CANOPY GROWTH CORPORATION

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

FOR THE YEAR ENDED MARCH 31, 2023

JUNE 22, 2023

This document (this "MD&A") contains information under the heading "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" which has been excerpted from our Annual Report on Form 10-K for the year ended March 31, 2023 (the "Annual Report") filed concurrently with this MD&A on the date hereof on our profile on SEDAR at www.sedar.com and on EDGAR at www.sec.gov. This MD&A should be read in conjunction with our Annual Report, including the consolidated financial statements and the related notes thereto included in Item 8, as well as Part I, and Item 1 "Business", Part I, Item 1A "Risk Factors", and incorporates by reference herein Item 1A "Risk Factors" from our Annual Report. Defined terms used herein but otherwise not defined have the meaning ascribed to them in the Annual Report.

Special Note Regarding Forward-Looking Statements; Risk Factor Summary

This Comprehensive Form 10-K 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:

- 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;
- 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 Company's ability to execute on its strategy to accelerate the Company's entry into the U.S. cannabis market through the creation of Canopy USA, LLC ("Canopy USA");
- expectations regarding the potential success of, and the costs and benefits associated with the Reorganization Amendments (as defined below);
- expectations related to our announcement of certain restructuring actions and the potential success of, and the costs and benefits associated with the comprehensive steps and actions being undertaken by the Company with respect to its Canadian operations (the "Canadian Transformative Plan") including any progress, challenges and effects related thereto as well as changes in strategy, metrics, investments, operating expenses, employee turnover and other changes with respect thereto;
- expectations to capitalize on the opportunity for growth in the United States cannabis sector and the anticipated benefits of such strategy;
- the timing and outcome of the Floating Share Arrangement (as defined below), the anticipated benefits of the Floating Share Arrangement, the anticipated timing of the acquisition of the Fixed Shares (as defined below) and the Floating Shares (as defined below) by Canopy USA, the satisfaction or waiver of the closing conditions set out in the Floating Share Arrangement Agreement (as defined below) and the Amended Acreage Arrangement (as defined below), including receipt of all regulatory approvals, and the anticipated timing and occurrence of the Company's exercise of the option to acquire the Fixed Shares and closing of such transaction;
- the Amended Acreage Arrangement (as defined below) and the Floating Share Arrangement, including the occurrence or waiver (at our discretion) of the Triggering Event (as defined below), the anticipated timing and occurrence of the Company's exercise of the option to acquire the Fixed Shares (the "Acreage Option") and the satisfaction or waiver of the conditions to closing the acquisition of Acreage;
- the Wana Amendments (as defined below), including the occurrence or waiver (at Canopy USA's discretion) of the Triggering Event;
- the issuance of additional common shares of the Company (each whole share, a "Canopy Share" or a "Share") to satisfy the payments to eligible participants to the existing tax receivable bonus plans of HSCP (as defined below), to satisfy any deferred and/or option exercise payments to the shareholders of Wana (as defined below) and Jetty (as defined below) and the issuance of additional Non-Voting Shares (as defined below) issuable to Canopy Growth from Canopy USA in consideration thereof;
- the satisfaction or waiver of the closing conditions set out in the Trust SPA (as defined below), the acquisition of the T1 Canopy USA Common Shares (as defined below), T2 Canopy USA Common Shares (as defined below) and Warrants (as

defined below) by the Trust (as defined below) in accordance with the Trust SPA, the anticipated timing and occurrence of the exercise of the options held by the Trust to acquire the Voting Shares (as defined below) and the Warrants, as applicable, and closing of such transactions;

- the potential conversion of Canopy Shares held by the CBI Group (as defined below) to Exchangeable Shares (as defined below), including the termination of the Amended Investor Rights Agreement (as defined below);
- the anticipated timing and occurrence of the Meeting (as defined below) to approve the Amendment Proposal (as defined below);
- 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 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;
- our remediation plan and our ability to remediate the material weaknesses in our internal control over financial reporting;
- our ability to continue as a going concern;
- the anticipated benefits and impact of the investments in us from Constellation Brands, Inc. (“CBI”) and its affiliates (collectively, 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 the CBI Group Investments (as defined below);
- the legalization of the use of cannabis for medical or adult-use 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 adult-use 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;
- 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; and (xiii) other considerations that management believes to be appropriate in the circumstances. While Company 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 Comprehensive Form 10-K 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, risks related to our ability to remediate the material weaknesses identified in our internal control over financial reporting as of March 31, 2023, or inability to otherwise maintain an effective system of internal control; the risk that the restatement of the Prior Financial Statements could negatively affect investor confidence and raise reputation risks; our ability to continue as a going concern; our limited operating history; risks that we may be required to write down intangible assets, including goodwill, due to impairment; the diversion of management time on issues related to Canopy USA; the ability of parties to certain transactions to receive, in a timely manner and on satisfactory terms, the necessary regulatory, court and shareholder approvals; the risks that the Trust's ownership interest in Canopy USA is currently not quantifiable and the Trust may have significant ownership and influence over Canopy USA upon completion of the Trust Transaction (as defined below); the risks related to the fact that the Company has not received audited financial statements with respect to Jetty; the risks related to Acreage's financial statements expressing doubt about its ability to continue as a going concern; 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); volatility in and/or degradation of general economic, market, industry or business conditions; risks relating to our current and future operations in emerging markets; 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; risks and uncertainty regarding future product development; changes in regulatory requirements in relation to our business and products; our reliance on licenses issued by and contractual arrangements with various federal, state and provincial governmental authorities; inherent uncertainty associated with projections; future levels of revenues and the impact of increasing levels of competition; third-party manufacturing risks; third-party transportation risks; inflation risks; our exposure to risks related to an agricultural business, including wholesale price volatility and variable product quality; changes in laws, regulations and guidelines and our compliance with such laws, regulations and guidelines; risks relating to inventory write downs; risks relating to our ability to refinance debt as and when required on terms favorable to us and to comply with covenants contained in our debt facilities and debt instruments; risks associated with jointly owned investments; our ability to manage disruptions in credit markets or changes to our credit ratings; 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; 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, litigation or threatened litigation or proceedings, or reviews or investigations, on our business, financial condition, results of operations and cash flows; risks associated with divestment and restructuring; 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; consumer demand for cannabis and U.S. hemp products; the risks that the Canadian Transformative Plan will not result in the expected cost-savings, efficiencies and other benefits or will result in greater than anticipated turnover in personnel; the implementation and effectiveness of key personnel changes; risks related to stock exchange restrictions; risks related to the protection and enforcement of our intellectual property rights; the risks related to the Exchangeable Shares having different rights from Canopy Shares and there may never be a trading market for the Exchangeable Shares; 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; future levels of capital, environmental or maintenance expenditures, general and administrative and other expenses; risks relating to the long term macroeconomic effects of the COVID-19 pandemic and any future pandemic or epidemic; and the factors discussed under the heading "Risk Factors" in this Comprehensive Form 10-K. 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 Comprehensive Form 10-K 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 may not be able to achieve or maintain profitability and may continue to incur losses in the future.
- We have a limited operating history and our growth strategy may not be successful.
- We have been and may in the future be required to write down intangible assets, including goodwill, due to impairment.
- The anticipated benefits of the strategy involving Canopy USA may not be realized.
- 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 businesses face highly competitive conditions.
- We have concluded that certain of our previously issued financial statements should not be relied upon and have restated certain of our previously issued financial statements which was time-consuming and expensive and could expose us to additional risks that could have a negative effect on us.
- As a result of self-reporting the BioSteel Review, the Company is the subject of an investigation by the SEC and an ongoing informal inquiry by regulatory authorities in Canada, and it cannot predict the timing of developments, and any adverse outcome of these continuing matters could have a material adverse effect on the Company.
- We have identified material weaknesses in our internal control over financial reporting which could, if not remediated, adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner, which may adversely affect investor confidence in our company and, as a result, the value of the Canopy Shares.
- Management has raised substantial doubt as to the Company's ability to continue as a going concern due to certain material debt obligations coming due in the short term. If we are unable to obtain additional capital, our financial results, financial condition and our ability to continue as a going concern will be adversely affected and we may have to delay or terminate some or all of our business development or commercialization plans or cease certain of our operations.
- CBI has significant influence over us and may acquire 139,745,453 additional Canopy Shares as well as any additional Canopy Shares that may be issuable pursuant to the top-up right of the CBI Group in the Amended Investor Rights Agreement.
- The price of our common stock has been and may continue to be highly volatile.
- We are subject to other risks generally applicable to our industry and the conduct of our businesses.

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

Introduction

This Management’s Discussion and Analysis of our financial condition and results of operations (“MD&A”), which should be read in conjunction with our consolidated financial statements and the notes thereto included in Item 8 of this Comprehensive Form 10-K (the “Financial Statements”), provides additional information on our business, current developments, financial condition, cash flows and results of operations.

The discussion in this section has been impacted by the restatement described in the Explanatory Note at the beginning of this Comprehensive Form 10-K and in Note 2 and Note 36 of the consolidated financial statements of this Comprehensive Form 10-K. Certain of the financial and other information provided in this MD&A has been updated to reflect the restatement adjustments.

Our MD&A 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 2023 in comparison to fiscal 2022; (2) fiscal 2022 in comparison to fiscal 2021; (3) the quarterly period ended June 30, 2022 in comparison to June 30, 2021; (4) the quarterly period ended September 30, 2022 in comparison to September 30, 2021; and (5) the quarterly period ended December 31, 2022 in comparison to December 31, 2021.

- *Part 3 - Financial Liquidity and Capital Resources.* This section provides an analysis of our cash flows and outstanding debt and commitments for fiscal 2023. 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 accounting principles generally accepted in the United States of America (“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 Comprehensive Form 10-K.

Part 1 - Business Overview

We are a world-leading cannabis and 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 adult-use 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. Our other product offerings, which are sold by our subsidiaries in jurisdictions where it is permissible to do so, include: (i) Storz & Bickel GmbH (“Storz & Bickel”) vaporizers; (ii) BioSteel Sports Nutrition Inc. (“BioSteel”) sports nutrition beverages, hydration mixes, proteins and other specialty nutrition products; and (iii) This Works Products Ltd. (“This Works”) beauty, skincare, wellness and sleep products. Our core operations are in Canada, the United States, and Germany.

We currently offer product varieties in dried flower, extracts and concentrates, cannabis beverages, cannabis gummies and cannabis vapes with product availability varying based on provincial and territorial regulations. In Canada, our adult-use 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. As described under “Recent Developments” below, in fiscal 2023, we completed the divestiture of our retail business across Canada, which included the retail stores operating under the Tweed and Tokyo Smoke banners under a “business-to-consumer” model.

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

Subsequent to the passage of the U.S. Agricultural Improvement Act of 2018, in the United States, we currently offer a line of premium quality, hemp-derived wellness gummies, oils, softgels and topicals under the Martha Stewart CBD brand.

In June 2019, we implemented a plan of arrangement pursuant to an arrangement agreement (the “Original 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 Original 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 Original 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 (the “Acreage Floating Option”) to acquire the other approximately 30% of the issued and outstanding shares of Acreage. In connection with the Floating Share Arrangement Agreement (as defined below), Canopy Growth has irrevocably waived the Acreage Floating Option existing under the Existing Acreage Arrangement Agreement (as defined below). The acquisition of Acreage, if completed through Canopy USA (as defined below), 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 option 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. 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 upon the Triggering Event. Jetty is a California-based producer of high-quality cannabis extracts and pioneer of clean vape technology.

As described below under “Recent Developments,” on October 25, 2022, we announced the implementation of our internal reorganization pursuant to which, among other things, we formed Canopy USA, LLC ("Canopy USA"), a new Delaware holding company (the “Reorganization”). Following the implementation of the Reorganization, as of October 24, 2022, Canopy USA holds certain U.S. cannabis investments that were previously held by Canopy Growth, which is expected to enable Canopy USA, following, among other things, the Meeting (as defined below) and the exercise of the Acreage Option (as defined below), including the issuance of the Fixed Shares (as defined below) to Canopy USA, to consummate the acquisitions of Acreage, Wana, and Jetty.

Our cannabis 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.

Our licensed operational capacity in Canada includes advanced manufacturing capability for oil and softgel encapsulation and pre-rolled joints. As described below under “Recent Developments,” in the fourth quarter of fiscal 2022 we announced a series of comprehensive steps to align our Canadian cannabis operations and resources in response to unfavorable market realities, including consolidating cultivation at our existing licensed facilities in Kincardine, Ontario and Kelowna, British Columbia, and moving to an adaptive third-party sourcing model for certain cannabis beverages, edibles, vapes and extracts.

