CANOPY GROWTH CORPORATION

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

FOR THE THREE MONTHS ENDED JUNE 30, 2022

August 9, 2022

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

Introduction

This Management's Discussion and Analysis ("MD&A") should be read together with other information, including our unaudited condensed interim consolidated financial statements and the related notes to those statements included in Part I, Item 1 of this Quarterly Report (the "Interim Financial Statements"), our consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended March 31, 2022 (the "Annual Report") and Part I, Item 1A, Risk Factors, of the Annual Report. This MD&A provides additional information on our business, recent developments, financial condition, cash flows and results of operations, and is organized as follows:

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

- *Part 2 - Results of Operations.* This section provides an analysis of our results of operations for the first quarter of fiscal 2023 in comparison to the first quarter of fiscal 2022.

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

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

Special Note Regarding Forward-Looking Statements

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

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

- the uncertainties associated with the COVID-19 pandemic, including our ability, and the ability of our suppliers and distributors, to effectively manage the restrictions, limitations and health issues presented by the COVID-19 pandemic, the ability to continue our production, distribution and sale of our products and the demand for and use of our products by consumers, disruptions to the global and local economies due to related stay-at-home orders, quarantine policies and restrictions on travel, trade and business operations and a reduction in discretionary consumer spending;
- laws and regulations and any amendments thereto applicable to our business and the impact thereof, including uncertainty regarding the application of U.S. state and federal law to U.S. hemp (including CBD) products and the scope of any regulations by the U.S. Food and Drug Administration (the "FDA"), the U.S. Drug Enforcement Administration (the "DEA"), the U.S. Federal Trade Commission (the "FTC"), the U.S. Patent and Trademark Office (the "USPTO"), the U.S. Department of Agriculture (the "USDA") and any state equivalent regulatory agencies over U.S. hemp (including CBD) products;
- expectations regarding the 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;
- expectations regarding the use of proceeds of equity financings, including the proceeds from CBI;
- the legalization of the use of cannabis for medical or recreational in jurisdictions outside of Canada, the related timing and impact thereof and our intentions to participate in such markets, if and when such use is legalized;
- our ability to execute on our strategy and the anticipated benefits of such strategy;
- the ongoing impact of the legalization of additional cannabis product types and forms for recreational use in Canada, including federal, provincial, territorial and municipal regulations pertaining thereto, the related timing and impact thereof and our intentions to participate in such markets;
- the ongoing impact of developing provincial, territorial and municipal regulations pertaining to the sale and distribution of cannabis, the related timing and impact thereof, as well as the restrictions on federally regulated cannabis producers participating in certain retail markets and our intentions to participate in such markets to the extent permissible;
- the timing and nature of legislative changes in the U.S. regarding the regulation of cannabis including tetrahydrocannabinol ("THC");
- the future performance of our business and operations;
- our competitive advantages and business strategies;
- the competitive conditions of the industry;
- the expected growth in the number of customers using our products;
- our ability or plans to identify, develop, commercialize or expand our technology and research and development initiatives in cannabinoids, or the success thereof;
- expectations regarding revenues, expenses and anticipated cash needs;
- expectations regarding cash flow, liquidity and sources of funding;
- expectations regarding capital expenditures;
- our ability to refinance debt as and when required on terms favorable to us and comply with covenants contained in our debt facilities and debt instruments;
- the expansion of our production and manufacturing, the costs and timing associated therewith and the receipt of applicable production and sale licenses;
- the expected growth in our growing, production and supply chain capacities;
- expectations regarding the resolution of litigation and other legal and regulatory proceedings, reviews and investigations;
- expectations with respect to future production costs;
- expectations with respect to future sales and distribution channels and networks;
- the expected methods to be used to distribute and sell our products;
- our future product offerings;
- the anticipated future gross margins of our operations;
- accounting standards and estimates;
- expectations regarding our distribution network;
- expectations regarding the costs and benefits associated with our contracts and agreements with third parties, including under our third-party supply and manufacturing agreements; and
- expectations on price changes in cannabis markets.

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

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

By their nature, forward-looking statements are subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, including known and unknown risks, many of which are beyond our control, could cause actual results to differ materially from the forward-looking statements in this Quarterly Report and other reports we file with, or furnish to, the Securities and Exchange Commission (the "SEC") and other regulatory agencies and made by our directors, officers, other employees and other persons authorized to speak on our behalf. Such factors include, without limitation, 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 the Annual Report. Readers are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

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

Part 1 - Business Overview

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

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 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, 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. Additionally, on May 17, 2022, we and Lemurian, Inc. ("Jetty") entered into definitive agreements (the "Jetty Agreements") providing us with the right to acquire up to 100% of the outstanding equity interests in Jetty, (i) upon the occurrence 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; or (ii) an earlier date at our sole discretion (the "Jetty Triggering Event"). Jetty is a California-based producer of high-quality cannabis extracts and pioneer of clean vape technology.

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 the COVID-19 Pandemic

Management has continued to closely monitor the impact of the COVID-19 global pandemic, with a focus on the health and safety of our employees, business continuity and supporting its communities. We established a COVID-19 Management Committee shortly after the declaration of COVID-19 as a global pandemic and implemented various measures to reduce the spread of the virus. We have continued to operate under preventative measures and have experienced minimal disruption to our production and supply chain. As of the date of this Quarterly Report, all 33 of our corporate-owned retail stores are open and offering click-and-collect and/or in-store shopping. Our Canadian medical business, which operates as an e-commerce channel, has continued largely unchanged. Our international medical business operates primarily as a pharmacy model, with pharmacies being deemed essential businesses in Germany and other European countries in which we conduct business. In addition, since our non-production workforce continues to effectively work remotely using various technology tools, we are able to maintain our full operations and internal controls over financial reporting and disclosures.

The COVID-19 pandemic, including government measures to limit the spread of COVID-19, did not have a material adverse impact on our results of operations in the first quarter of fiscal 2023. However, given the uncertainties associated with the COVID-19 pandemic, including those related to the distribution and acceptance of the vaccines and their effectiveness with respect to new variants of the virus, the use of our products by consumers, disruptions to the global and local economies due to related stay-at-home orders, quarantine policies and restrictions on travel, trade and business operations and a reduction in discretionary consumer spending we are unable to estimate the future impact of the COVID-19 pandemic on our business, financial condition, results of operations, and/or cash flows. Recently in the United States, there have been a number of supply chain challenges, such as container ships facing delays due to congestion in ports, impacting many industries, including the industries in which we operate. Although we have not yet seen a significant impact, we continue to monitor our supply chain closely. The uncertain nature of the impacts of the COVID-19 pandemic may affect our results of operations into the second quarter of fiscal 2023.

