as follows:

	March 31, 2022	March 31, 2021
Property, plant and equipment		
Operating lease	\$ 39,571	\$ 47,522
Finance lease	34,333	39,427
	<u>\$ 73,904</u>	<u>\$ 86,949</u>
Other current liabilities:		
Operating lease	\$ 11,752	\$ 11,491
Finance lease	26,283	30,570
Other long-term liabilities:		
Operating lease	58,031	62,285
Finance lease	43,094	31,879
	<u>\$ 139,160</u>	<u>\$ 136,225</u>

Lease expense

The components of total lease expense are as follows:

	Years ended	
	March 31, 2022	March 31, 2021
Operating lease expense	\$ 5,245	\$ 10,846
Finance lease expense:		
Amortization of right-of-use assets	3,883	2,303
Interest on lease liabilities	1,667	1,674
	<u>\$ 10,795</u>	<u>\$ 14,823</u>

Lease maturities

As of March 31, 2022, the minimum payments due for lease liabilities for each of the five succeeding fiscal years and thereafter are as follows:

	Operating Leases	Finance Leases
2023	\$ 12,004	\$ 8,023
2024	11,402	8,116
2025	10,923	8,200
2026	9,892	38,476
2027	9,525	3,388
Thereafter	17,761	6,262
Total lease payments	\$ 71,507	\$ 72,465
Less: Interest	1,724	3,088
Total lease liabilities	<u>\$ 69,783</u>	<u>\$ 69,377</u>

As of March 31, 2022, we have additional operating leases that have not yet commenced with immaterial aggregated minimum payments on an undiscounted basis.

Supplemental information

	Years ended	
	March 31, 2022	March 31, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 12,905	\$ 18,792
Operating cash flows from finance leases	1,667	1,674
Financing cash flows from finance leases	1,494	2,303
Right-of-use assets obtained in exchange for new lease liabilities:		
Operating leases	\$ 9,019	\$ 13,592
Finance leases	3,720	1,428

	March 31, 2022	March 31, 2021
Weighted-average remaining lease term:		
Operating leases	6	7
Finance leases	4	4
Weighted-average discount rate		
Operating leases	4.50%	4.50%
Finance leases	4.50%	4.50%

33. RELATED PARTY

Year ended March 31, 2022

There were no reportable related party transactions in the year ended March 31, 2022.

Year ended March 31, 2021

On February 23, 2021, the Company completed the RIV Arrangement with RIV Capital and RCC. Refer to Note 6 for a description of the RIV Arrangement.

In connection with the Proposal Agreement entered into by the Company and Acreage on June 24, 2020 to amend the terms of the Original Acreage Arrangement, the Company entered into the Second Consent Agreement with CBI and its affiliates.

Year ended March 31, 2020

In connection with the Acreage Arrangement Agreement, the Company entered into several agreements with CBI and its affiliates, including the New Investor Rights Agreement, the Consent Agreement and amendments to the Original Tranche B Warrants. See Note 31 for further information.

34. COMMITMENTS

The Company has entered into agreements in which it has committed to purchase a minimum amount of inventory, pay a minimum amount of royalty expenses, incur expenditures for property, plant and equipment and procure various other goods or services. The following summarizes the Company's annual minimum commitments associated with its contractual agreements as of March 31, 2022. This amount excludes the Company's debt and lease related commitments which are disclosed elsewhere in Notes 17 and 32, respectively in these consolidated financial statements.

2023	\$ 130,453
2024	72,653
2025	33,641
2026	24,347
2027	16,936
Thereafter	57,773
	<u>\$ 335,803</u>

35. SEGMENTED INFORMATION

Reportable segments

Prior to the fourth quarter of the year ended March 31, 2021, the Company had the following two operating segments, which were also its reportable segments: (i) cannabis, hemp, and other consumer products;

and (ii) RIV Capital. Following the completion of the RIV Arrangement in February 2021 (refer to Note 6) and the completion of restructuring actions in the third and fourth quarters of the year ended March 31, 2021, associated with the end-to-end review of the Company's operations (refer to Note 5), the Company changed the structure of its internal management financial reporting. Accordingly, in the fourth quarter of the year ended March 31, 2021, the Company began reporting its financial results for the following two operating segments, which are also its reportable segments: (i) global cannabis; and (ii) other consumer products. These segments reflect how the Company's operations are managed, how the Company's Chief Executive Officer, who is the chief operating decision maker ("CODM"), allocates resources and evaluates performance, and how the Company's internal management financial reporting is structured.