Segment Reporting

Prior to the second quarter of fiscal 2023, we had the following two reportable segments: (i) global cannabis; and (ii) other consumer products. Following the completion of certain restructuring actions which were initiated in the fourth quarter of fiscal 2022, and which were aligned with our strategic review of our business, we have changed the structure of our internal management financial reporting. Accordingly, in the second quarter of fiscal 2023 we began reporting our financial results for the following five reportable segments:

- **Canada cannabis -** includes the production, distribution and sale of a diverse range of cannabis, hemp and cannabis products in Canada pursuant to the *Cannabis Act*;
- **Rest-of-world cannabis** - includes the production, distribution and sale of a diverse range of cannabis, hemp and cannabis products internationally pursuant to applicable international legislation, regulations and permits;
- **Storz & Bickel** - includes the production, distribution and sale of vaporizers;

- **BioSteel** - includes the production, distribution and sale of consumer packaged goods including sports nutrition beverages, hydration mixes, proteins, and other specialty nutrition products; and

- **This Works** - includes the production, distribution and sale of beauty, skincare, wellness and sleep products, some of which have been blended with hemp-derived CBD isolate.

These segments reflect how our operations are managed, how our Chief Executive Officer, who is the Chief Operating Decision Maker ("CODM"), allocates resources and evaluates performance, and how our internal management financial reporting is structured. Our CODM evaluates the performance of these segments, with a focus on: (i) segment net revenue, and (ii) segment gross margin as the measure of segment profit or loss. The information regarding segment net revenue and segment gross margin for the comparative periods has been restated to reflect the aforementioned change in reportable segments. The remainder of our operations include revenue derived from, and cost of sales associated with, our non-cannabis extraction activities and other ancillary activities; these are included within "other."

Recent Developments

Reorganization - Creation of Canopy USA

On October 24, 2022, Canopy Growth completed a number of strategic transactions in connection with the creation of a new U.S.-domiciled holding company, Canopy USA (the "Reorganization"). Following the implementation of the Reorganization, Canopy USA, as of October 24, 2022, holds certain U.S. cannabis investments previously held by Canopy Growth, which is expected to enable Canopy USA, following, among other things, the Meeting (as defined below) and the exercise of the Acreage Option, including the issuance of the Fixed Shares to Canopy USA, to consummate the acquisitions of Acreage, Wana, and Jetty.

Following the implementation of the Reorganization, as of October 24, 2022, Canopy USA holds an ownership interest in the following assets, among others:

- Wana - The options to acquire 100% of the membership interests of Wana (the "Wana Options"), a leading cannabis edibles brand in North America.

- Jetty - The options to acquire 100% of the shares of Jetty (the "Jetty Options"), a California-based producer of high-quality cannabis extracts and pioneer of clean vape technology.

Canopy Growth currently retains the option to acquire the issued and outstanding Class E subordinate voting shares (the "Fixed Shares") of Acreage (the "Acreage Option"), representing approximately 70% of the total shares of Acreage, at a fixed share exchange ratio of 0.3048 of a Canopy Share per Fixed Share. Concurrently with the closing of the acquisition of the Fixed Shares pursuant to the exercise of the Acreage Option, the Fixed Shares will be issued to Canopy USA. In addition, Canopy USA has agreed to acquire all of the issued and outstanding Class D subordinate voting shares of Acreage (the "Floating Shares") by way of a court-approved plan of arrangement (the "Floating Share Arrangement") in exchange for 0.45 of a common share of Canopy Growth for each Floating Share held. Acreage is a leading vertically-integrated multi-state cannabis operator, with its main operations in densely populated states across the Northeast U.S. including New Jersey and New York.

In addition, as of October 24, 2022, Canopy USA held direct and indirect interests in the capital of TerrAscend Corp. ("TerrAscend"), a leading North American cannabis operator with vertically integrated operations and a presence in Pennsylvania, New Jersey, Michigan and California as well as licensed cultivation and processing operations in Maryland. Canopy USA's direct and indirect interests in TerrAscend included: (i) 38,890,570 exchangeable shares in the capital of TerrAscend (the "TerrAscend Exchangeable Shares"), an option to purchase 1,072,450 TerrAscend common shares (the "TerrAscend Common Shares") for an aggregate purchase price of $1.00 (the "TerrAscend Option"), and 22,474,130 TerrAscend Common Share purchase warrants previously held by Canopy Growth (the "TerrAscend Warrants"); and (ii) the debentures and loan agreement between Canopy Growth and certain TerrAscend subsidiaries. On December 9, 2022, Canopy USA and certain limited partnerships that are controlled by Canopy USA entered into a debt settlement agreement (the "TerrAscend Settlement Agreement") with TerrAscend, TerrAscend Canada Inc. ("TerrAscend Canada") and Arise Bioscience, Inc. ("Arise Bioscience" and, together with TerrAscend and TerrAscend Canada, the "TerrAscend Entities") whereby $125,467 in aggregate loans, including accrued interest thereon, payable by certain subsidiaries of TerrAscend, were extinguished and 22,474,130 TerrAscend Warrants, being all of the previously issued TerrAscend Warrants controlled by Canopy USA (the "Prior Warrants") were cancelled in exchange for: (i) 24,601,467 TerrAscend Exchangeable Shares at a notional price of $5.10 per TerrAscend Exchangeable Share; and (ii) 22,474,130 new TerrAscend Warrants (the "New Warrants" and, together with the TerrAscend Exchangeable Shares, the "New TerrAscend Securities") with a weighted average exercise price of $6.07 per TerrAscend Common Share and expiring on December 31, 2032 (collectively, the "TerrAscend Arrangement"). Following the issuance of the New TerrAscend Securities, Canopy USA beneficially owns: (i) 63,492,037 TerrAscend Exchangeable Shares; (ii) 22,474,130 New Warrants; and (iii) the TerrAscend Option. The TerrAscend Exchangeable

Shares can be converted into TerrAscend Common Shares at Canopy USA's option, subject to the terms of the A&R Protection Agreement (as defined below).

Following the implementation of the Reorganization Canopy USA was determined to be a variable interest entity pursuant to ASC 810 - *Consolidations* and prior to the completion of the Reorganization Amendments (as defined below), Canopy Growth was determined to be the primary beneficiary of Canopy USA. As a result of such determination and in accordance with ASC 810, Canopy Growth consolidated the financial results of Canopy USA. On May 19, 2023, the Company and Canopy USA restructured the Company's interests in Canopy USA by implementing the Reorganization Amendments such that Canopy Growth does not expect to consolidate the financial results of Canopy USA within the Company's financial statements in accordance with U.S. GAAP. Refer to discussion below for further information regarding the Reorganization Amendments.

Ownership of U.S. Cannabis Investments

Following the implementation of the Reorganization, the shares and interests in Acreage, Wana, Jetty and TerrAscend are held, directly or indirectly, by Canopy USA, and Canopy Growth no longer holds a direct interest in any shares or interests in such entities, other than the Acreage Option. Canopy Growth holds non-voting and non-participating shares (the "Non-Voting Shares") in the capital of Canopy USA. The Non-Voting Shares do not carry voting rights, rights to receive dividends or other rights upon dissolution of Canopy USA. Following the Reorganization Amendments, the Non-Voting Shares are convertible into Class B shares of Canopy USA (the "Canopy USA Class B Shares"). The Company also has the right (regardless of the fact that its Non-Voting Shares are non-voting and non-participating) to appoint one member to the Canopy USA board of managers (the "Canopy USA Board").

As of March 31, 2023, a third party investor owned all of the issued and outstanding Class A shares of Canopy USA (the "Canopy USA Common Shares") and a wholly-owned subsidiary of the Company holds Non-Voting Shares in the capital of Canopy USA, representing approximately more than 99% of the issued and outstanding shares in Canopy USA on an as-converted basis.

On October 24, 2022, Canopy USA and the Company also entered into an agreement with, among others, Nancy Whiteman, the controlling shareholder of Wana, which was amended and restated on May 19, 2023, whereby subsidiaries of Canopy USA agreed to pay additional consideration in order to acquire the Wana Options and the future payments owed in connection with the exercise of the Wana Options will be reduced to US$3.00 in exchange for the issuance of Canopy USA Common Shares and Canopy Growth common shares (the "Wana Amending Agreement"). In accordance with the terms of the Wana Amending Agreement, Canopy USA Common Shares and Canopy Growth common shares will be issued to the shareholders of Wana, each with a value equal to 7.5% of the fair market value of Wana as of the later of: (i) the date that the Wana Options are exercised; and (ii) the T1 Investment (as defined below) closing date (the "Wana Valuation Date") less any net debt of Wana as of the Wana Valuation Date plus any net cash of Wana as of Wana Valuation Date. The value of Wana and the number of Canopy USA Common Shares will be determined based on the fair market value of Wana and the Canopy USA Common Shares, respectively, as determined by an appraiser appointed by the Company and an appraiser appointed by the shareholders of Wana (and, if required, a third appraiser to be appointed by the initial two appraisers). The Canopy USA Common Shares and Canopy Growth common shares will only be issued to Ms. Whiteman, or entities controlled by Ms. Whiteman, on the later of: (i) the date of exercise of the Wana Options and (ii) the date that CBG and Greenstar, indirect, wholly-owned subsidiaries of CBI, have converted their Canopy Growth common shares into Exchangeable Shares (as defined below). The Wana Amending Agreement may be terminated and no Canopy USA Common Shares or Canopy Growth common shares will be issued to Ms. Whiteman, or entities controlled by Ms. Whiteman in the event that CBG and Greenstar have not converted their Canopy Growth common shares into Exchangeable Shares by the later of: (i) sixty days after the Meeting; or (ii) March 31, 2023. The Canopy USA Common Shares issuable to Ms. Whiteman, or entities controlled by Ms. Whiteman, will also be subject to a repurchase right exercisable at any time after the 36 month anniversary of the closing of the transaction contemplated by the Wana Amending Agreement (the "Wana Repurchase Right") to repurchase all Canopy USA Common Shares that have been issued at a price per Canopy USA Common Share equal to the fair market value as determined by an appraiser. As part of this agreement, Canopy USA has granted Ms. Whiteman the right to appoint one member to the Canopy USA Board and a put right on the same terms and conditions as the Wana Repurchase Right.

Canopy Growth and Canopy USA have also entered into a protection agreement (the "Protection Agreement") to provide for certain covenants in order to preserve the value of the Non-Voting Shares held by Canopy Growth until such time as the Non-Voting Shares are converted in accordance with their terms, but does not provide Canopy Growth with the ability to direct the business, operations or activities of Canopy USA. The Protection Agreement was amended and restated in connection with the Reorganization Amendments (the "A&R Protection Agreement").

Upon closing of Canopy USA's acquisition of Acreage, Canopy Growth will receive additional Non-Voting Shares from Canopy USA in consideration for the issuance of common shares of the Company that shareholders of Acreage will receive in accordance with the terms of the Existing Acreage Arrangement Agreement and the Floating Share Arrangement Agreement.

Until such time as Canopy Growth converts the Non-Voting Shares into Canopy USA Class B Shares, Canopy Growth will have no economic or voting interest in Canopy USA, Wana, Jetty, TerrAscend, or Acreage. Canopy USA, Wana, Jetty, TerrAscend, and Acreage will continue to operate independently of Canopy Growth.

Acreage Agreements

On October 24, 2022, Canopy Growth entered into an arrangement agreement with Canopy USA and Acreage, as amended (the "Floating Share Arrangement Agreement"), pursuant to which, subject to approval of the holders of the Floating Shares and the terms and conditions of the Floating Share Arrangement Agreement, Canopy USA will acquire all of the issued and outstanding Floating Shares by way of a court-approved plan on arrangement under the *Business Corporations Act* (British Columbia) (the "Floating Share Arrangement") in exchange for 0.45 of a Company common share for each Floating Share held. In connection with the Floating Share Arrangement Agreement, Canopy Growth has irrevocably waived the Acreage Floating Option existing under the Existing Acreage Arrangement Agreement.

On October 24, 2022, the Company and Canopy USA entered into a third amendment to tax receivable agreement (the "Amended TRA") with, among others, certain current or former unitholders (the "Holders") of High Street Capital Partners, LLC, a subsidiary of Acreage ("HSCP"), pursuant to HSCP's amended tax receivable agreement (the "TRA") and related tax receivable bonus plans with Acreage. Pursuant to the Amended TRA, the Company, on behalf of Canopy USA, agreed to issue common shares of the Company with a value of US$30.4 million to certain Holders as consideration for the assignment of such Holder's rights under the TRA to Canopy USA. As a result of the Amended TRA, Canopy USA is the sole member and beneficiary under the TRA. In connection with the foregoing, the Company issued: (i) 5,648,927 common shares with a value of $20.6 million (US$15.2 million) to certain Holders on November 4, 2022 as the first installment under the Amended TRA; and (ii) 7,102,081 common shares with a value of $20.6 million (US$15.2 million) to certain Holders on March 17, 2023, as the second installment under the Amended TRA. The Company, on behalf of Canopy USA, also agreed to issue common shares of the Company with a value of approximately US$19.6 million to certain eligible participants pursuant to HSCP's existing tax receivable bonus plans to be issued immediately prior to completion of the Floating Share Arrangement.