We believe we have sufficient liquidity available from cash and cash equivalents and short-term investments on hand of $769.5 million and $447.6 million, respectively, at June 30, 2022, to enable us to meet our working capital and other operating requirements, fund growth initiatives and capital expenditures, settle our liabilities, and repay scheduled principal and interest payments on debt for at least the next twelve months. Refer to "Part 3 – Financial Liquidity and Capital Resources" for further information.

Recent Developments

Exchanges of Convertible Senior Notes

On June 29, 2022 and June 30, 2022, we entered into privately negotiated exchange agreements (the "Exchange Agreements") with a limited number of holders, including Greenstar Canada Investment Limited Partnership ("GCILP"), a wholly-owned subsidiary of Constellation Brands, Inc. (collectively, the "Noteholders"), of our 4.25% unsecured senior notes due in 2023 (the "Notes"). Pursuant to the Exchange Agreements, we acquired and cancelled approximately $262.6 million of aggregate principal amount of the Notes from the Noteholders (the "Exchange Transaction"), for an aggregate purchase price (excluding $5.4 million paid in cash to the Noteholders for accrued and unpaid interest) of $260.0 million (the "Purchase Price"), which was payable in our common shares.

We satisfied the Purchase Price as follows:

- On the initial closings, 35,662,420 common shares were issued to the Noteholders, other than GCILP, based on a price equal to US$3.50 per common share, which was the closing price of the common shares on the Nasdaq Global Select Market ("Nasdaq") on June 29, 2022. Of this amount, 14,069,353 common shares were issued to Noteholders on June 30, 2022, representing our acquisition and cancellation of an aggregate principal amount of Notes of $63.1 million.
- On the final closing on July 18, 2022 (the "Final Closing"), 11,896,536 common shares were issued to Noteholders, other than GCILP, based on the volume-weighted average trading price of the common shares on the Nasdaq for the 10 consecutive trading days beginning on, and including, June 30, 2022, being US$2.6245 (the "Averaging Price").
- In addition, on the Final Closing on July 18, 2022, 29,245,456 common shares were issued to GCILP based on a price per common share equal to the Averaging Price. Prior to the Exchange Transaction, GCILP held $200.0 million aggregate principal amount of Notes. Pursuant to the Exchange Transaction, we acquired and cancelled $100.0 million aggregate principal amount of such Notes held by GCILP.

The Notes were issued pursuant to an indenture dated June 20, 2018, as supplemented by supplement no. 1 to the indenture dated April 30, 2019 and supplement no. 2 to the indenture dated June 29, 2022 (collectively, the "Indenture"). As a result of supplement no. 2 to the Indenture dated June 29, 2022 (the "Second Supplemental Indenture"), we irrevocably surrendered our right to settle the conversion of any Note with our common shares. As a result, all conversions of Notes following the execution of the Second Supplemental Indenture will be settled entirely in cash.

Plan to Acquire Jetty

On May 17, 2022, we and Jetty entered into the Jetty Agreements, providing us with the right to acquire up to 100% of the outstanding equity interests in Jetty upon the occurrence of the Jetty Triggering Event.

The Jetty Agreements are structured as two separate option agreements whereby we have the right to acquire up to 100% of the equity interests in Jetty. As consideration for entering into the Jetty Agreements, we (i) made an upfront cash payment in the amount of $29.2 million (US$22.9 million), and (ii) issued 8,426,539 common shares with a fair value on closing of $59.1 million (US$45.9 million), for total consideration of $88.3 million.

The first option agreement is exercisable in two tranches, with the first tranche providing us with the option to acquire 52.78% of Jetty's equity interests, exercisable following the occurrence of the Jetty Triggering Event. The second tranche provides us with the option to acquire 25% of Jetty's equity interests for their fair market value, subject to certain adjustments. Additionally, we expect to make deferred payments computed based on a pre-determined contractual formula. The second option agreement provides us with an option to acquire 22.22% of Jetty's equity interests, exercisable following the occurrence of the Jetty Triggering Event.

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. Refer to Note 9 of the Interim Financial Statements for further information regarding the plan to acquire Jetty.

BioSteel, and NHL and NHLPA Partnership

On July 7, 2022, BioSteel, the National Hockey League (“NHL”) and the National Hockey League Players’ Association (“NHLPA”) announced a new multi-year partnership naming BioSteel the Official Hydration Partner of the NHL and NHLPA. This new partnership will provide the BioSteel brand with League-wide rinkside marketing and product supply rights, retail activation rights, community engagement platforms, and player marketing and activation rights. Beginning in the 2022-2023 NHL regular season, fans will see NHL players hydrating with BioSteel during every NHL game in North America. BioSteel products will be featured on each bench, penalty box and goal net. Additionally, BioSteel will have a year-round platform to activate brand programming with NHL marks, logos, teams and players.

Part 2 - Results of Operations

Discussion of First Quarter of Fiscal 2023 Results of Operations

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Three months ended June 30, 2022	Three months ended June 30, 2021	$ Change	% Change
Selected consolidated financial information:				
Net revenue	$ 110,115	$ 136,209	$ (26,094)	(19%)
Gross margin percentage	(1%)	20%	-	(2,100) bps
Net (loss) income	$ (2,087,556)	$ 389,955	$ (2,477,511)	(635%)
Net (loss) income attributable to Canopy Growth Corporation	$ (2,083,148)	$ 392,418	$ (2,475,566)	(631%)
Basic (loss) earnings per share[1]	$ (5.23)	$ 1.02	$ (6.25)	(613%)
Diluted (loss) earnings per share[1]	$ (5.23)	$ 0.84	$ (6.07)	(723%)

[1]For the three months ended June 30, 2022, the weighted average number of outstanding common shares, basic and diluted, totaled 398,467,568. For the three months ended June 30, 2021, the weighted average number of outstanding common shares, basic and diluted, totaled 384,055,133 and 404,546,243, respectively.