The Company's global cannabis segment 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. The Company's other consumer products segment comprises the production, distribution, and sale of consumer products, including (i) Storz & Bickel vaporizers; (ii) This Works beauty, skincare, wellness and sleep products; (iii) BioSteel sports nutrition beverages, mixes, protein, gum and mints; and (iv) other revenue sources. The Company's CODM evaluates the performance of these two segments focusing on (i) segment net revenue, and (ii) segment gross margin and gross margin percentage as the measure of segment profit or loss. Accordingly, information regarding segment net revenue and segment gross margin for the year ended March 31, 2020 comparative period has been recast to reflect the aforementioned change in reportable segments.

The accounting policies of each segment are the same as those disclosed in the summary of significant accounting policies in Note 3.

	Years ended		
	March 31, 2022	March 31, 2021	March 31, 2020
Segmented net revenue			
Global cannabis	\$ 337,216	\$ 378,680	\$ 294,935
Other consumer products	183,109	167,969	103,837
	<u>\$ 520,325</u>	<u>\$ 546,649</u>	<u>\$ 398,772</u>
Segmented gross margin:			
Global cannabis	\$ (251,235)	\$ 7,045	\$ (76,836)
Other consumer products	58,181	59,915	45,152
	(193,054)	66,960	(31,684)
Selling, general and administrative expenses	472,756	575,389	693,737
Share-based compensation	47,525	91,149	320,276
Expected credit losses on financial assets and relates charges	-	109,480	-
Asset impairment and restructuring costs	369,339	534,398	623,266
Operating loss	(1,082,674)	(1,243,456)	(1,668,963)
Loss from equity method investments	(100)	(52,629)	(64,420)
Other income (expense), net	753,341	(387,876)	224,329
Loss before incomes taxes	<u>\$ (329,433)</u>	<u>\$ (1,683,961)</u>	<u>\$ (1,509,054)</u>

Asset information by segment is not provided to, or reviewed by, the Company's CODM as it is not used to make strategic decisions, allocate resources, or assess performance.

Entity-wide disclosures

Disaggregation of net revenue by geographic area:

	Years ended		
	March 31, 2022	March 31, 2021	March 31, 2020
Canada	\$ 296,369	\$ 329,172	\$ 256,166
Germany	90,874	116,379	93,945
United States	82,080	64,926	24,568
Other	51,002	36,172	24,093
	<u>\$ 520,325</u>	<u>\$ 546,649</u>	<u>\$ 398,772</u>

Disaggregation of long-lived tangible assets by geographic area:

	March 31, 2022	March 31, 2021
Canada	\$ 827,591	\$ 847,678
United States	63,247	143,747
Other	51,942	83,112
	<u>\$ 942,780</u>	<u>\$ 1,074,537</u>

For the year ended March 31, 2022, one customer represented more than 10% of the Company's net revenue (years ended March 31, 2021 and 2020, none and one, respectively).

36. SUBSEQUENT EVENTS

Plan to Acquire Jetty

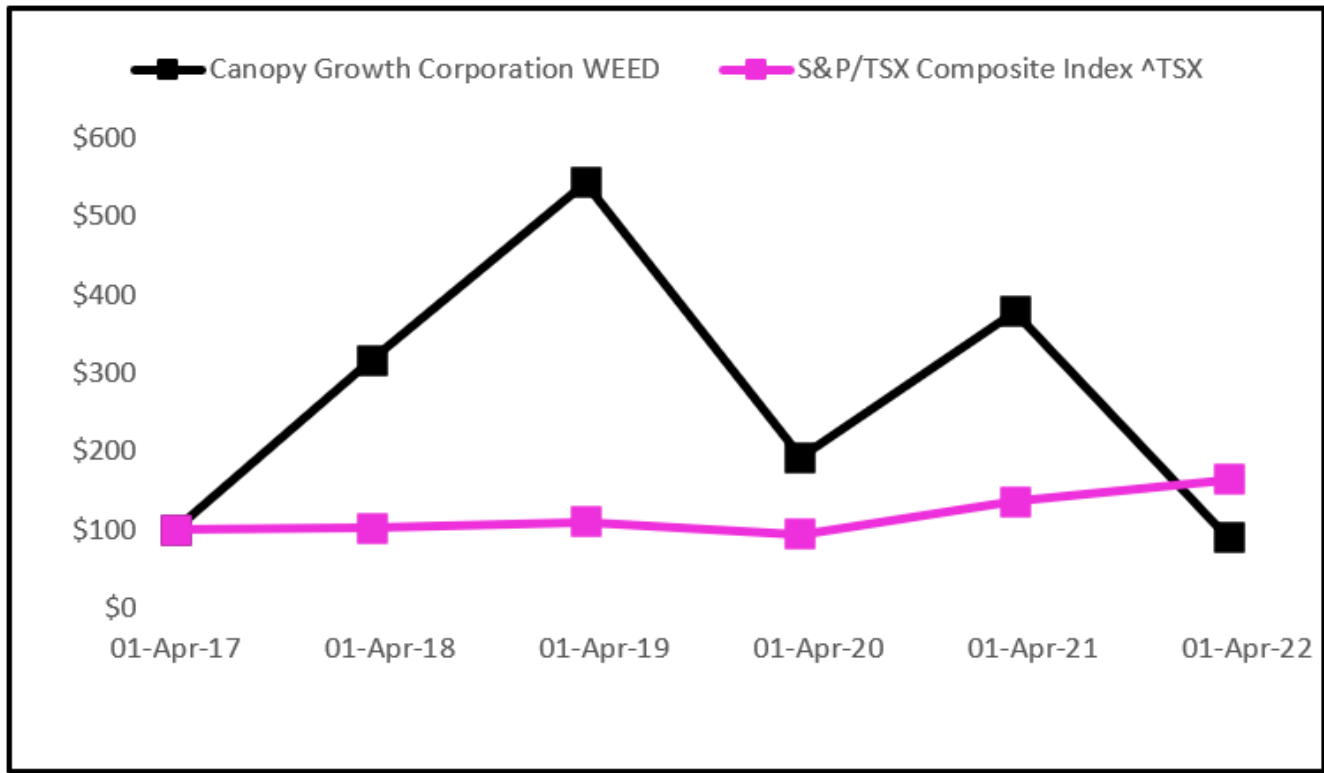
On May 18, 2022, the Company and Lemurian, Inc. ("Jetty"), a California-based producer of high-quality cannabis extracts and clean vape technology, announced that they entered into definitive agreements (the "Jetty Agreements") providing Canopy Growth, by way of a wholly-owned subsidiary, the right to 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, the Company will make aggregate upfront payments in the amount of approximately US\$69,000, payable through a combination of cash and Canopy Growth common shares, a majority of which will be in Canopy Growth 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, the Company will make an additional payment pursuant to the terms of the Jetty Agreements, also to be satisfied through a combination of cash and Canopy Growth common shares.