On October 24, 2022, Canopy Growth and Canopy USA entered into voting support agreements with certain of Acreage's directors, officers and consultants pursuant to which such persons have agreed, among other things, to vote their Floating Shares in favor of the Floating Share Arrangement, representing approximately 7.3% of the issued and outstanding Floating Shares.

In addition to shareholder and court approvals, the Floating Share Arrangement is subject to approval of the Amendment Proposal and applicable regulatory approvals including, but not limited to, Toronto Stock Exchange ("TSX") approval and the satisfaction of certain other closing conditions customary in transactions of this nature. The Floating Share Arrangement received the requisite approval from the holders of Floating Shares at the special meeting of Acreage shareholders held on March 15, 2023 and on March 20, 2023 Acreage obtained a final order from the Supreme Court of British Columbia approving the Floating Share Arrangement. On March 17, 2023, the Floating Share Arrangement Agreement was amended to extend the Exercise Outside Date (as defined in the Floating Share Arrangement Agreement) from March 31, 2023 to May 31, 2023 and on May 31, 2023 the Floating Share Arrangement Agreement was further amended to extend the Exercise Outside Date to August 31, 2023. The completion of the Floating Share Arrangement is subject to satisfaction or, if permitted, waiver of certain closing conditions, including, among others, approval of the Amendment Proposal on or prior to the Exercise Outside Date.

It is intended that Canopy Growth's existing option to acquire the Fixed Shares on the basis of 0.3048 of a Company common share per Fixed Share will be exercised after the Meeting in accordance with the terms of the arrangement agreement dated April 18, 2019, as amended on May 15, 2019, September 23, 2020 and November 17, 2020 (the "Existing Acreage Arrangement Agreement"). Canopy Growth will not hold any Fixed Shares or Floating Shares. Completion of the acquisition of the Fixed Shares following exercise of the Acreage Option is subject to the satisfaction of certain conditions set forth in the Existing Acreage Arrangement Agreement. The acquisition of the Floating Shares pursuant to the Floating Share Arrangement is anticipated to occur immediately prior to the acquisition of the Fixed Shares pursuant to the Existing Acreage Arrangement Agreement in late 2023 such that 100% of the issued and outstanding shares of Acreage will be owned by Canopy USA on closing of the acquisition of both the Fixed Shares and the Floating Shares.

On November 15, 2022, a wholly-owned subsidiary of Canopy Growth (the "Acreage Debt Optionholder") and Acreage's existing lenders (the "Lenders") entered into an option agreement, which superseded the letter agreement dated October 24, 2022 between the parties, pursuant to which the Acreage Debt Optionholder was granted the right to purchase the outstanding principal, including all accrued and unpaid interest thereon, of Acreage's debt, being an amount up to US$150.0 million (the "Acreage Debt") from the Lenders in exchange for an option premium payment of $38.0 million (US$28.5 million) (the "Option Premium"), which was deposited into an escrow account on November 17, 2022. The Acreage Debt Optionholder has the right to exercise the option at its discretion, and if the option is exercised, the Option Premium will be used to reduce the purchase price to be paid for the outstanding Acreage Debt. In the event that Acreage repays the Acreage Debt on or prior to maturity, the Option Premium will be returned to the Acreage Debt Optionholder. In the event that Acreage defaults on the Acreage Debt and the Acreage Debt Optionholder does not exercise its option to acquire the Acreage Debt, the Option Premium will be released to the Lenders.

Special Shareholder Meeting

In connection with the Reorganization, Canopy Growth expects to hold a special meeting of shareholders (the "Meeting") at which Canopy Growth shareholders will be asked to consider and, if deemed appropriate, to pass a special resolution authorizing an amendment to its articles of incorporation, as amended (the "Amendment Proposal"), in order to: (i) create and authorize the issuance of an unlimited number of a new class of non-voting and non-participating exchangeable shares in the capital of Canopy Growth (the "Exchangeable Shares"); and (ii) restate the rights of the Company's common shares to provide for a conversion feature whereby each common share may at any time, at the option of the holder, be converted into one Exchangeable Share. The Exchangeable Shares will not carry voting rights, rights to receive dividends or other rights upon dissolution of Canopy Growth but will be convertible into common shares.

The Amendment Proposal must be approved by at least 66⅔% of the votes cast on a special resolution by Canopy Growth's shareholders present in person or represented by proxy at the Meeting. On October 24, 2022, CBG and Greenstar, indirect, wholly-owned subsidiaries of CBI, entered into the Voting and Support Agreement with Canopy Growth. Pursuant to the terms of the Voting and Support Agreement, CBG and Greenstar agreed, subject to the terms and conditions thereof, among other things, to vote all of the Canopy Growth common shares beneficially owned, directed or controlled, directly or indirectly, by them for the Amendment Proposal.

In the event the Amendment Proposal is approved, and subject to the conversion by CBI of their Canopy Growth common shares into Exchangeable Shares, Canopy USA is expected to exercise the Wana Options and the Jetty Options. In the event the Amendment Proposal is not approved, Canopy USA will not be permitted to exercise its rights to acquire shares of Wana or Jetty, and the Floating Share Arrangement Agreement will be terminated. In such circumstances, Canopy will retain the Acreage Option under the Existing Acreage Arrangement Agreement and Canopy USA will continue to hold the Wana Options and the Jetty Options, as well as the TerrAscend Exchangeable Shares and other securities in the capital of TerrAscend. In addition, the Company is contractually required to cause Canopy USA to exercise its repurchase right to acquire the Canopy USA Common Shares held by the third party investors.

Balance Sheet Actions

On October 24, 2022, Canopy Growth entered into agreements with certain of its lenders under its term loan credit agreement dated March 18, 2021 (the "Credit Agreement") pursuant to which Canopy Growth agreed to tender US$187.5 million of the principal amount outstanding thereunder at a discounted price of US$930 per US$1,000 or US$174.4 million in the aggregate (the "Paydown"). The first payment of approximately $117.5 million (US$87.9 million) was made on November 10, 2022 to reduce the principal indebtedness by approximately $126.3 million (US$94.4 million). The second payment of approximately $116.8 million (US$87.2 million) was made on April 17, 2023 to reduce principal indebtedness by approximately $125.6 million (US$93.8 million).

Canopy Growth also agreed with its lenders to amend certain terms of the Credit Agreement (collectively, the "Credit Agreement Amendments"). The Credit Agreement Amendments include, among other things: (i) reductions to the minimum Liquidity (as defined in the Credit Agreement) covenant to US$100.0 million; (ii) certain changes to the application of net proceeds from asset sales; (iii) the establishment of a new committed delayed draw term credit facility in an aggregate principal amount of US$100.0 million; and (iv) the elimination of the additional US$500.0 million incremental term loan facility.

Relationship with CBI

In connection with the Reorganization, CBI has indicated its current intention to convert all of its common shares of the Company into Exchangeable Shares, conditional upon the approval of the Amendment Proposal. However, any decision to convert will be made by CBI in its sole discretion, and CBI is not obligated to effect any such conversion.

In connection with the foregoing, on October 24, 2022, Canopy Growth entered into a consent agreement with CBG and Greenstar (the "Third Consent Agreement"), pursuant to which the parties agreed, among other things, that following the conversion by CBG and Greenstar of their respective Canopy Growth common shares into Exchangeable Shares, other than the Third Consent Agreement and the termination rights contained therein and the 4.25% unsecured senior notes due in 2023 (the "Canopy Notes") held by Greenstar, all agreements between Canopy Growth and CBI, including the Second Amended and Restated Investor Rights Agreement, dated as of April 18, 2019, by and among certain wholly-owned subsidiaries of CBI and Canopy Growth (the "Second Amended and Restated Investor Rights Agreement"), will be terminated. Pursuant to the terms of the Third Consent Agreement, CBG and Greenstar also agreed, among other things, that at the time of the conversion by CBG and Greenstar of their Canopy Growth common shares into Exchangeable Shares, (i) CBG will surrender the warrants held by CBG to purchase 139,745,453 common shares for cancellation for no consideration; and (ii) all nominees of CBI that are currently sitting on the board of directors of Canopy Growth (the "Board") will resign from the Board. In addition, pursuant to the Third Consent Agreement and following the Reorganization Amendments, Canopy Growth is contractually required to convert its Non-Voting Shares into Canopy USA Class B Shares and cause Canopy USA to repurchase the Canopy USA Common Shares held by certain third-party investors in Canopy USA in the event CBG and Greenstar have not converted their respective common shares into Exchangeable Shares by the later of: (i) sixty days after the

Meeting; or (ii) February 28, 2023 (the “Termination Date”). The Third Consent Agreement will automatically terminate on the Termination Date.

In the event that CBI does not convert its Canopy Growth common shares into Exchangeable Shares, Canopy USA will not be permitted to exercise its rights to acquire the Fixed Shares from the Company or exercise its rights under the Wana Options or Jetty Options and the Floating Share Arrangement Agreement will be terminated. In such circumstances, Canopy Growth will retain the Acreage Option under the Existing Acreage Arrangement Agreement and Canopy USA will continue to hold the Wana Options and the Jetty Options, as well as the TerrAscend Exchangeable Shares and other securities in the capital of TerrAscend. If CBI does not convert its Canopy Shares into Exchangeable Shares, the Company is also contractually required to cause Canopy USA to exercise its repurchase right to acquire the Canopy USA Common Shares held by the third party investors.

Amendments to Canopy USA Structure

The Company is committed to both optimizing the value of Canopy USA and remaining in compliance with the Nasdaq listing requirements. The Company and Canopy USA effectuated certain changes to the initial structure of the Company’s interest in Canopy USA (collectively, the “Reorganization Amendments”) such that the Company does not expect to consolidate the financial results of Canopy USA within the Company’s financial statements, and therefore remain in compliance with the requirements of Nasdaq.

On May 19, 2023, the Company and Canopy USA implemented the Reorganization Amendments, which included, entering into the A&R Protection Agreement and amending and restating Canopy USA’s limited liability company agreement (the “A&R LLC Agreement”) in order to: (i) eliminate certain negative covenants that were previously granted by Canopy USA in favor of the Company as well as delegating to the managers of the Canopy USA Board not appointed by Canopy Growth the authority to approve the following key decisions (collectively, the “Key Decisions”): (a) the annual business plan of Canopy USA; (b) decisions regarding the executive officers of Canopy USA and any of its subsidiaries; (c) increasing the compensation, bonus levels or other benefits payable to any current, former or future employees or managers of Canopy USA or any of its subsidiaries; (d) any other executive compensation plan matters of Canopy USA or any of its subsidiaries; and (e) the exercise of the Wana Options or the Jetty Options, which for greater certainty means that the Company’s nominee on the Canopy USA Board will not be permitted to vote on any Key Decisions while the Company owns Non-Voting Shares; (ii) reduce the number of managers on the Canopy USA Board from four to three, including, reducing the Company’s nomination right to a single manager; (iii) amend the share capital of Canopy USA to, among other things, (a) create a new class of Canopy USA Class B Shares, which may not be issued prior to the conversion of the Non-Voting Shares or the Canopy USA Common Shares into Canopy USA Class B Shares; (b) amend the terms of the Non-Voting Shares such that the Non-Voting Shares will be convertible into Canopy USA Class B Shares (as opposed to Canopy USA Common Shares); and (c) amend the terms of the Canopy USA Common Shares such that upon conversion of all of the Non-Voting Shares into Canopy USA Class B Shares, the Canopy USA Common Shares will, subject to their terms, automatically convert into Canopy USA Class B Shares, provided that the number of Canopy USA Class B Shares to be issued to the former holders of the Canopy USA Common Shares will be equal to no less than 10% of the total issued and outstanding Canopy USA Class B Shares following such issuance. Accordingly, as a result of the Reorganization Amendments, in no circumstances will the Company, at the time of such conversions, own more than 90% of the Canopy USA Class B Shares.

In connection with the Reorganization Amendments, on May 19, 2023, Canopy USA and Huneeus 2017 Irrevocable Trust (the “Trust”) entered into a share purchase agreement (the “Trust SPA”), which sets out the terms of the Trust’s investment in Canopy USA in the aggregate amount of up to US$20 million. Agustin Huneeus, Jr. is the trustee of the Trust and is an affiliate of a shareholder of Jetty. Pursuant to the terms of the Trust SPA, the Trust will, subject to certain terms and conditions contained in the Trust SPA be issued Canopy USA Common Shares in two tranches with an aggregate value of up to US$10 million along with warrants of Canopy USA to acquire additional Canopy USA Common Shares. In addition, subject to the terms of the Trust SPA, the Trust has also been granted options to acquire additional Voting Shares (as defined in the A&R LLC Agreement) with a value of up to an additional US$10 million and one such additional option includes the issuance of additional warrants of Canopy USA.

In addition, subject to the terms and conditions of the A&R Protection Agreement and the terms of the option agreements to acquire Wana and Jetty, as applicable, Canopy Growth may be required to issue additional common shares in satisfaction of certain deferred and/or option exercise payments to the shareholders of Wana and Jetty. Canopy Growth will receive additional Non-Voting Shares from Canopy USA as consideration for any Company common shares issued in the future to the shareholders of Wana and Jetty.