Revenue

We report net revenue in two segments: (i) global cannabis; and (ii) other consumer products. The following tables present segmented net revenue, by channel and by form, for the three months ended June 30, 2022 and 2021:

Revenue by Channel

(in thousands of Canadian dollars)	Three months ended June 30, 2022	Three months ended June 30, 2021	$ Change	% Change
Canadian recreational cannabis net revenue				
Business-to-business[1]	$ 26,540	$ 42,693	$ (16,153)	(38%)
Business-to-consumer	12,435	17,344	(4,909)	(28%)
	38,975	60,037	(21,062)	(35%)
Canadian medical cannabis net revenue[2]	13,440	13,492	(52)	-
	52,415	73,529	(21,114)	(29%)
International and other revenue				
C[3]	-	11,443	(11,443)	(100%)
Other[3]	13,781	7,967	5,814	73%
	13,781	19,410	(5,629)	(29%)
Global cannabis net revenue	66,196	92,939	(26,743)	(29%)
Other consumer products				
Storz & Bickel	15,643	24,070	(8,427)	(35%)
This Works	5,520	6,551	(1,031)	(16%)
BioSteel[4]	17,888	6,661	11,227	169%
Other	4,868	5,988	(1,120)	(19%)
Other consumer products revenue	43,919	43,270	649	1%
Net revenue	$ 110,115	$ 136,209	$ (26,094)	(19%)

[1] Reflects excise taxes of $11,591 and other revenue adjustments, representing our determination of returns and pricing adjustments, of $550 for the three months ended June 30, 2022 (three months ended June 30, 2021 - excise taxes of $17,834 and other revenue adjustments of $3,000).

[2] Reflects excise taxes of $1,156 for the three months ended June 30, 2022 (three months ended June 30, 2021 - $1,380).

[3] Reflects other revenue adjustments of $666 for the three months ended June 30, 2022 (three months ended June 30, 2021 - $377)

[4] Reflects other revenue adjustments of $1,682 for the three months ended June 30, 2022 (three months ended June 30, 2021 - $1,937)

Revenue by Form	Three months ended June 30,			
(in thousands of Canadian dollars)	2022	2021	$ Change	% Change
Canadian recreational cannabis				
Dry bud[1]	$ 38,565	$ 65,970	$ (27,405)	(42%)
Oils and softgels[1]	5,152	5,741	(589)	(10%)
Beverages, edibles, topicals and vapes[1]	7,399	9,160	(1,761)	(19%)
Other revenue adjustments	(550)	(3,000)	2,450	82%
Excise taxes	(11,591)	(17,834)	6,243	35%
	38,975	60,037	(21,062)	(35%)
Medical cannabis and other				
Dry bud	14,239	9,611	4,628	48%
Oils and softgels	9,172	20,516	(11,344)	(55%)
Beverages, edibles, topicals and vapes	4,966	4,155	811	20%
Excise taxes	(1,156)	(1,380)	224	16%
	27,221	32,902	(5,681)	(17%)
Global cannabis net revenue	66,196	92,939	(26,743)	(29%)
Other consumer products				
Storz & Bickel	15,643	24,070	(8,427)	(35%)
This Works	5,520	6,551	(1,031)	(16%)
BioSteel[2]	17,888	6,661	11,227	169%
Other	4,868	5,988	(1,120)	(19%)
Other consumer products revenue	43,919	43,270	649	1%
Net revenue	$ 110,115	$ 136,209	$ (26,094)	(19%)

[1] Excludes the impact of other revenue adjustments.

[2] Includes the impact of other revenue adjustments.

Net revenue was $110.1 million in the first quarter of fiscal 2023, as compared to $136.2 million in the first quarter of fiscal 2022. The year-over-year decrease is attributable to a revenue decline of 29% in our global cannabis segment, which was primarily due to a decline in our organic Canadian recreational business and the divestiture of all of our interest in C^3 Cannabinoid Compound Company GmbH ("C^3") in the fourth quarter of fiscal 2022. Revenue in our other consumer products segment grew 1% relative to the first quarter of fiscal 2022, as growth in our BioSteel business was largely offset by declines in our Storz & Bickel and This Works businesses.

Global cannabis

Net revenue from our global cannabis segment was $66.2 million in the first quarter of fiscal 2023, as compared to $92.9 million in the first quarter of fiscal 2022.

Canadian recreational cannabis net revenue was $39.0 million in the first quarter of fiscal 2023, as compared to $60.0 million in the first quarter of fiscal 2022.

- Net revenue from the business-to-business channel was $26.5 million in the first quarter of fiscal 2023, as compared to $42.7 million in the first quarter of fiscal 2022. The year-over-year decrease is primarily attributable to (i) the continuing impacts of price compression resulting from increased competition; and (ii) lower sales in the value-priced dried flower category of the Canadian recreational market, as we have shifted towards premium and mainstream categories. These factors were partially offset by (i) a more favorable product mix due primarily to a decrease in the volume of value-priced dried product sold compared to the prior year; and (ii) a full quarter of net revenue contribution from Supreme Cannabis, which was acquired on June 22, 2021. Supreme Cannabis contributed net revenue of $5.3 million in the first quarter of fiscal 2023, as compared to $2.1 million in the first quarter of fiscal 2022.
- Revenue from the business-to-consumer channel was $12.4 million in the first quarter of fiscal 2023, as compared to $17.3 million in the first quarter of fiscal 2022. The year-over-year decrease is primarily attributable to (i) the continuing rapid increase in the number of third-party owned retail stores across Canada, which has resulted in increased competition for traffic at our corporate-owned stores which we operate in certain provinces; and (ii) price compression resulting from the increased competition.

Canadian medical cannabis net revenue was $13.4 million in the first quarter of fiscal 2023, consistent with net revenue of $13.5 million in the first quarter of fiscal 2022.

International and other cannabis revenue was $13.8 million in the first quarter of fiscal 2023, as compared to $19.4 million in the first quarter of fiscal 2022.

- The divestiture of C^3 was completed on January 31, 2022, resulting in a decrease in revenue of $11.4 million as compared to the first quarter of fiscal 2022.
- Other cannabis revenue was $13.8 million in the first quarter of fiscal 2023, a year-over-year increase of $5.8 million primarily attributable to (i) bulk cannabis sales, predominantly to Israel, in the amount of $3.6 million, which did not occur in the first quarter of fiscal 2022; (ii) growth in our global medical cannabis business, particularly in Australia; and (iii) growth in our U.S. CBD business associated with an opportunistic sale of bulk crude CBD resin.

Other consumer products

Revenue from our other consumer products segment was $43.9 million in the first quarter of fiscal 2023, as compared to $43.3 million in the first quarter of fiscal 2022.

- Revenue from BioSteel was $17.9 million in the first quarter of fiscal 2023, a year-over-year increase of $11.2 million due primarily to (i) continued growth in our distribution channels and sales velocities across North America; and (ii) higher international sales of ready-to-drink products and beverage mixes.
- Revenue from Storz & Bickel was $15.6 million in the first quarter of fiscal 2023, a year-over-year decrease of $8.4 million due primarily to the slowdown in consumer spending in North America and Europe, and temporary disruptions with certain distributors.
- Revenue from This Works was $5.5 million in the first quarter of fiscal 2023, a year-over-year decrease of $1.0 million due primarily to (i) softer performance in certain of our product lines, which benefited during the period of COVID-19 restrictions in the first quarter of fiscal 2022; and (ii) the phasing of orders for certain of our products in Europe to the second quarter of fiscal 2023.