Until such time as the Company elects to exercise its rights to acquire Jetty, the Company will have no direct or indirect economic or voting interests in Jetty, the Company will not directly or indirectly control Jetty, and the Company, on the one hand, and Jetty, on the other hand, will continue to operate independently of one another.

PERFORMANCE GRAPH

The following performance graph illustrates the company’s cumulative Shareholder return assuming reinvestment of dividends, by comparing a C\$100 investment in the Shares beginning April 1, 2017 to the return on the S&P/TSX Composite Index.



DIRECTORS AND EXECUTIVE OFFICERS

(As of July 28, 2022)

BOARD OF DIRECTORS

Judy A. Schmeling

Chair of the Board, Director, Member of the Audit Committee

David Klein

Director

Garth Hankinson

Director

Robert L. Hanson

Director, Member of the Corporate Governance, Compensation, & Nominating Committee

James A. Sabia

Director, Member of the Corporate Governance, Compensation & Nominating Committee

Theresa Yanofsky

Director, Chair of the Corporate Governance, Compensation & Nominating Committee, Member of the Audit Committee

David Lazzarato

Director, Chair of the Audit Committee and Member of the Corporate Governance, Compensation & Nominating Committee

EXECUTIVE OFFICERS

David Klein

Chief Executive Officer

Judy Hong

Chief Financial Officer

Julious Grant

Chief Commercial Officer

COMMON SHARE TRADING

The Company's common shares trade on the Toronto Stock Exchange (TSE: WEED) and The Nasdaq Global Select Market (NASDAQ: CGC). As of July 22, 2022, there were 768 holders of record of our Common Shares.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

The statements set forth in this report, which are not historical facts, are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those set forth in, or implied by, the forward-looking statements. For risk factors associated with the Company and its business, please refer to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2022 included herein.

VIRTUAL ANNUAL SHAREHOLDER'S MEETING

The virtual meeting is scheduled to be held at 1:00 p.m. Toronto Time, on Thursday, September 15, 2022, and will be conducted exclusively via live audio webcast. Shareholders will be able to attend the 2022 Annual General and Special Meeting, vote shares, and submit questions during the meeting via the Internet by visiting www.virtualshareholdermeeting.com/WEED2022.

COPIES OF FORM 10-K

A copy of our Annual Report on Form 10-K for the fiscal year ended March 31, 2022, filed with the U.S. Securities and Exchange Commission, will be furnished without charge to any shareholder upon written request to Canopy Growth Corporation's Investor Relations department at our corporate headquarters address provided on this page. Alternatively, a copy is available on our Canopy Growth Corporation website at www.canopygrowth.com, as well as on the Securities and Exchange Commission's internet site at www.sec.gov.

INVESTOR INFORMATION HEADQUARTERS

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