Canadian Cannabis Operations Restructuring

On February 9, 2023, we announced a series of comprehensive steps to align our Canadian cannabis operations and resources in response to unfavorable market realities, which include:

- Transitioning to an asset-light model by: (i) exiting cannabis flower cultivation in our Smiths Falls, Ontario facility; (ii) ceasing the sourcing of cannabis flower from our Mirabel, Quebec facility; and (iii) consolidating cultivation at our existing facilities in Kincardine, Ontario and Kelowna, British Columbia; and

- Moving to an adaptive third-party sourcing model for all cannabis beverages, edibles, vapes, and extracts which will enable us to select and bring to market exciting and exclusive formats without the required investment in research and development and production footprint.

Accordingly, we intend to close and sell the 1 Hershey Drive facility in Smiths Falls, Ontario, consolidate flower, pre-rolled joints, softgel, and oil manufacturing in our current beverage production facility in Smiths Falls, Ontario and have reduced headcount across the business by approximately 800 full-time positions during fiscal 2023. We also intend to rationalize our cannabis extraction activities across Canada. Additionally, in March 2023, we completed the purchase of the remaining 45% of the common shares of Les Serres Vert Cannabis Inc. ("Vert Mirabel") for consideration consisting of cash and our common shares, thereby increasing our interest in the entity to 100%. In connection with that acquisition, we terminated the lease for the facility in Mirabel, Quebec and we are ceasing the sourcing of cannabis flower from the Mirabel, Quebec facility.

Divestiture of Canadian Retail Operations

On September 27, 2022, we announced entering into the following two agreements to divest our retail business in Canada, which includes the retail stores operating under the Tweed and Tokyo Smoke banners.

The first agreement (the "OEGRC Agreement") was entered into with OEG Retail Cannabis ("OEGRC"), a prior Canopy Growth licensee partner that previously owned and operated our franchised Tokyo Smoke stores in Ontario. As part of the OEGRC Agreement, OEGRC acquired ownership of 23 of our corporate-owned retail stores in Manitoba, Saskatchewan, and Newfoundland and Labrador, as well as all Tokyo Smoke-related intellectual property (the "OEGRC Transaction"). In connection with the OEGRC Transaction, the Tokyo Smoke brand has been transferred to OEGRC and all acquired retail stores branded as Tweed will be rebranded by OEGRC. In addition, the master franchise agreement between us and OEGRC, pursuant to which OEGRC licenses the Tokyo Smoke brand in Ontario, was terminated effective on the closing of the OEGRC Transaction. The OEGRC Transaction closed on December 30, 2022.

The second agreement (the "FOUR20 Agreement") was entered into with 420 Investments Ltd. ("FOUR20"), a licensed cannabis retailer, pursuant to which FOUR20 acquired the ownership of five of our corporate-owned retail stores in Alberta (the "FOUR20 Transaction"). Pursuant to the FOUR20 Agreement, these stores will be rebranded under FOUR20's retail banner following the closing of the FOUR20 Transaction. The FOUR20 Transaction closed on October 26, 2022.

Registered Direct Offering of Convertible Debentures

On February 21, 2023, we entered into a subscription agreement (the "Convertible Debenture Agreement") with an institutional investor (the "Institutional Investor") pursuant to which the Institutional Investor agreed to purchase up to US$150.0 million aggregate principal amount of senior unsecured convertible debentures ("Convertible Debentures") in a registered direct offering. The Convertible Debentures were issued under the indenture dated February 21, 2023 (the "Indenture") between us and Computershare Trust Company of Canada, in its capacity as trustee. Pursuant to the Convertible Debenture Agreement, an initial $135.2 million (US$100.0 million) aggregate principal amount of the Convertible Debentures were sold to the Institutional Investor on February 21, 2023, and the remaining US$50.0 million aggregate principal amount of the Convertible Debentures will be issued and paid for in the event that certain conditions outlined in the Indenture are satisfied or waived.

The Convertible Debentures bear interest at a rate of 5.0% per annum from the date of issuance, payable at the earlier of: (i) the time of conversion of the Convertible Debentures; or (ii) February 28, 2028 (the "Maturity Date"), in each case, in Canopy Shares. No cash payment or any other property of Canopy Growth will be payable by us to the Institutional Investor in connection with, or as a result of, the issuance, conversion or repayment of the Convertible Debentures. The Convertible Debentures are convertible into our common shares at the option of the Institutional Investor at any time or times prior to the Maturity Date, at a conversion price equal to 92.5% of the volume-weighted average price of our common shares during the three consecutive trading days ending on the business day immediately prior to the date of conversion. On the Maturity Date, the principal amount of the Convertible Debentures, including any accrued but unpaid interest, will also be paid in our common shares. As of June 16, 2023, the amount outstanding under the Convertible Debentures was $7.1 million.

Refinancing of $100.0 Million of Canopy Notes Due in 2023

On April 13, 2023, we entered into an exchange agreement (the "April 2023 Exchange Agreement") with Greenstar in order to extinguish $100.0 million aggregate principal amount of our outstanding Canopy Notes. Pursuant to the April 2023 Exchange Agreement, we agreed to acquire and cancel $100.0 million aggregate principal amount of the Canopy Notes held by Greenstar in exchange for: (i) a cash payment to Greenstar in the amount of the unpaid and accrued interest owing under the Canopy Notes held by Greenstar; and (ii) a promissory note of $100.0 million maturing December 31, 2024 bearing interest at a rate of 4.25% per annum, payable in cash on maturity (the "CBI Note"). As a result, Greenstar no longer holds any Canopy Notes.

Agreements with Indiva

On May 30, 2023, we entered into a license assignment and assumption agreement with Indiva and its subsidiary, Indiva Inc., providing us exclusive rights and interests to manufacture, distribute, and sell Wana branded products in Canada. Simultaneously, we and Indiva also entered into a contract manufacturing agreement, under which we will grant Indiva the exclusive right to manufacture and supply Wana branded products in Canada for five years, with the ability to renew for an additional five-year term upon mutual agreement of the parties.

We also subscribed for 37.2 million common shares of Indiva for an aggregate purchase price of $2.2 million. In addition, we agreed to make the following cash payments to Indiva: (i) $0.8 million on May 30, 2023; and (ii) $1.3 million on May 30, 2024.

Management Cease Trade Order

On May 10, 2023, the Company filed a material change report with the Canadian securities regulators and a Current Report on Form 8-K with the SEC pursuant to which the Company announced that as a result of preliminary findings from its internal review, the Company's Prior Financial Statements should no longer be relied upon because of certain material misstatements contained in the Prior Financial Statements (the "Default"). On June 2, 2023, the Ontario Securities Commission issued a management cease trade order against David Klein, the Company's Chief Executive Officer and Judy Hong, the Company's Chief Financial Officer as a result of the Default. The management cease trade order prohibits Mr. Klein and Ms. Hong from trading in the securities of the Company until two full business days following the filing of the Company's Comprehensive Form 10-K, following which the management cease trade order may be lifted.

Factors Impacting our Business

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

Building a North American Cannabis Powerhouse by Accelerating Growth of Mainstream and Premium Brands - The heart of our business is in North America with our roots in Canada and investments in the U.S. Our brands include some of the best-known brands in the cannabis space such as Tweed, DOJA, Vert, HiWay, 7ACRES and Deep Space in our Canadian adult-use market, and Spectrum Therapeutics in the Canadian medical market. Additionally, our Storz & Bickel line of devices complement our suite of cannabis brands and products. As markets continue to evolve, we believe the role of brands will become even more prominent in the consumer's desire for trustworthy products that deliver quality, consistency and experience. We are investing in our brands to continue being leaders in the market and strengthening their relationship with the consumer.

The establishment of Canopy USA (as described under "Recent Developments" above) has been a stepping stone towards maximizing the value of our previously held conditional U.S. THC investments. Canopy USA's brands, including those held by Acreage, Wana and Jetty, establish a foundation for us to fast track entry into the world's largest and fastest growing cannabis market. We believe Canopy USA will allow us to further expand the reach of our premium brand portfolio of products and, while Canopy Growth does not expect to consolidate the financial results of Canopy USA, we expect that it will provide an opportunity to highlight the value of Canopy USA's THC investments to our shareholders following the acquisition of Acreage, Wana and Jetty by Canopy USA. Canopy USA is expected to generate revenues and cost synergies by leveraging its own premium brands, routes to market and operations, establishing a functioning U.S. cannabis ecosystem. Canopy USA is expected to generate revenues and cost synergies by leveraging its own premium brands, routes to market and operations, establishing a functioning U.S. cannabis ecosystem in its 21-state footprint.

Beyond the United States, we have taken significant steps towards building our Canadian business to drive profitability and maintain our position as one of Canada's lasting cannabis producers by being steadfast on developing our route to market and fostering strong relationships along our supply chain.

Delivering Best-in-Class Service to Our Customers with Our Purpose-Built Route to Market – In addition to building our branded portfolio, we continuously pursue opportunities to be the partner of choice to our customers. In our core markets, we have invested in quality execution and distribution networks to drive sustainable growth across our priority brands and products. Our North American sales team is the cornerstone of our route to market and positions us to foster a direct relationship with our customers. We face competition in the markets in which we operate. The principal factors on which we compete 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 brand-focused, product development company that matches products and consumer preferences in the cannabis market, enables us to provide better quality consumer products, grow our Canadian business and capture increased market share in Canada. We understand that the success of our brands is only achievable with the support of customers, and we are committed to providing the highest level of service not only with our relationships but also with our insights, education, efficiency, reliability and cost management. As consumer needs and trends evolve, we are continuing to focus our efforts on product categories with the highest and most tangible profit opportunities that align with consumer desires and customer needs. At the same time, we are significantly optimizing our wholesale capabilities without expanding our asset footprint to ensure that our products have the broadest distribution in our highest profit geographies.

Executing an Asset-Light Approach – As described under "Recent Developments" above, we have announced a series of steps to transition to an asset-light model. These steps include consolidating cultivation at our existing facilities in Kincardine, Ontario and Kelowna, British Columbia, and moving to an adaptive third-party sourcing model for certain cannabis beverages, edibles, vapes, and extracts. This model is expected to allow us to procure raw materials from local and/or regional suppliers to complement our owned operations. Our success will depend on our ability to execute on our transition to an asset-light model, including: (i) procuring high-quality products from our suppliers; (ii) focusing our resources on our core strengths of building brands and strong routes to market; and (iii) realizing the benefit of our cost reduction and infrastructure footprint optimization plans.

Driving to Maintain Our Leadership Position with Medical Cannabis Patients Worldwide - We are committed to the high-quality production of medical cannabis products and are equally committed to helping medical professionals responsibly authorize, and consumers to responsibly use, our products. Our commitment to addressing the safety and effectiveness of our products is a critical strategic imperative which also helps differentiate us in the growing cannabis market. To remain successful, we must provide consumers with confidence in our products and the information they need to use them appropriately. We must also maintain the trust of regulatory authorities through our leadership in product safety and responsible use. Internationally, we have made significant investments in our operations within Europe and are well-positioned to pursue international growth opportunities with our strong medical cannabis brands and distribution networks. We intend to fuel the demand for our European Union Good Manufacturing Practices ("EU GMP") certified medical grade cannabis internationally with supply from within Europe or from our Canadian facilities. We will continue to maximize our existing routes to market to further our execution on our international growth plans, while leveraging our cannabis expertise and well-established medical brands.

Part 2 - Results of Operations

Discussion of Fiscal 2023 Results of Operations

The following table presents selected consolidated financial information for the years ended March 31, 2023 and 2022:

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Years ended March 31, 2023	Years ended March 31, 2022 (As Restated)	$ Change	% Change
Selected consolidated financial information:				
Net revenue	$ 402,904	$ 510,321	$ (107,417)	(21%)
Gross margin percentage	(26%)	(40%)	-	1,400 bps
Net loss	$ (3,309,546)	$ (330,567)	$ (2,978,979)	901%
Net loss attributable to Canopy Growth Corporation	$ (3,278,158)	$ (310,043)	$ (2,968,115)	957%
Basic and diluted loss per share[1]	$ (7.07)	$ (0.79)	$ (6.28)	795%

[1]For the year ended March 31, 2023, the weighted average number of outstanding common shares, basic and diluted, totaled 463,724,414 (year ended March 31, 2022 - 391,324,285).