Cost of Goods Sold and Gross Margin

The following table presents cost of goods sold, gross margin and gross margin percentage on a consolidated basis for the three months ended June 30, 2022 and 2021:

(in thousands of Canadian dollars except where indicated)	Three months ended June 30, 2022	Three months ended June 30, 2021	$ Change	% Change
Net revenue	$ 110,115	$ 136,209	$ (26,094)	(19%)
Cost of goods sold	$ 111,507	$ 108,971	$ 2,536	2%
Gross margin	(1,392)	27,238	(28,630)	(105%)
Gross margin percentage	(1%)	20%	-	(2,100) bps

Cost of goods sold was $111.5 million in the first quarter of fiscal 2023, as compared to $109.0 million in the first quarter of fiscal 2022. Our gross margin was $(1.4) million in the first quarter of fiscal 2023, or (1%) of net revenue, as compared to a gross margin of $27.2 million and gross margin percentage of 20% of net revenue in the first quarter of fiscal 2022. The year-over-year decrease in the gross margin percentage was primarily attributable to:

- In our Canadian recreational cannabis business, (i) the year-over-year decrease in net revenue; (ii) continued price compression; and (iii) the impact of the under-absorption of costs attributable to lower production volumes. These impacts were partially offset by the realized benefit of our cost savings program that we announced in April 2022;
- A shift in the business mix relative to the first quarter of fiscal 2022 resulting from a (i) decrease in the proportionate revenue contribution from C^3 relative to the first quarter of fiscal 2022, as a result of the completion of the divestiture of C^3 on January 31, 2022; and (ii) a decrease in revenue from the higher-margin Storz & Bickel business;
- Restructuring charges totaling $4.0 million relating to inventory write-downs resulting from the strategic changes to our business that were initiated in the fourth quarter of fiscal 2022, including the shift to a contract manufacturing model for certain product formats, and the closure of certain of our production facilities in fiscal 2022; and
- A decrease in the amount of payroll subsidies received from the Canadian government, pursuant to a COVID-19 relief program, from $7.3 million in the first quarter of fiscal 2022 to $1.6 million in the first quarter of fiscal 2023.

Comparatively, our gross margin in the first quarter of fiscal 2022 was impacted by charges totaling $1.4 million relating to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

We report gross margin and gross margin percentage in two segments: (i) global cannabis; and (ii) other consumer products. The following table presents segmented gross margin and gross margin percentage for the three months ended June 30, 2022 and 2021:

(in thousands of Canadian dollars except where indicated)	Three months ended June 30, 2022	Three months ended June 30, 2021	$ Change	% Change
Global cannabis segment				
Cost of goods sold	$ 81,668	$ 79,570	$ 2,098	3%
Gross margin	(15,472)	13,369	(28,841)	(216%)
Gross margin percentage	(23%)	14%		(3,700) bps
Other consumer products segment				
Cost of goods sold	$ 29,839	$ 29,401	$ 438	1%
Gross margin	14,080	13,869	211	2%
Gross margin percentage	32%	32%		- bps

Global cannabis

Gross margin for our global cannabis segment was $(15.5) million in the first quarter of fiscal 2023, or (23%) of net revenue, as compared to $13.4 million in the first quarter of fiscal 2022, or 14% of net revenue. The year-over-year decease in the gross margin percentage was primarily due to:

- In our Canadian recreational cannabis business, (i) the year-over-year decrease in net revenue; (ii) continued price compression; and (iii) the impact of the under-absorption of costs attributable to lower production volumes. These impacts were partially offset by the realized benefit of our cost savings program that we announced in April 2022;
- A shift in the business mix resulting from a decrease in the proportionate revenue contribution from C^3 relative to the first quarter of fiscal 2022, as a result of the completion of the divestiture of C^3 on January 31, 2022;
- Restructuring charges totaling $4.0 million relating to inventory write-downs resulting from the previously-noted strategic changes to our business that were initiated in the fourth quarter of fiscal 2022; and
- A decrease in the amount of payroll subsidies received from the Canadian government, pursuant to a COVID-19 relief program, from $7.3 million in the first quarter of fiscal 2022 to $1.6 million in the first quarter of fiscal 2023.

Other consumer products

Gross margin for our other consumer products segment was $14.1 million in the first quarter of fiscal 2023, or 32% of net revenue, relatively consistent with our gross margin and gross margin percentage of $13.9 million and 32% of net revenue, respectively, in the first quarter of fiscal 2022.

Operating Expenses

The following table presents operating expenses for the three months ended June 30, 2022 and 2021:

(in thousands of Canadian dollars)	Three months ended June 30, 2022	Three months ended June 30, 2021	$ Change	% Change
Operating expenses				
General and administrative	$ 28,371	$ 33,677	$ (5,306)	(16%)
Sales and marketing	53,182	50,532	2,650	5%
Research and development	6,953	8,342	(1,389)	(17%)
Acquisition-related costs	4,193	5,780	(1,587)	(27%)
Depreciation and amortization	10,714	14,243	(3,529)	(25%)
Selling, general and administrative expenses	103,413	112,574	(9,161)	(8%)
Share-based compensation	5,439	11,427	(5,988)	(52%)
Share-based compensation related to acquisition milestones	-	1,699	(1,699)	(100%)
Share-based compensation expense	5,439	13,126	(7,687)	(59%)
Asset impairment and restructuring costs	1,727,985	89,249	1,638,736	1836%
Total operating expenses	$ 1,836,837	$ 214,949	$ 1,621,888	755%

Selling, general and administrative expenses

Selling, general and administrative expenses were $103.4 million in the first quarter of fiscal 2023, as compared to $112.6 million in the first quarter of fiscal 2022.

General and administrative expense was $28.4 million in the first quarter of fiscal 2023, as compared to $33.7 million in the first quarter of fiscal 2022. The year-over-year decrease is due primarily to:

- The restructuring actions initiated in the fourth quarter of fiscal 2022, which included operational changes designed to align general and administrative costs with business objectives, and further streamline the organization to drive process-related efficiencies. We realized reductions relative to the first quarter of fiscal 2022 primarily in relation to (i) compensation and third-party costs for finance, information technology, legal and other administrative functions; and (ii) facilities and insurance costs.
- The above cost reductions were partially offset by a year-over-year decrease in the amount of payroll subsidies received from the Canadian government pursuant to a COVID-19 relief program. We received $2.8 million in the first quarter of fiscal 2023, as compared to $12.7 million received in the first quarter of fiscal 2022.