Net Revenue

We report net revenue in five segments: (i) Canada cannabis; (ii) rest-of-world cannabis; (iii) Storz & Bickel; (iv) BioSteel; and (v) This Works. Revenue derived from the remainder of our operations are included within "other." Results for the comparative periods have been restated to reflect the change in segments. The following table presents segmented net revenue by channel for the years ended March 31, 2023 and 2022:

Revenue by Channel *(in thousands of Canadian dollars)*	Years ended March 31, 2023	Years ended March 31, 2022 (As Restated)	$ Change	% Change
Canada cannabis				
Canadian adult-use cannabis				
Business-to-business[1]	$ 95,026	$ 143,732	$ (48,706)	(34%)
Business-to-consumer	36,243	61,570	(25,327)	(41%)
	131,269	205,302	(74,033)	(36%)
Canadian medical cannabis net revenue[2]	55,798	52,608	3,190	6%
	$ 187,067	$ 257,910	$ (70,843)	(27%)
Rest-of-world cannabis				
C^3	-	36,113	(36,113)	(100%)
Other rest-of-world cannabis[3]	38,949	43,193	(4,244)	(10%)
	$ 38,949	$ 79,306	$ (40,357)	(51%)
Storz & Bickel	$ 64,845	$ 85,410	$ (20,565)	(24%)
BioSteel[4]	$ 69,649	$ 34,622	$ 35,027	101%
This Works	$ 26,029	$ 32,296	$ (6,267)	(19%)
Other	16,365	20,777	(4,412)	(21%)
Net revenue	$ 402,904	$ 510,321	$ (107,417)	(21%)

[1] Reflects excise taxes of $43,071 and other revenue adjustments, representing our determination of returns and pricing adjustments, of $3,503 for the year ended March 31, 2023 (year ended March 31, 2022 - excise taxes of $56,666 and other revenue adjustments of $7,300).
[2] Reflects excise taxes of $4,926 for the year ended March 31, 2023 (year ended March 31, 2022 - $5,227).
[3] Reflects other revenue adjustments of $8,569 for the year ended March 31, 2023 (year ended March 31, 2022 - $4,288).
[4] Reflects other revenue adjustments of $14,161 for the year ended March 31, 2023 (year ended March 31, 2022 - $9,876).

Net revenue was $402.9 million in fiscal 2023, as compared to $510.3 million in fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the continuing decrease in net revenue from our Canada cannabis segment, as increased competition in the Canadian adult-use market has resulted in lower sales velocities, continued price compression, and reduced traffic at our corporate-owned retail stores (prior to their divestiture); (ii) the divestiture of our interest in C^3 Cannabinoid Compound Company GmbH ("C^3") in the fourth quarter of fiscal 2022; (iii) the divestiture of our retail business in Canada with the closing of the FOUR20 Transaction on October 26, 2022 and the OEGRC Transaction on December 30, 2022, as described above under "Recent Developments"; (iv) a decline in our U.S. CBD business, as we focused our product and brand offerings; (v) lower bulk cannabis sales; and (vi) a decrease in revenues from our Storz & Bickel and This Works businesses. These decreases were partially offset by: (i) growth in our BioSteel business, resulting from the expansion of our distribution and retail channels; and (ii) international cannabis sales growth, particularly in Australia.

Canada cannabis

Net revenue from our Canada cannabis segment was $187.1 million in fiscal 2023, as compared to $257.9 million in fiscal 2022.

Canadian adult-use cannabis net revenue was $131.3 million in fiscal 2023, as compared to $205.3 million in fiscal 2022.

- Net revenue from the business-to-business channel was $95.0 million in fiscal 2023, as compared to $143.7 million in fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the continuing impacts of price compression across all categories of the Canadian adult-use market, predominantly resulting from increased competition; and (ii) lower sales volumes across the premium and value-priced categories of the Canadian adult-use market. These factors were partially offset by a more favorable product mix due primarily to a decrease in the volume of value-priced dried product sold compared to the prior year.
- Revenue from the business-to-consumer channel was $36.2 million in fiscal 2023, as compared to $61.6 million in fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the divestiture of our retail business in Canada with the closing of the FOUR20 Transaction on October 26, 2022 and the OEGRC Transaction on December 30, 2022, as described under "Recent Developments" above; (ii) 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 (iii) price compression resulting from the increased competition.

Canadian medical cannabis net revenue was $55.8 million in fiscal 2023, as compared to $52.6 million in fiscal 2022. The year-over-year increase is primarily attributable to an increase in the average size of medical orders placed by our customers due largely to a shift in our customer mix, and a larger assortment of cannabis product choices offered to our customers. These factors were partially offset by a year-over-year decrease in the total number of medical orders, which was primarily related to the increasing number of adult-use cannabis retail stores across Canada.

Rest-of-world cannabis

Rest-of-world cannabis revenue was $38.9 million in fiscal 2023, as compared to $79.3 million in fiscal 2022. The year-over-year decrease is attributable to:

- The divestiture of C^3, which resulted in a decrease in revenue of $36.1 million as compared to fiscal 2022; and
- A year-over-year decrease of $4.2 million in other rest-of-world cannabis revenue, primarily attributable to: (i) a decline in revenue in our U.S. CBD business following our strategy shift initiated in the fourth quarter of fiscal 2022 to re-focus and refine our portfolio of product and brand offerings on premium products, and we recognized additional variable consideration which we expect to incur as a result; and (ii) a decrease in bulk cannabis sales relative to fiscal 2022. These declines were partially offset by the year-over-year growth in our global medical cannabis business, particularly in Australia.

Storz & Bickel

Revenue from Storz & Bickel was $64.8 million in fiscal 2023, as compared to $85.4 million in fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the slowdown in consumer spending in North America and Europe; and (ii) temporary disruptions with certain distributors.

BioSteel

Revenue from BioSteel was $69.6 million in fiscal 2023, as compared to $34.6 million in fiscal 2022. The year-over-year increase is primarily attributable to the growth in our distribution and retail channels, which resulted in increased sales velocities, primarily in Canada. Each of BioSteel's major product lines contributed to the year-over-year revenue growth.

This Works

Revenue from This Works was $26.0 million in fiscal 2023, as compared to $32.3 million in fiscal 2022. The year-over-year decrease is primarily attributable to: (i) softer performance relative to fiscal 2022 in certain of our product lines, particularly our "Sleep" line; and (ii) the slowdown in consumer spending in North America and Europe.

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, 2023 and 2022:

(in thousands of Canadian dollars except where indicated)	Years ended March 31, 2023	2022 (As Restated)	$ Change	% Change
Net revenue	$ 402,904	$ 510,321	$ (107,417)	(21%)
Cost of goods sold	$ 507,044	$ 713,457	$ (206,413)	(29%)
Gross margin	(104,140)	(203,136)	98,996	49%
Gross margin percentage	(26%)	(40%)	-	1,400 bps

Cost of goods sold was $507.0 million in fiscal 2023, as compared to $713.5 million in fiscal 2022. Our gross margin was $(104.1) million in fiscal 2023, or (26%) of net revenue, as compared to a gross margin of $(203.1) million and gross margin percentage of (40%) of net revenue in fiscal 2022. The year-over-year increase in the gross margin percentage was primarily attributable to:

- A year-over-year reduction in restructuring charges recorded in cost of goods sold. In fiscal 2022, we recognized restructuring charges totaling $123.7 million relating to inventory write-downs and other charges resulting primarily from: (i) strategic changes to our business that were initiated in fiscal 2022, including the shift to a contract manufacturing model for certain product formats and the closure of certain production facilities; and (ii) amounts deemed excess based on current and projected market demand. Comparatively, in fiscal 2023, we recognized restructuring charges totaling $90.5 million relating to inventory write-downs and other associated charges resulting primarily from: (i) the strategic changes to our business that were initiated in the fourth quarter of fiscal 2023 (as described under "Recent Developments" above), including the progressive closure of our production facility at 1 Hershey Drive in Smiths Falls, Ontario; (ii) the aforementioned strategic changes to our business initiated in fiscal 2022; (iii) charges associated with certain contract manufacturing agreements held by BioSteel that are not expected to recur past fiscal 2023; and (iv) inventory write-downs, primarily related to aging inventory.
- 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;
- The realized benefit of our cost savings program and strategic changes to our business that were initiated both in the fourth quarter of fiscal 2022, and in the fourth quarter of fiscal 2023 as described under "Recent Developments" above; and
- Charges totaling $11.8 million recognized in fiscal 2022 relating to the flow-through of inventory step-up associated with the acquisition of The Supreme Cannabis Company, Inc. ("Supreme Cannabis") in the first quarter of fiscal 2022.

These factors impacted our gross margin percentage in fiscal 2023 and were partially offset by the following:

- A decrease in the amount of payroll subsidies received from the Canadian government, pursuant to a COVID-19 relief program, from $24.4 million in fiscal 2022 to $1.6 million in fiscal 2023; and
- A shift in the business mix relative to fiscal 2022, resulting from a decrease in the proportionate revenue contribution from the higher-margin C^3 business as a result of the completion of the divestiture of C^3 on January 31, 2022.

We report gross margin and gross margin percentage in five segments: (i) Canada cannabis; (ii) rest-of-world cannabis; (iii) Storz & Bickel; (iv) BioSteel; and (v) This Works. Cost of sales associated with the remainder of our operations are included within "other." Results for the comparative periods have been restated to reflect the change in segments. The following table presents segmented gross margin and gross margin percentage for the years ended March 31, 2023 and 2022:

(in thousands of Canadian dollars except where indicated)	Years ended March 31, 2023	2022 (As Restated)	$ Change	% Change
Canada cannabis segment				
Net revenue	$ 187,067	$ 257,910	$ (70,843)	(27%)
Cost of goods sold	282,358	470,730	(188,372)	(40%)
Gross margin	(95,291)	(212,820)	117,529	55%
Gross margin percentage	(51%)	(83%)		3,200 bps
Rest-of-world cannabis segment				
Revenue	$ 38,949	$ 79,306	$ (40,357)	(51%)
Cost of goods sold	42,271	108,181	(65,910)	(61%)
Gross margin	(3,322)	(28,875)	25,553	88%
Gross margin percentage	(9%)	(36%)		2,700 bps
Storz & Bickel segment				
Revenue	$ 64,845	$ 85,410	$ (20,565)	(24%)
Cost of goods sold	38,733	48,126	(9,393)	(20%)
Gross margin	26,112	37,284	(11,172)	(30%)
Gross margin percentage	40%	44%		(400) bps
BioSteel segment				
Revenue	$ 69,649	$ 34,622	$ 35,027	101%
Cost of goods sold	110,262	50,344	59,918	119%
Gross margin	(40,613)	(15,722)	(24,891)	(158%)
Gross margin percentage	(58%)	(45%)		(1,300) bps
This Works segment				
Revenue	$ 26,029	$ 32,296	$ (6,267)	(19%)
Cost of goods sold	15,824	17,496	(1,672)	(10%)
Gross margin	10,205	14,800	(4,595)	(31%)
Gross margin percentage	39%	46%		(700) bps
Other				
Cost of goods sold	$ 17,596	$ 18,580	$ (984)	(5%)

Canada cannabis

Gross margin for our Canada cannabis segment was $(95.3) million in fiscal 2023, or (51%) of net revenue, as compared to $(212.8) million in fiscal 2022, or (83%) of net revenue. The year-over-year increase in the gross margin percentage was primarily attributable to:

- The previously-described inventory write-downs we recorded in the second and fourth quarters of fiscal 2022;
- The realized benefit of our cost savings program and strategic changes to our business that were initiated in the fourth quarter of fiscal 2022; and
- Charges totaling $11.8 million recognized in fiscal 2022 relating to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

These factors were partially offset by:

- A year-over-year increase in restructuring charges recorded in cost of goods sold. In fiscal 2022, we recognized restructuring charges totaling $67.5 million relating primarily to inventory-write-downs and other charges resulting from: (i) the strategic changes to our business that were initiated in fiscal 2022; and (ii) amounts deemed excess based on current and projected market demand. Comparatively, in fiscal 2023, we recognized restructuring charges totaling $71.3 million relating to inventory write-downs and other associated charges resulting primarily from the strategic changes to our business that were initiated in the fourth quarter of fiscal 2023, including the closure of our production facility at 1 Hershey Drive in Smiths Falls, Ontario; and

- A decrease in the amount of payroll subsidies received from the Canadian government, pursuant to a COVID-19 relief program, from of $24.4 million in fiscal 2022 to $1.6 million in fiscal 2023.

Rest-of-world cannabis

Gross margin for our rest-of-world cannabis segment was $(3.3) million in fiscal 2023, or (9%) of net revenue, as compared to $(28.9) million in fiscal 2022, or (36%) of net revenue. The year-over-year increase in the gross margin percentage is primarily attributable to:

- A year-over-year reduction in restructuring charges recorded in cost of goods sold. In fiscal 2022, we recognized restructuring charges totaling $56.2 million relating to inventory write-downs resulting primarily from the strategic changes to our business that were initiated in fiscal 2022, including the shift to a contract manufacturing model for certain product formats and the closure of certain production facilities. Comparatively, in fiscal 2023, we recognized restructuring charges totaling $8.2 million relating to inventory write-downs at our U.S. CBD business primarily associated with the aforementioned strategic changes to our business; and (ii) amounts deemed excess based on current and projected demand; and
- The realized benefit of our cost savings program and the aforementioned strategic changes to our business that were initiated in the fourth quarter of fiscal 2022, and the re-focusing of our U.S. CBD product and brand portfolio.