Sales and marketing expense was $53.2 million in the first quarter of fiscal 2023, as compared to $50.5 million in the first quarter of fiscal 2022. The year-over-year increase is primarily due to (i) higher sponsorship fees associated with BioSteel's partnership deals, and increased advertising, trade activity and promotion expenses associated with new product launches for BioSteel; (ii) higher advertising and marketing communication costs related to our summer beverage campaign, associated with several of the premium brands in our Canadian recreational cannabis portfolio; and (iii) increased sales and marketing costs associated with our acquisition of Supreme Cannabis, which closed on June 22, 2021.

Research and development expense was $7.0 million in the first quarter of fiscal 2023, as compared to $8.3 million in the first quarter of fiscal 2022. The year-over-year decrease is primarily attributable to cost reductions attributable to the previously-noted restructuring actions that were initiated in the fourth quarter of 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 completion of the divestiture of C^3 on January 31, 2022, which resulted in no costs being recorded in relation to C^3 in the first quarter of fiscal 2023.

Acquisition-related costs were $4.2 million in the first quarter of fiscal 2023, as compared to $5.8 million in the first quarter of fiscal 2022. In the first quarter of fiscal 2023, costs were incurred primarily in relation to the plan to acquire Jetty, as described in the "Recent Developments" section above, and evaluating other potential acquisition opportunities. Comparatively, in the first quarter of fiscal 2022, costs were incurred primarily in relation to the acquisitions of Ace Valley and Supreme Cannabis, and evaluating other potential acquisition opportunities.

Depreciation and amortization expense was $10.7 million in the first quarter of fiscal 2023, as compared to $14.2 million in the first quarter of fiscal 2022. The year-over-year decrease is primarily attributable to (i) the previously-noted restructuring actions that were initiated in fiscal 2022; (ii) the decrease in amortization expense associated with the impairment of certain of our intellectual property intangible assets; and (iii) the completion of the divestiture of C^3 on January 31, 2022, which resulted in no depreciation and amortization expense being recorded in relation to C^3 in the first quarter of fiscal 2023. These decreases were partially offset by an increase in depreciation expense associated with our acquisition of Supreme Cannabis, which closed on June 22, 2021, and with the expansion of our Storz & Bickel facilities.

Share-based compensation expense

Share-based compensation expense was $5.4 million in the first quarter of fiscal 2023, as compared to $11.4 million in the first quarter of fiscal 2022. The year-over-year decrease is primarily attributable to the impact of our previously-noted restructuring actions, which resulted in 3.2 million stock option forfeitures in fiscal 2022 and 1.4 million stock option forfeitures in the first quarter of fiscal 2023. The decrease attributable to these forfeitures was partially offset by stock option grants totaling 3.1 million in mid-June 2022, which did not have a significant impact on share-based compensation expense in the first quarter of fiscal 2023.

Share-based compensation expense related to acquisition milestones was $nil in the first quarter of fiscal 2023, as compared to $1.7 million in the first quarter of fiscal 2022. The year-over-year decrease is primarily related to (i) the completion of vesting, in prior quarters, of the share-based compensation associated with certain of our acquisitions; and (ii) as a result of the restructuring actions completed in the fourth quarter of fiscal 2022, the acceleration of share-based compensation expense related to unvested milestones associated with acquisitions completed in prior fiscal years.

Asset impairment and restructuring costs

Asset impairment and restructuring costs recorded in operating expenses were $1.7 billion in the first quarter of fiscal 2023, as compared to $89.2 million in the first quarter of fiscal 2022.

Asset impairment and restructuring costs recorded in the first quarter of fiscal 2023 were primarily related to goodwill impairment losses of $1.7 billion, all of which was associated with our cannabis operations reporting unit in the global cannabis segment. Refer to “Impairment of Goodwill” in the “Critical Accounting Policies and Estimates” section below for further details of the goodwill impairment losses recognized in the first quarter of fiscal 2023. Additionally, we recognized incremental costs primarily associated with the restructuring actions completed in fiscal 2022, including the closure of certain of our Canadian production facilities, and operational changes initiated in the fourth quarter of fiscal 2022 to (i) implement cultivation-related efficiencies and improvements in the Canadian recreational cannabis business; and (ii) implement a flexible manufacturing platform, including contract manufacturing for certain product formats.

Comparatively, in the first quarter of fiscal 2022, we recognized asset impairment and restructuring costs in relation to (i) the strategic review of our business conducted 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; and (ii) incremental costs associated with the closure of certain of our Canadian production facilities in December 2020. The charges recognized in the first quarter of fiscal 2022 primarily represented the difference between the net book value of the associated long-lived assets and their estimated fair value.

Other

The following table presents loss from equity method investments, other income (expense), net, and income tax expense for the three months ended June 30, 2022 and 2021:

	Three months ended June 30,			
(in thousands of Canadian dollars)	2022	2021	$ Change	% Change
Loss from equity method investments	$ -	$ (100)	$ 100	100%
Other income (expense), net	(245,578)	580,666	(826,244)	(142%)
Income tax expense	(3,749)	(2,900)	(849)	(29%)

Loss from equity method investments

The loss from equity method investments was $nil in the first quarter of fiscal 2023, as compared to $0.1 million in the first quarter of fiscal 2022. The year-over-year decrease in the loss is primarily attributable to the impairment of our remaining investment in Agripharm Corp. (“Agripharm”) in the first quarter of fiscal 2022. As a result of this impairment, there were no remaining equity method investment balances at June 30, 2022.

Other income (expense), net

Other income (expense), net was an expense amount of $245.6 million in the first quarter of fiscal 2023, as compared to an income amount of $580.7 million in the first quarter of fiscal 2022. The year-over-year change of $826.2 million, from an income amount to an expense amount, is primarily attributable to:

- Decrease in non-cash income of $290.9 million related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI (as defined in Note 26 of the Interim Financial Statements). The decrease of $25.4 million in the fair value of the warrant derivative liability (resulting in non-cash income) in the first quarter of fiscal 2023 is primarily attributable to a decrease of approximately 61% in our share price during the first quarter of fiscal 2023, further impacted by an increase in the risk-free interest rate and a shorter expected time to maturity of the Tranche B Warrants. Comparatively, the income amount recognized in the first quarter of fiscal 2022 of $316.3 million, associated with a decrease in the fair value of the warrant derivative liability, was primarily attributable to a decrease of approximately 26% in our share price during the first quarter of fiscal 2022, further impacted by a shorter expected time to maturity of the Tranche B Warrants.