These factors were partially offset by:

- The decrease in the proportionate revenue contribution from the higher-margin C[3] business relative to fiscal 2022, as a result of the completion of the divestiture of C[3] on January 31, 2022; and
- A reduction in bulk cannabis sales relative to fiscal 2022, and an adjustment related to a customer in Israel in the third quarter of fiscal 2023 which further impacted revenue.

Storz & Bickel

Gross margin for our Storz & Bickel segment was $26.1 million in fiscal 2023, or 40% of net revenue, as compared to $37.3 million in fiscal 2022, or 44% of net revenue. The year-over-year decrease in the gross margin percentage is primarily attributable to the decline in revenues, as described above, and the associated impact on Storz & Bickel's operating leverage.

BioSteel

Gross margin for our BioSteel segment was $(40.6) million in fiscal 2023, or (58%) of net revenue, as compared to $(15.7) million in fiscal 2022, or (45%) of net revenue. The year-over-year decrease in the gross margin percentage is primarily attributable to: (i) charges of $8.7 million relating to costs associated with certain contract manufacturing agreements that are not expected to recur past fiscal 2023; and (ii) inventory write-downs, primarily related to aging inventory.

This Works

Gross margin for our This Works segment was $10.2 million in fiscal 2023, or 39% of net revenue, as compared to $14.8 million in fiscal 2022, or 46% of net revenue. The year-over-year decrease in the gross margin percentage is primarily attributable to restructuring charges of $2.3 million recorded in fiscal 2023 relating to inventory write-downs associated with the strategic changes to our business that were initiated in the fourth quarter of fiscal 2022.

Operating Expenses

The following table presents operating expenses for the years ended March 31, 2023 and 2022:

	Years ended March 31,			
(in thousands of Canadian dollars)	2023	2022	$ Change	% Change
Operating expenses				
General and administrative	$ 117,645	$ 128,883	$ (11,238)	(9%)
Sales and marketing	243,451	239,280	4,171	2%
Research and development	21,718	32,344	(10,626)	(33%)
Acquisition-related costs	35,694	11,060	24,634	223%
Depreciation and amortization	37,717	61,189	(23,472)	(38%)
Selling, general and administrative expenses	456,225	472,756	(16,531)	(3%)
Share-based compensation	31,188	39,534	(8,346)	(21%)
Share-based compensation related to acquisition milestones	-	7,991	(7,991)	(100%)
Share-based compensation expense	31,188	47,525	(16,337)	(34%)
Asset impairment and restructuring costs	2,256,742	369,339	1,887,403	511%
Total operating expenses	$ 2,744,155	$ 889,620	$ 1,854,535	208%

Selling, general and administrative expenses

Selling, general and administrative expenses were $456.2 million in fiscal 2023, as compared to $472.8 million in fiscal 2022.

General and administrative expense was $117.6 million in fiscal 2023, as compared to $128.9 million in 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 fiscal 2022, primarily in relation to: (i) compensation costs for finance, information technology, legal and other administrative functions; (ii) third-party costs associated with administrative functions; (iii) professional consulting fees; and (iv) 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 payroll subsidies in the amount of $2.9 million in fiscal 2023, as compared to $42.9 million received in fiscal 2022.

Sales and marketing expense was $243.5 million in fiscal 2023, as compared to $239.3 million in fiscal 2022. The year-over-year increase is primarily attributable to investments in BioSteel, including costs related to the National Hockey League sponsorship, mostly offset by cost reductions related to the restructuring actions initiated in the fourth quarter of fiscal 2022.

Research and development expense was $21.7 million in fiscal 2023, as compared to $32.3 million in fiscal 2022. The year-over-year decrease is primarily attributable to cost reductions associated with 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 in-line with the rationalization of 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 research and development expense being recorded in relation to C^3 in fiscal 2023.

Acquisition-related costs were $35.7 million in fiscal 2023, as compared to $11.1 million in fiscal 2022. In fiscal 2023, costs were incurred primarily in relation to the Reorganization and the divestiture of certain of our corporate-owned retail stores in Canada in connection with the OEGRC Transaction and the FOUR20 Transaction (each of which are described under "Recent Developments" above), and evaluating other potential acquisition opportunities. Comparatively, in fiscal 2022, costs were incurred primarily in relation to: (i) entering into the Wana Agreements; (ii) the acquisitions of Supreme Cannabis and AV Cannabis Inc. ("Ace Valley"); and (iii) evaluating other potential acquisition opportunities.

Depreciation and amortization expense was $37.7 million in fiscal 2023, as compared to $61.2 million in fiscal 2022. The year-over-year decrease is primarily attributable to:

- The previously-noted restructuring actions that were initiated in fiscal 2022;
- The divestiture of our corporate-owned retail stores in Canada in connection with the OEGRC Transaction and the FOUR20 Transaction (as described under "Recent Developments" above);
- The decrease in amortization expense associated with the impairment of certain of our intellectual property intangible assets; and
- 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 fiscal 2023.

Share-based compensation expense

Share-based compensation expense was $31.2 million in fiscal 2023, as compared to $39.5 million in fiscal 2022. The year-over-year decrease is primarily attributable to the impact of our previously-noted restructuring actions, which resulted in 7.6 million stock option forfeitures and 2.6 million RSU and PSU forfeitures in fiscal 2023. This decrease was partially offset by: (i) the impact associated with 4.7 million stock option grants and 3.1 million RSU and PSU grants in fiscal 2023; and (ii) incremental share-based compensation expense recognized in connection with the excess consideration received by certain employee and consultant option holders of BioSteel for the first tranche of the redeemable noncontrolling interest, over the contractual settlement consideration after correcting for the revenue misstatements described above.

Share-based compensation expense related to acquisition milestones was $nil in fiscal 2023, as compared to $8.0 million in fiscal 2022. The year-over-year decrease is primarily attributable 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 $2.3 billion in fiscal 2023, as compared to $369.3 million in fiscal 2022. In fiscal 2023, these costs included charges of $457.0 million related to restructuring actions and charges of

$1.8 million related to other asset impairments. Comparatively, 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. 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, 2023 and 2022:

	Years ended March 31,			
(in thousands of Canadian dollars)	2023	2022	$ Change	% Change
Loss from equity method investments	$ -	$ (100)	$ 100	100%
Other income (expense), net	(466,025)	753,341	(1,219,366)	(162%)
Income tax recovery	4,774	8,948	(4,174)	(47%)

Loss from equity method investments

The loss from equity method investments was $nil in fiscal 2023, as compared to $0.1 million in 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 March 31, 2023.

Other income (expense), net

Other income (expense), net, was an expense amount of $466.0 million in fiscal 2023, as compared to an income amount of $753.3 million in fiscal 2022. The year-over-year change of $1.2 billion, from an income amount to an expense amount, is primarily attributable to:

- Decrease in non-cash income of $561.7 million related to fair value changes on the warrant derivative liability associated with the warrants held by CBI to acquire 38,454,444 common shares at a price of $76.68 per common share (the "Tranche B Warrants"). The decrease of $26.9 million in the fair value of the warrant derivative liability (resulting in non-cash income) in fiscal 2023 is primarily attributable to a decrease of approximately 75% in our share price during fiscal 2023, further impacted by a shorter expected time to maturity of the Tranche B Warrants. Comparatively, the decrease of $588.7 million in the fair value of the warrant derivative liability in fiscal 2022 was 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.

- Decrease in non-cash income of $506.0 million related to fair value changes on the liability arising from the Acreage Arrangement, from $553.0 million in fiscal 2022 to $47.0 million in fiscal 2023. The income amount recognized in fiscal 2023, associated with a decrease in the liability arising from the Acreage Arrangement to $nil during 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, 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 reflected a lower estimated value of the Canopy Growth common shares expected to be issued at the exchange ratio of 0.3048 upon a Triggering Event, relative to the estimated value of the Fixed Shares expected to be acquired at that time; in the first quarter of fiscal 2023, this resulted in a change from a liability amount to an asset amount of $60.0 million in other financial assets. Fair value changes associated with the Acreage financial instrument asset from July 1, 2022 to March 31, 2023 are described below. Comparatively, the income amount recognized in fiscal 2022 was 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 that same period.

- Change of $119.9 million related to the non-cash fair value changes on the Canopy Notes, from an income amount of $76.8 million in fiscal 2022 to an expense amount of $43.1 million in fiscal 2023. The expense amount recognized in fiscal 2023 is primarily attributable to the impact of the acquisition and cancellation of approximately $262.6 million of aggregate principal amount of the Canopy Notes pursuant to privately negotiated exchange agreements (the "Exchange Agreements") entered into on June 29, 2022 and June 30, 2022 (the "Exchange Transaction"), including changes in credit spreads resulting from the Exchange Transaction. These changes were partially offset by the decrease in our share price of approximately 61% up to the date of the Exchange Transaction, at which time we surrendered our right to settle the conversion of any Note with our common shares. Comparatively, the income amount recognized in fiscal 2022 was primarily attributable to the decrease of approximately 77% in our share price during that period.

- Increase in non-cash expense of $68.0 million related to fair value changes on our other financial assets, from $356.1 million in fiscal 2022 to $424.1 million in fiscal 2023. The fiscal 2023 expense amount is primarily attributable to fair value decreases relating to our investments in:
  - The TerrAscend Exchangeable Shares, including the additional 24.6 million TerrAscend Exchangeable Shares received on December 9, 2022 as part of the TerrAscend Arrangement, in the amount of $186.5 million. This decrease is primarily attributable to: (i) a decrease of approximately 71% in TerrAscend's share price during fiscal 2023, impacting the 38.9 million TerrAscend Exchangeable Shares that were held by us throughout the entire period; and (ii) a decrease of approximately 25% in TerrAscend's share price from December 9, 2022 to March 31, 2023, impacting the additional TerrAscend Exchangeable Shares received as part of the TerrAscend Arrangement;
  - The secured debentures issued by TerrAscend Canada and Arise Bioscience and the associated Prior Warrants, up to the closing of the TerrAscend Arrangement on December 9, 2022 (totaling $58.7 million), which were driven primarily by: (i) a decrease of approximately 62% in TerrAscend's share price from March 31, 2022 to December 9, 2022;
  - The New Warrants issued by TerrAscend as part of the TerrAscend Arrangement, in the amount of $7.0 million, primarily attributable to a decrease of approximately 25% in TerrAscend's share price from December 9, 2022 to March 31, 2023;
  - The TerrAscend Option, in the amount of $4.7 million, which was driven primarily by a decrease of approximately 71% in TerrAscend's share price during fiscal 2023;
  - The Wana and Jetty financial instruments, in the amounts of $154.9 million and $19.9 million, respectively, attributable primarily to: (i) changes in expectations of the future cash flows to be generated by Wana and Jetty; and (ii) an increase in discount rates used in the valuation of both Wana and Jetty financial instruments, in-line with the increase in interest rates during fiscal 2023; and
  - The financial instrument associated with the Acreage Tax Receivable Agreement that was recorded in the third quarter of fiscal 2023, as described under "Recent Developments" above, in the amount of $38.0 million. The fair value decrease was driven primarily by changes in estimates, in the fourth quarter of fiscal 2023, of the future benefits to be received under to the Amended TRA.

  These fair value decreases were partially offset by a fair value increase related to the Acreage financial instrument in the amount of $55.4 million, primarily attributable to: (i) a re-assessment of certain of the assumptions made and scenario outcomes contemplated in the probability-weighted expected return model used to determine the value of the Acreage financial instrument; and (ii) share price changes for both Canopy Growth and Acreage during the period from July 1, 2022 to March 31, 2023, which resulted in a fair value increase related to the Acreage financial instrument during that period.

  Comparatively, the fiscal 2022 expense amount was primarily attributable to fair value decreases relating to our investments in the TerrAscend Exchangeable Shares ($156.0 million) and the TerrAscend Canada secured debentures and the associated Prior Warrants (totaling $115.9 million), driven primarily 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. 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 future cash flows to be generated by Wana.

- Increase in interest expense of $22.2 million, from $103.9 million in fiscal 2022 to $126.2 million in fiscal 2023. The year-over-year increase is primarily attributable to: (i) the increase in interest rates in fiscal 2023 relative to fiscal 2022, thus impacting the amount of interest payable associated with the variable interest rate debt owing under the Credit Agreement; and (ii) the strengthening of the U.S. dollar relative to the Canadian dollar, as compared to fiscal 2022.

- Increase in non-cash income of $34.5 million related to fair value changes on acquisition related contingent consideration and other, from $4.4 million in fiscal 2022 to $38.9 million in fiscal 2023. In both fiscal 2022 and fiscal 2023, we recorded fair value changes related to the estimated deferred payments associated with our investment in Wana, and in fiscal 2023 we recorded fair value changes related to the estimated deferred payments associated with our investment in Jetty. These fair value changes were primarily associated with changes in expectations of future cash flows to be generated by Wana and Jetty.

- Increase in interest income of $17.7 million, from $6.6 million in fiscal 2022 to $24.3 million in fiscal 2023. The year-over-year increase is primarily attributable to the increase in interest rates in fiscal 2023 relative to fiscal 2022, the impact of which was only partially offset by the year-over-year combined decrease in our cash and cash equivalents and short-term investments balances.