- Change of $385.0 million related to non-cash fair value changes on our other financial assets, from an income amount of $84.2 million in the first quarter of fiscal 2022 to an expense amount of $300.9 million in the first quarter of fiscal 2023. The expense amount in the first quarter of fiscal 2023 is primarily attributable to fair value decreases relating to our investments in (i) the exchangeable shares in the capital of TerrAscend Corp. (“TerrAscend”) ($138.0 million); (ii) the secured debentures issued by TerrAscend Canada Inc. (“TerrAscend Canada”) and Arise Bioscience, Inc. (“Arise Bioscience”) and associated warrants issued by TerrAscend (the “TerrAscend Warrants”) (totaling $62.0 million); and (iii) our option to acquire 1,072,450 common shares of TerrAscend (the “TerrAscend Option”) ($3.8 million), which were all driven largely by a decrease of approximately 59% in TerrAscend’s share price in the first quarter of fiscal 2023. Additionally, the fair value of our investment in the Wana financial instrument decreased $154.0 million, due primarily to changes in expectations of the future cash flows to be generated by Wana. These fair value decreases were partially offset by a fair value increase related to the Acreage call option in the amount of $60.0 million, as described below in our discussion of fair value changes on the liability arising from the Acreage Arrangement. Comparatively, in the first quarter of fiscal 2022 the income amount was primarily attributable to fair value increases relating to our investments in the TerrAscend exchangeable shares ($53.0 million), and the secured debentures issued by TerrAscend Canada and Arise Bioscience and associated TerrAscend Warrants (totaling $32.7 million), driven largely by (i) an increase of approximately 11% in TerrAscend’s share price in the first quarter of fiscal 2022; and (ii) re-assessments of the probability and timing of changes in federal laws in the United States regarding the permissibility of the cultivation, distribution or possession of marijuana.

- Decrease in non-cash income of $103.0 million related to the non-cash fair value changes on the liability arising from the Acreage Arrangement, from an income amount of $150.0 million in the first quarter of fiscal 2022 to an income amount of $47.0 million in the first quarter of fiscal 2023. On a quarterly basis, we determine the fair value of the liability arising from the Acreage Arrangement using a probability-weighted expected return model, incorporating several potential scenarios and outcomes associated with the Acreage Amended Arrangement. The income amount recognized in the first quarter of fiscal 2023, associated with a decrease in the liability arising from the Acreage Arrangement to $nil, is primarily attributable to a decrease of approximately 61% in our share price during the first quarter of fiscal 2023, relative to a decrease of approximately 27% in Acreage’s share price during that same period. As a result, the model at June 30, 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); in the first quarter of fiscal 2023, this resulted in a change from a liability amount to an asset amount of $60.0 million, with the asset recorded in other financial assets (see above). Comparatively, the income amount recognized in the first quarter of fiscal 2022, associated with a decrease in the liability arising from the Acreage Arrangement, was primarily attributable to a decrease of approximately 26% in our share price in the first quarter of fiscal 2022, relative to a decrease of approximately 27% in Acreage’s share price during that same period.

- Change of $60.3 million related to the non-cash fair value changes on the Notes, from an income amount of $50.7 million in the first quarter of fiscal 2022 to an expense amount of $9.6 million in the first quarter of fiscal 2023. The year-over-year change is primarily due to the impact of the exchanges of our Notes in June 2022, as described above in “Recent

Developments", including changes in credit spreads relative to the comparative fiscal period. Comparatively, the income amount recognized in the first quarter of fiscal 2022 was primarily due to the decline in our share price of approximately 26% during that period.

- In the first quarter of fiscal 2023, we recognized charges in the amount of $19.2 million in connection with the Exchange Transaction described above in "Recent Developments", in which we agreed to acquire and cancel approximately $262.6 million of aggregate principal amount of Notes from the Noteholders for an aggregate purchase price of $260.0 million, which was paid in our common shares. These charges primarily include (i) the recognition of a derivative liability in connection with the incremental common shares that were potentially issuable as at June 30, 2022 at the Averaging Price on the Final Closing, pursuant to the Exchange Agreements; partially offset by (ii) the release of amounts recorded in accumulated other comprehensive income in relation to the credit risk fair value adjustment associated with the portion of the Notes that were acquired and cancelled on June 30, 2022.

- Change of $40.6 million related to non-cash fair value changes on acquisition related contingent consideration and other, from an expense amount of $0.2 million in the first quarter of fiscal 2022 to an income amount of $40.4 million in the first quarter of fiscal 2023. In the first quarter of fiscal 2023, we recorded fair value changes related to the estimated deferred payments associated with our investment in Wana. These fair value changes were primarily associated with changes in expectations of future cash flows to be generated by Wana.

Income tax expense

Income tax expense in the first quarter of fiscal 2023 was $3.7 million, compared to income tax expense of $2.9 million in the first quarter of fiscal 2022. In the first quarter of fiscal 2023, the income tax expense consisted of deferred income tax expense of $2.4 million (compared to a recovery of $0.6 million in the first quarter of fiscal 2022) and current income tax expense of $1.3 million (compared to an expense of $3.5 million in the first quarter of fiscal 2022).

The change of $3.0 million, from a deferred income tax recovery to deferred income tax expense is primarily a result of changes in the first quarter of fiscal 2023 in respect of the convertible senior notes and deferred tax liabilities that arose in connection with the required revaluation of the accounting carrying value, but not the tax basis, of property, plant and equipment, intangible assets, and other financial assets. In connection with certain deferred tax assets, mainly in respect to losses for tax purposes, where the accounting criteria for recognition of an asset has yet to be satisfied and it is not probable that they will be used, the deferred tax asset has not been recognized.

The decrease of $2.2 million in current income tax expense 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 (Loss) Income

The net loss in the first quarter of fiscal 2023 was $2.1 billion, as compared to net income of $390.0 million in the first quarter of fiscal 2022. The year-over-year change from net income to a net loss is primarily attributable to (i) the year-over-year increase in asset impairment and restructuring costs, which was largely related to the goodwill impairment losses of $1.7 billion recorded in the first quarter of fiscal 2023; (ii) the year-over-year change in other income (expense), net, of $826.2 million, from an income amount to an expense amount; and (iii) the year-over-year decrease in our gross margin, which was only partially offset by the reduction in our total selling, general and administrative expense. 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 expense; other income (expense), net; loss on equity method investments; share-based compensation expense; depreciation and amortization expense; asset impairments and restructuring costs; restructuring costs recorded in cost of goods sold; and charges related to the flow-through of inventory step-up on business combinations, and further adjusted to remove acquisition-related costs. Asset impairments related to periodic changes to our supply chain processes are not excluded from Adjusted EBITDA given their occurrence through the normal course of core operational activities. Accordingly, management believes that Adjusted EBITDA provides meaningful and useful financial information as this measure demonstrates the operating performance of businesses.

The following table presents Adjusted EBITDA for the three months ended June 30, 2022 and 2021:

	Three months ended June 30,			
(in thousands of Canadian dollars)	2022	2021	$ Change	% Change
Net (loss) income	$ (2,087,556)	$ 389,955	$ (2,477,511)	(635%)
Income tax expense	3,749	2,900	849	29%
Other (income) expense, net	245,578	(580,666)	826,244	142%
Loss on equity method investments	-	100	(100)	(100%)
Share-based compensation[1]	5,439	13,126	(7,687)	(59%)
Acquisition-related costs	4,193	5,780	(1,587)	(27%)
Depreciation and amortization[1]	21,851	25,132	(3,281)	(13%)
Asset impairment and restructuring costs	1,727,985	78,618	1,649,367	2098%
Restructuring costs recorded in cost of goods sold	3,961	-	3,961	100%
Charges related to the flow-through of inventory step-up on business combinations	-	1,414	(1,414)	(100%)
Adjusted EBITDA	$ (74,800)	$ (63,641)	$ (11,159)	(18%)

[1] From Statements of Cash Flows.

The Adjusted EBITDA loss in the first quarter of fiscal 2023 was $74.8 million, as compared to an Adjusted EBITDA loss of $63.6 million in the first quarter of fiscal 2022. The year-over-year increase in the Adjusted EBITDA loss is primarily attributable to the year-over-year decrease in our gross margin, partially offset by the reduction in our total selling, general and administrative expense. These variances are described above.

Part 3 – Financial Liquidity and Capital Resources

We manage liquidity risk by reviewing, on an ongoing basis, our sources of liquidity and capital requirements. As of June 30, 2022, we had cash and cash equivalents of $769.5 million and short-term investments of $447.6 million, which are predominantly invested in liquid securities issued by the United States and Canadian governments. Additionally, we have capacity of up to an additional US$500.0 million available under the Credit Facility (as defined below). In evaluating our capital requirements, including the impact, if any, on our business from the COVID-19 pandemic, and our ability to fund the execution of our strategy, we believe we have adequate available liquidity to enable us to meet our working capital and other operating requirements, fund growth initiatives and capital expenditures, settle our liabilities, and repay scheduled principal and interest payments on debt for at least the next twelve months.

Our objective is to generate sufficient cash to fund our operating requirements and expansion plans. While we have incurred net losses on a U.S. GAAP basis and Adjusted EBITDA losses to date, and our cash and cash equivalents have decreased $6.5 million from March 31, 2022 (and, together with short-term investments, decreased $154.5 million from March 31, 2022), as discussed in the "Cash Flows" section below, management anticipates the success and eventual profitability of the business. We have also ensured that we have access to public capital markets through our U.S. and Canadian public stock exchange listings, and in March 2021, we entered into a credit agreement (the "Credit Agreement") with the lenders and Wilmington Trust, National Association, as administrative agent and collateral agent for the lenders. The Credit Agreement provides for a credit facility (the "Credit Facility") in the initial aggregate principal amount of US$750.0 million. We continue to review and pursue selected external financing sources to ensure adequate financial resources. These potential sources include, but are not limited to (i) obtaining financing from traditional or non-traditional investment capital organizations; (ii) obtaining funding from the sale of our common shares or other equity or debt instruments; and (iii) obtaining debt financing with lending terms that more closely match our business model and capital needs.

There can be no assurance that we will gain adequate market acceptance for our products or be able to generate sufficient positive cash flow to achieve our business plans. In the first quarter of fiscal 2023, our purchases of and deposits on property, plant and equipment totaled $2.3 million, which were funded out of available cash, cash equivalents and short-term investments. We expect to continue funding these purchases with our available cash, cash equivalents and short-term investments. Therefore, we are subject to risks including, but not limited to, our inability to raise additional funds through debt and/or equity financing to support our continued development, including capital expenditure requirements, operating requirements and to meet our liabilities and commitments as they come due.

Cash Flows

(in thousands of Canadian dollars)	Three months ended June 30, 2022	2021
Net cash (used in) provided by:		
Operating activities	$ (140,515)	$ (165,780)
Investing activities	121,417	(374,559)
Financing activities	(1,044)	(44,968)
Effect of exchange rate changes on cash and cash equivalents	13,632	(9,506)
Net decrease in cash and cash equivalents	(6,510)	(594,813)
Cash and cash equivalents, beginning of period	776,005	1,154,653
Cash and cash equivalents, end of period	$ 769,495	$ 559,840

Operating activities

Cash used in operating activities totaled $140.5 million in the first quarter of fiscal 2023, as compared to cash used of $165.8 million in the first quarter of fiscal 2022. The decrease in the cash used in operating activities is primarily due to the year-over-year improvement in our working capital spending, and a reduction in payments made in respect of other liabilities relative to the first quarter of fiscal 2022. These factors were partially offset by the year-over-year decrease in our gross margin. These variances are described above.

Investing activities

The cash provided by investing activities totaled $121.4 million in the first quarter of fiscal 2023, as compared to cash used of $374.6 million in the first quarter of fiscal 2022.

In the first quarter of fiscal 2023, purchases of property, plant and equipment were $2.3 million, primarily related to improvements made at certain of our Canadian cultivation and production facilities. Comparatively, in the first quarter of fiscal 2022, we invested $20.3 million in our production infrastructure in the United States and an expansion of our Storz & Bickel facilities. The year-over-year decrease is primarily due to (i) the substantial completion of the infrastructure projects that were in progress in fiscal 2022; and (ii) optimizing our capital expenditures as part of the previously-noted restructuring actions, particularly those actions that were initiated in the fourth quarter of fiscal 2022.

In the first quarter of fiscal 2023, our strategic investments in other financial assets were $29.2 million and related primarily to the upfront payment made as consideration for entering the Jetty Agreements, as described in “Recent Developments” above. Comparatively, in the first quarter of fiscal 2022, we completed the acquisitions of Ace Valley and Supreme Cannabis, with the net cash outflow totaling $8.9 million.

Net redemptions of short-term investments in the first quarter of fiscal 2023 were $154.0 million, as compared to net purchases of $346.6 million in the first quarter of fiscal 2022. The year-over-year change reflects the redemption of our short-term investments, largely to fund operations and for the investing activities described above.

Finally, in the first quarter of fiscal 2022, we received proceeds of $10.3 million from the sale of certain wholly-owned subsidiaries. Our other investing activities resulted in a cash outflow of $8.4 million, primarily related to the payment of acquisition-related liabilities, as we continued to draw-down on the amounts owing in relation to acquisitions completed in prior years.