- Change of $9.2 million, from a loss of $6.8 million in fiscal 2022 to a gain of $2.4 million in fiscal 2023, related to the disposal of consolidated entities. The year-over-year change is primarily attributable to the gain recognized in the third quarter of fiscal 2023 associated with the closing of the divestiture of our Canadian retail operations in connection with the OEGRC Transaction and the FOUR20 Transactions, as described above under "Recent Developments." Upon closing, the assets and liabilities of the Canadian retail operations were derecognized from our consolidated financial statements, with the gain representing the difference between the carrying amounts of the derecognized assets and liabilities, and the fair value of the consideration received.

Income tax recovery

Income tax recovery in fiscal 2023 was $4.8 million, as compared to an income tax recovery of $8.9 million in fiscal 2022. In fiscal 2023, the income tax recovery consisted of a deferred income tax recovery of $0.7 million (compared to a recovery of $6.6 million in fiscal 2022) and current income tax recovery of $4.1 million (compared to a recovery of $2.4 million in fiscal 2022).

The decrease of $5.9 million in the deferred income tax recovery is primarily a result of: (i) a decrease due to the settlements of the Canopy Notes; and (ii) an increase due to the changes in fiscal 2023 being greater than in fiscal 2022 in respect of deferred tax liabilities that arose in connection with the required revaluation of the accounting carrying value, but not the tax basis, of property, plant and equipment, intangible assets, and other financial assets.

The increase of $1.7 million in the current income tax recovery arose primarily in connection with legal entities that generated a loss for tax purposes during the current taxation period, which loss is expected to be carried back to a prior taxation period to reduce that prior period's income for tax purposes, and net of tax on income for tax purposes that could not be reduced by the group's tax attributes.

Restructuring, Asset Impairments and Related Costs

Fiscal 2023

Total restructuring, asset impairments and related costs of $2.3 billion were recognized in fiscal 2023, including property, plant and equipment and intangible asset impairment charges, inventory write-downs and other charges, contractual and other settlement costs, and employee-related costs and other restructuring costs totaling $547.5 million associated with:

- The restructuring actions initiated in the fourth quarter of fiscal 2023 in relation to our Canadian cannabis operations, as described above under "Recent Developments";
- Impairment losses associated with the divestiture of our Canadian retail operations in connection with the OEGRC Transaction and the FOUR20 Transaction, as described above under "Recent Developments";
- 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 adult-use cannabis business; and (ii) implement a flexible manufacturing platform, including contract manufacturing for certain product formats;
- Employee-related restructuring charges associated with actions completed in the third quarter of fiscal 2023 and fourth quarter of fiscal 2023 as part of our ongoing program to align general and administrative costs with business objectives, and further streamline the organization; and
- Inventory write-downs and associated restructuring charges of $90.5 million related primarily to: (i) the aforementioned strategic changes to our business that were initiated in the fourth quarter of fiscal 2023 (as described under "Recent Developments" above), including the closure of our production facility at 1 Hershey Drive in Smiths Falls, Ontario; (ii) the strategic changes to our business initiated in fiscal 2022, including the shift to a contract manufacturing model for certain product formats and the closure of certain of our production facilities; and (iii) charges associated with certain contract manufacturing agreements held by BioSteel that are not expected to recur past fiscal 2023.

Impairment charges totaling $1.8 billion were recognized in fiscal 2023, comprised of: (i) goodwill impairment losses totaling $1.8 billion, including $1.7 billion associated with our cannabis operations reporting unit in the global cannabis segment in the first quarter of fiscal 2023, and impairment losses of $59.7 million recorded in the second quarter of fiscal 2023 in relation to our BioSteel and This Works reporting units (refer to "Impairment of Goodwill" in "Critical Accounting Policies and Estimates" section below; and (ii) impairment charges of $14.6 million relating to certain acquired brand intangible assets, primarily within our Canada cannabis segment.

A summary of the pre-tax charges recognized in fiscal 2023 in connection with our restructuring actions described above is as follows:

	Year ended March 31, 2023		
	Restructuring and other charges	Other impairments	Total
Costs recorded in cost of goods sold:			
Inventory write-downs and other charges	$ 90,485	$ -	$ 90,485
Costs recorded in operating expenses:			
Impairment of property, plant and equipment	376,176	-	376,176
Impairment of intangible assets	27,399	14,614	42,013
Impairment of goodwill	-	1,785,080	1,785,080
Contractual and other settlement obligations	18,427	-	18,427
Employee-related and other restructuring costs	35,046	-	35,046
Asset impairment and restructuring costs	457,048	1,799,694	2,256,742
Total restructuring, asset impairments and related costs	$ 547,533	$ 1,799,694	$ 2,347,227

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 goodwill 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, which included: (i) reducing cultivation costs in the Canadian adult-use 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;
- Changes in the estimated fair value of certain of our Canadian sites that were closed in December 2020, and costs associated with those sites. Refer to discussion below for restructuring actions in fiscal 2021; and
- Inventory write-downs and associated restructuring charges of $123.7 million related primarily to: (i) the aforementioned strategic changes to our business, including the shift to a contract manufacturing model for certain product formats and the closure of certain of our production facilities; and (ii) amounts deemed excess based on current and projected market demand.

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

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

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

Fiscal 2021

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

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

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

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

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

Net Loss

The net loss in fiscal 2023 was $3.3 billion, as compared to a net loss of $330.6 million in fiscal 2022. The year-over-year increase in the 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; and (ii) the year-over-year change in other income (expense), net, of $1.2 billion, from an income amount to an expense amount. 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, 2023 and 2022:

(in thousands of Canadian dollars)	Years ended March 31, 2023	Years ended March 31, 2022 (As Restated)	$ Change	% Change
Net loss	$ (3,309,546)	$ (330,567)	$ (2,978,979)	901%
Income tax recovery	(4,774)	(8,948)	4,174	47%
Other (income) expense, net	466,025	(753,341)	1,219,366	162%
Loss on equity method investments	-	100	(100)	(100%)
Share-based compensation[1]	31,188	47,525	(16,337)	(34%)
Acquisition-related costs	35,694	11,060	24,634	223%
Depreciation and amortization[1]	84,517	114,418	(29,901)	(26%)
Asset impairment and restructuring costs	2,256,742	358,708	1,898,034	529%
Restructuring costs recorded in cost of goods sold	90,485	123,669	(33,184)	(27%)
Charges related to the flow-through of inventory step-up on business combinations	-	11,847	(11,847)	(100%)
Adjusted EBITDA	$ (349,669)	$ (425,529)	$ 75,860	18%

[1] From Statements of Cash Flows.

The Adjusted EBITDA loss in fiscal 2023 was $349.7 million, as compared to an Adjusted EBITDA loss of $425.5 million in fiscal 2022. The year-over-year decrease in the Adjusted EBITDA loss is primarily attributable to the year-over-year improvement in our gross margin, and the year-over-year reduction in our total selling, general and administrative expense. These variances are described above.

Discussion of Fiscal 2022 Results of Operations

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

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Years ended March 31, 2022 (As Restated)	2021	$ Change	% Change
Selected consolidated financial information:				
Net revenue	$ 510,321	$ 546,649	$ (36,328)	(7%)
Gross margin percentage	(40%)	12%	-	(5,200) bps
Net loss	$ (330,567)	$ (1,670,820)	$ 1,340,253	80%
Net loss attributable to Canopy Growth Corporation	$ (310,043)	$ (1,744,920)	$ 1,434,877	82%
Basic and diluted loss per share[1]	$ (0.79)	$ (4.69)	$ 3.90	83%

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

Net Revenue

The following table presents segmented net revenue, by channel, for the years ended March 31, 2022 and 2021:

Revenue by Channel *(in thousands of Canadian dollars)*	Years ended March 31, 2022 (As Restated)	2021	$ Change	% Change
Canada cannabis				
Canadian adult-use cannabis				
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%)
Rest-of-world cannabis				
C^3	36,113	62,335	(26,222)	(42%)
Other rest-of-world cannabis[3]	43,193	31,296	11,897	38%
	$ 79,306	$ 93,631	$ (14,325)	(15%)
Storz & Bickel	$ 85,410	$ 80,998	$ 4,412	5%
BioSteel[4]	$ 34,622	$ 28,530	$ 6,092	21%
This Works	$ 32,296	$ 33,314	$ (1,018)	(3%)
Other	20,777	25,127	(4,350)	(17%)
Net revenue	$ 510,321	$ 546,649	$ (36,328)	(7%)

[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).

Net revenue was $510.3 million in fiscal 2022, as compared to $546.6 million in fiscal 2021. The year-over-year decrease is attributable to: (i) the decrease in net revenue from our Canada cannabis segment, as the continuing impacts of price compression resulting from increased competition and having an insufficient supply of in-demand products were only partially offset by net revenue attributable to the acquisitions, in the first quarter of fiscal 2022, of Supreme Cannabis and Ace Valley; and (ii) the decrease attributable to our C^3, due primarily to the divestiture of our interest in C^3 on January 31, 2022 and price compression resulting from increased competition. These decreases were partially offset by growth in both our BioSteel business and U.S. CBD, strength in our Storz & Bickel business, and opportunistic bulk cannabis sales.

Canada cannabis

Net revenue from our Canada cannabis segment was $257.9 million in fiscal 2022, as compared to $285.0 million in fiscal 2021.

Canadian adult-use 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 adult-use cannabis 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 adult-use 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.

Rest-of-world cannabis

Rest-of-world cannabis revenue was $79.3 million in fiscal 2022, as compared to $93.6 million in fiscal 2021.

- C^3 contributed revenue of $36.1 million in fiscal 2022, a year-over-year decrease of $26.2 million driven by: (i) the completion of the divestiture of our interest in C^3 on January 31, 2022; (ii) increased competition in the synthetic cannabinoid market in Germany, and price compression for C^3's products; and (iii) a limitation on sales activities associated with COVID-19 restrictions, particularly in the first and third quarters of fiscal 2022.
- Other rest-of-world 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.

Storz & Bickel

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.

BioSteel

Revenue from BioSteel was $34.6 million, a year-over-year increase of $6.1 million due primarily to: (i) the expansion of our United States distribution network beginning in the fourth quarter of fiscal 2021; and (ii) new “ready-to-drink” product launches during fiscal 2022.

This Works

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.

Cost of Goods Sold and Gross Margin

The following table presents cost of goods sold, gross margin and gross margin percentage on a consolidated basis for the years ended March 31, 2022 and 2021:

(in thousands of Canadian dollars except where indicated)	Years ended March 31, 2022 (As Restated)	2021	$ Change	% Change
Net revenue	$ 510,321	$ 546,649	$ (36,328)	(7%)
Cost of goods sold	$ 713,457	$ 479,689	$ 233,768	49%
Gross margin	(203,136)	66,960	(270,096)	(403%)
Gross margin percentage	(40%)	12%	-	(5,200) bps

Cost of goods sold in fiscal 2022 was $713.5 million, as compared to $479.7 million in fiscal 2021. Our gross margin in fiscal 2022 was $(203.1) million, or (40%) of net revenue, as compared to 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 above 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 adult-use 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 shipping, distribution and warehousing costs across North America which primarily impacted BioSteel;
- A shift in the business mix resulting from a decrease in the proportionate revenue contribution from C^3 relative to fiscal 2021;
- A year-over-year decline in C^3's gross margins due primarily to: (i) the decrease in revenue, and the associated impact on C^3's cost leverage; and (ii) price compression for synthetic cannabinoid products resulting from increased competition; and
- Charges totaling $11.8 million related to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022. This compares to charges of $1.5 million in fiscal 2021, which were associated with fiscal 2020 business combinations.

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

The following table presents segmented gross margin and gross margin percentage for the years ended March 31, 2022 and 2021:

(in thousands of Canadian dollars except where indicated)	Years ended March 31, 2022 (As Restated)	Years ended March 31, 2021	$ Change	% Change
Canada cannabis segment				
Net revenue	$ 257,910	$ 285,049	$ (27,139)	(10%)
Cost of goods sold	470,730	293,484	177,246	60%
Gross margin	(212,820)	(8,435)	(204,385)	(2,423%)
Gross margin percentage	(83%)	(3%)		(8,000) bps
Rest-of-world cannabis segment				
Revenue	$ 79,306	$ 93,631	$ (14,325)	(15%)
Cost of goods sold	108,181	63,944	44,237	69%
Gross margin	(28,875)	29,687	(58,562)	197%
Gross margin percentage	(36%)	32%		(6,800) bps
Storz & Bickel segment				
Revenue	$ 85,410	$ 80,998	$ 4,412	5%
Cost of goods sold	48,126	46,767	1,359	3%
Gross margin	37,284	34,231	3,053	(9%)
Gross margin percentage	44%	42%		200 bps
BioSteel segment				
Revenue	$ 34,622	$ 28,530	$ 6,092	21%
Cost of goods sold	50,344	26,841	23,503	88%
Gross margin	(15,722)	1,689	(17,411)	1,031%
Gross margin percentage	(45%)	6%		(5,100) bps
This Works segment				
Revenue	$ 32,296	$ 33,314	$ (1,018)	(3%)
Cost of goods sold	17,496	15,964	1,532	10%
Gross margin	14,800	17,350	(2,550)	15%
Gross margin percentage	46%	52%		(600) bps
Other				
Cost of goods sold	$ 18,580	$ 32,689	(14,109)	(43%)

Canada cannabis

Gross margin for our Canada cannabis segment was $(212.8) million in fiscal 2022, or (83%) of net revenue, as compared to $(8.4) million in fiscal 2021, or (3%) of net revenue. The year-over-year decrease in the gross margin percentage was primarily attributable to:

- Inventory write-downs recorded in the second and fourth quarters of fiscal 2022 primarily in relation to excess Canadian cannabis inventory;
- Restructuring charges totaling $67.5 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;
- A year-over-year decrease in net revenue and continued price compression in our Canadian adult-use cannabis channel; 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.