Financing activities

The cash used in financing activities in the first quarter of fiscal 2023 was $1.0 million, as compared to cash used of $45.0 million in the first quarter of fiscal 2022. In the first quarter of fiscal 2022, we made repayments of long-term debt in the amount of $48.1 million, primarily related to the term loan assumed upon the completion of the acquisition of Supreme Cannabis on June 22, 2021.

Free Cash Flow (Non-GAAP Measure)

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

	Three months ended June 30,	
(in thousands of Canadian dollars)	2022	2021
Net cash used in operating activities	$ (140,515)	$ (165,780)
Purchases of and deposits on property, plant and equipment	(2,293)	(20,279)
Free cash flow[1]	$ (142,808)	$ (186,059)

[1]Free cash flow is a non-GAAP measure, and is calculated as net cash provided by (used in) operating activities, less purchases of and deposits on property, plant and equipment.

Free cash flow in the first quarter of fiscal 2023 was an outflow of $142.8 million, as compared to an outflow of $186.1 million in the first quarter of fiscal 2022. The year-over-year decrease in the outflow reflects the decrease in the cash used for operating activities, as described above, and the reduction in purchases of property, plant and equipment associated with (i) the substantial completion of the infrastructure projects that were in progress in fiscal 2022; and (ii) optimizing our capital expenditures as part of the previously-noted restructuring actions, particularly those actions that were initiated in the fourth quarter of fiscal 2022.

Debt

Since our formation, we have financed our cash requirements primarily through the issuance of common shares, including the $5.1 billion investment by CBI in the third quarter of fiscal 2019, and debt. Total debt outstanding as of June 30, 2022 was $1.5 billion, consistent with $1.5 billion as of March 31, 2022. The total principal amount owing, which excludes fair value adjustments related to the Notes, was $1.5 billion at June 30, 2022, consistent with $1.5 billion at March 31, 2022, as the acquisition and cancellation of $262.6 million of aggregate principal amount of the Notes from the Noteholders, as described above in “Recent Developments”, was largely offset by the impact of changes in the U.S. dollar against the Canadian dollar on amounts borrowed on the Credit Facility (see below).

Credit Facility

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

Notes

In June 2018, we issued the Notes with an aggregate principal amount of $600.0 million. The Notes bear interest at a rate of 4.25% per annum, payable semi-annually on January 15th and July 15th of each year commencing January 15, 2019. The Notes mature on July 15, 2023. As described above in “Recent Developments”, in June 2022 in connection with the Exchange Transaction, we entered into the Exchange Agreements with the Noteholders and agreed to acquire and cancel approximately $262.6 million of aggregate principal amount of the Notes from the Noteholders for an aggregate purchase price (excluding $5.4 million paid in cash to the Noteholders for accrued and unpaid interest) of $260.0 million which was paid in our common shares.

Convertible Debentures and Accretion Debentures

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

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

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

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

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

Contractual Obligations and Commitments

Other than the changes to our Notes pursuant to the Exchange Transactions, as described above in "Recent Developments", there have been no material changes to our contractual obligations and commitments from the information provided in the MD&A section in our Annual Report.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

Impairment of goodwill

As a result of the continued decline in the price of our common shares in the first quarter of fiscal 2023, we determined there to be an indicator of impairment for the cannabis operations reporting unit in the global cannabis segment. As a result, we performed a quantitative interim goodwill impairment assessment for the cannabis operations reporting unit as of June 30, 2022. We concluded that the carrying value of the cannabis operations reporting unit was higher than its estimated fair value, and a goodwill impairment loss totaling $1.7 billion was recognized in the first quarter of fiscal 2023, representing the entirety of the goodwill assigned to the cannabis operations reporting unit.

The estimated fair value of the cannabis operations reporting unit was determined using the market valuation method, which is consistent with the methodology used for our annual impairment test conducted at March 31, 2022. The most significant assumptions used in applying this method were (i) the price of our common shares; and (ii) the estimated control premium associated with ownership of our common shares.

For the remaining reporting units, we do not believe that an event occurred or circumstances changed during the first quarter of fiscal 2023 that would, more likely than not, reduce the fair value of these reporting units below their carrying value. Therefore, we concluded that the quantitative goodwill impairment assessment was not required. The carrying value of goodwill associated with all other reporting units was $138.4 million at June 30, 2022.

We are required to perform the next annual goodwill impairment analysis on March 31, 2023, or earlier should there be an event that occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Foreign currency risk

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

A hypothetical 10% change in the U.S. dollar against the Canadian dollar compared to the exchange rate at June 30, 2022, would affect the carrying value of net assets by approximately $1.6 million, with a corresponding impact to the foreign currency translation account within accumulated other comprehensive income (loss). A hypothetical 10% change in the euro against the Canadian dollar compared to the exchange rate at June 30, 2022, would affect the carrying value of net assets by approximately $24.2 million, with a corresponding impact to the foreign currency translation account within accumulated other comprehensive income (loss).

We also have exposure to changes in foreign exchange rates associated with transactions which are undertaken by our subsidiaries in currencies other than their functional currency. As a result, we have been impacted by changes in exchange rates and may be impacted for the foreseeable future.

Foreign currency derivative instruments may be used to hedge existing foreign currency denominated assets and liabilities, forecasted foreign currency denominated sales/purchases to/from third parties as well as intercompany sales/purchases, intercompany principal and interest payments, and in connection with acquisitions, divestitures or investments outside of Canada. Historically, while we have purchased derivative instruments to mitigate the foreign exchange risks associated with certain transactions, the impact of these hedging transactions on our financial statements has been immaterial.

Interest rate risk

Our cash equivalents and short-term investments are held in both fixed-rate and adjustable-rate securities. Investments in fixed-rate instruments carry a degree of interest rate risk. The fair value of fixed-rate securities may be adversely impacted due to a rise in interest rates. Additionally, a falling-rate environment creates reinvestment risk because as securities mature, the proceeds are reinvested at a lower rate, generating less interest income. As at June 30, 2022, our cash and cash equivalents, and short-term investments consisted of $0.8 billion, in interest rate sensitive instruments (March 31, 2022 – $0.9 billion).

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

	Aggregate Notional Value		Fair Value		Decrease in Fair Value - Hypothetical 1% Rate Increase	
	June 30, 2022	March 31, 2022	June 30, 2022	March 31, 2022	June 30, 2022	March 31, 2022
Convertible senior notes	$ 536,902	$ 600,000	$ 494,416	$ 563,958	$ (4,510)	$ (6,600)
Fixed interest rate debt	41,151	43,386	N/A	N/A	N/A	N/A
Variable interest rate debt	922,150	893,647	N/A	N/A	N/A	N/A

Equity price risk

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

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

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