Rest-of-world cannabis

Gross margin for our rest-of-world cannabis segment was $(28.9) million in fiscal 2022, or (36%) of net revenue, as compared to $29.7 million in fiscal 2021, or 32% of net revenue. The year-over-year decrease in the gross margin percentage is primarily attributable to:

- Restructuring charges totaling $56.2 million relating to inventory write-downs and other charges resulting from strategic changes to our business;
- The factors impacting the gross margin for C³ and our U.S. CBD business, as described in our analysis of "Cost of Goods Sold and Gross Margin" on a consolidated basis above; and
- 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.

Storz & Bickel

Gross margin for our Storz & Bickel segment was $37.3 million in fiscal 2022, as compared to $34.2 million in fiscal 2021. Our gross margin percentage was 44% in fiscal 2022, relatively consistent with 42% in fiscal 2021.

BioSteel

Gross margin for our BioSteel segment was $(15.7) million in fiscal 2022, or (45%) of net revenue, as compared to $1.7 million in fiscal 2021, or 6% of net revenue. The year-over-year decrease in the gross margin percentage is primarily attributable to (i) higher shipping, distribution and warehousing costs across North America; and (ii) inventory write-downs, primarily related to aging inventory.

This Works

Gross margin for our This Works segment was $14.8 million in fiscal 2022, or 46% of net revenue, as compared to $17.4 million in fiscal 2021, or 52% of net revenue. The year-over-year decrease in the gross margin percentage was primarily attributable to a shift in the product mix, and higher shipping, distribution and warehousing costs relative to fiscal 2021.

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 in fiscal 2022 were $472.8 million, as compared to $575.4 million in fiscal 2021.

General and administrative expense in fiscal 2022 was $128.9 million, as compared to $238.3 million in fiscal 2021. The year-over-year decrease is primarily attributable 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 above 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 in fiscal 2022 was $239.3 million, as compared to $194.4 million in fiscal 2021. The year-over-year increase is primarily attributable 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 in fiscal 2022 was $32.3 million, 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 in fiscal 2022 were $11.1 million, 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 Inc. (formerly Canopy Rivers Inc.) ("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 divestiture of our interest in C^3 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 was $39.5 million in fiscal 2022, as compared to $83.0 million in fiscal 2021. The year-over-year decrease was 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 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).

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 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, 2022 and 2021:

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

Loss from equity method investments

The loss from equity method investments in fiscal 2022 was $0.1 million, as compared to $52.6 million in fiscal 2021. 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 2022, we recognized impairment charges totaling $0.1 million relating our remaining investment in Agripharm.

Comparatively, 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.

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, was 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. 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 probability-weighted expected return 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 TerrAscend Exchangeable Shares ($156.0 million), and the secured debentures issued by TerrAscend Canada and Arise Bioscience and associated Prior 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"). These fair value changes were primarily related to changes in expectations of the future cash flows to be generated by Wana.

Income tax recovery (expense)

Income tax recovery was $8.9 million in fiscal 2022, compared to income tax recovery of $13.1 million in fiscal 2021. In fiscal 2022, income tax recovery consisted of 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.

Net Loss

The net loss was $330.6 million in fiscal 2022, 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)

The following table presents Adjusted EBITDA for the years ended March 31, 2022 and 2021:

(in thousands of Canadian dollars)	Years ended March 31, 2022 (As Restated)	Years ended March 31, 2021	$ Change	% Change
Net loss	$ (330,567)	$ (1,670,820)	$ 1,340,253	80%
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	$ (425,529)	$ (340,310)	$ (85,219)	(25%)

[1] From Statements of Cash Flows.

The Adjusted EBITDA loss in fiscal 2022 was $425.5 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.

<u>Quarterly Discussion and Analysis</u>

The Company has restated the unaudited consolidated financial statements for the quarterly periods ended June 30, 2022, September 30, 2022 and December 31, 2022, originally included in our Quarterly Reports on Form 10-Q for such quarterly periods. The restatements of such unaudited consolidated quarterly financial statements are provided in Note 36, "Restatement of Previously Issued Unaudited Interim Condensed Consolidated Financial Statements." The following discussion should be read in conjunction with our accompanying restated unaudited condensed interim consolidated financial statements disclosed in Part II, Item 8. Financial Statements and Supplementary Data, Note 36, "Restatement of Previously Issued Unaudited Interim Condensed Consolidated Financial Statements" of this Comprehensive Form 10-K.

As described under "Segment Reporting" above, prior to the second quarter of fiscal 2023, we had the following two reportable segments: (i) global cannabis and (ii) other consumer products. For purposes of our quarterly discussion and analysis below, we are reporting our segment net revenue and segment gross margin for all periods prior to the second quarter of fiscal 2023, along with comparative periods, for the aforementioned two reportable segments. Beginning in the second quarter of fiscal 2023, we are reporting our segment net revenue and segment gross margin for the following five reportable segments: (i) Canada cannabis; (ii) rest-of-world cannabis; (iii) Storz & Bickel; (iv) BioSteel; and (v) This Works, and results for the comparative periods have been restated to reflect the change in segments.

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 (As Restated)	Three months ended June 30, 2021	$ Change	% Change
Selected consolidated financial information:				
Net revenue	$ 105,920	$ 136,209	$ (30,289)	(22%)
Gross margin percentage	(5%)	20%	-	(2,500) bps
Net (loss) income	$ (2,091,750)	$ 389,955	$ (2,481,705)	(636%)
Net (loss) income attributable to Canopy Growth Corporation	$ (2,086,443)	$ 392,418	$ (2,478,861)	(632%)
Basic (loss) earnings per share[1]	$ (5.24)	$ 1.02	$ (6.26)	(614%)
Diluted (loss) earnings per share[1]	$ (5.24)	$ 0.84	$ (6.08)	(724%)

[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

The following table presents segmented net revenue, by channel, for the three months ended June 30, 2022 and 2021:

Revenue by Channel *(in thousands of Canadian dollars)*	Three months ended June 30, 2022 (As Restated)	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]	13,693	6,661	7,032	106%
Other	4,868	5,988	(1,120)	(19%)
Other consumer products revenue	39,724	43,270	(3,546)	(8%)
Net revenue	$ 105,920	$ 136,209	$ (30,289)	(22%)

[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)

Net revenue was $105.9 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] in the fourth quarter of fiscal 2022. Revenue in our other consumer products segment grew 8% 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 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 $39.7 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 $13.7 million in the first quarter of fiscal 2023, a year-over-year increase of $7.0 million due primarily to growth in our distribution channels and sales velocities, primarily in Canada.
- 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 (As Restated)	Three months ended June 30, 2021	$ Change	% Change
Net revenue	$ 105,920	$ 136,209	$ (30,289)	(22%)
Cost of goods sold	$ 111,506	$ 108,971	$ 2,535	2%
Gross margin	(5,586)	27,238	(32,824)	(121%)
Gross margin percentage	(5%)	20%	-	(2,500) 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 $(5.6) million in the first quarter of fiscal 2023, or (5%) 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 and strategic changes to our business that were initiated in the fourth quarter of fiscal 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.

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 (As Restated)	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	$ 29,838	$ 29,401	$ 437	1%
Gross margin	9,886	13,869	(3,983)	(29%)
Gross margin percentage	25%	32%		(700) 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 and strategic changes to our business that were initiated in the fourth quarter of fiscal 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 $9.9 million in the first quarter of fiscal 2023, as compared to gross margin of $13.9 million in the first quarter of fiscal 2022. Our gross margin percentage was 25% of net revenue in the first quarter of fiscal 2023, as compared to a gross margin percentage of 32% in the first quarter of fiscal 2022. The year-over-year decrease in the gross margin percentage was primarily attributable to the increase in revenue for our BioSteel business and decrease in revenue for Storz & Bickel, as discussed above in our analysis of "Net Revenue" for the three months ended June 30, 2022, and the resulting shift in the business mix towards an increased revenue contribution from the lower-margin BioSteel business.

Operating Expenses

The following table presents operating expenses for the 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, 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 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. 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 TerrAscend Exchangeable Shares ($138.0 million); (ii) the secured debentures issued by TerrAscend Canada and Arise Bioscience and associated TerrAscend Warrants (totaling $62.0 million); and (iii) 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 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 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 common 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 Canopy 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 Canopy Notes in connection with the Exchange Transaction in June 2022, 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, in which we agreed to acquire and cancel approximately $262.6 million of aggregate principal amount of Canopy 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 volume-weighted average trading price of the common shares on the Nasdaq Global Select Market for the 10 consecutive trading days beginning on, and including, June 30, 2022, being US$2.6245 (the "Averaging Price") on the second tranche closing on July 18, 2022 (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 Canopy 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 Canopy 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)

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

(in thousands of Canadian dollars)	Three months ended June 30, 2022 (As Restated)	Three months ended June 30, 2021	$ Change	% Change
Net (loss) income	$ (2,091,750)	$ 389,955	$ (2,481,705)	(636%)
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	5,439	13,126	(7,687)	(59%)
Acquisition-related costs	4,193	5,780	(1,587)	(27%)
Depreciation and amortization	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	$ (78,994)	$ (63,641)	$ (15,353)	(24%)

The Adjusted EBITDA loss in the first quarter of fiscal 2023 was $79.0 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.

Discussion of Results of Operations for the Three and Six Months Ended September 30, 2022

Discussion of Second Quarter of Fiscal 2023 Results of Operations

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Three months ended September 30, 2022 (As Restated)	Three months ended September 30, 2021	$ Change	% Change
Selected consolidated financial information:				
Net revenue	$ 105,418	$ 131,374	$ (25,956)	(20%)
Gross margin percentage	(8%)	(54%)	-	4,600 bps
Net loss	$ (305,811)	$ (16,331)	$ (289,480)	(1,773%)
Net loss attributable to Canopy Growth Corporation	$ (292,170)	$ (11,058)	$ (281,112)	(2,542%)
Basic and diluted loss per share[1]	$ (0.62)	$ (0.03)	$ (0.59)	(1,967%)

[1]For the three months ended September 30, 2022, the weighted average number of outstanding common shares, basic and diluted, totaled 471,592,150 (three months ended September 30, 2021 - 393,274,758).

Revenue

The following table presents segmented net revenue, by channel, for the three months ended September 30, 2022 and 2021:

Revenue by Channel *(in thousands of Canadian dollars)*	Three months ended September 30, 2022 (As Restated)	Three months ended September 30, 2021	$ Change	% Change
Canada cannabis				
Canadian recreational cannabis				
Business-to-business[1]	$ 25,317	$ 41,927	$ (16,610)	(40%)
Business-to-consumer	12,772	16,652	(3,880)	(23%)
	38,089	58,579	(20,490)	(35%)
Canadian medical cannabis[2]	14,215	13,093	1,122	9%
	$ 52,304	$ 71,672	$ (19,368)	(27%)
Rest-of-world cannabis				
C[3]	-	11,887	(11,887)	(100%)
Other rest-of-world cannabis[3]	10,552	11,766	(1,214)	(10%)
	$ 10,552	$ 23,653	$ (13,101)	(55%)
Storz & Bickel	$ 13,494	$ 14,511	$ (1,017)	(7%)
BioSteel[4]	$ 17,477	$ 7,512	$ 9,965	133%
This Works	$ 6,868	$ 9,027	$ (2,159)	(24%)
Other	4,723	4,999	(276)	(6%)
Net revenue	$ 105,418	$ 131,374	$ (25,956)	(20%)

[1] Reflects excise taxes of $11,366 and other revenue adjustments, representing our determination of returns and pricing adjustments, of $353 for the three months ended September 30, 2022 (three months ended September 30, 2021 - excise taxes of $12,913 and other revenue adjustments of $nil).
[2] Reflects excise taxes of $1,130 for the three months ended September 30, 2022 (three months ended September 30, 2021 - $1,361).
[3] Reflects other revenue adjustments of $535 for the three months ended September 30, 2022 (three months ended September 30, 2021 - $642).
[4] Reflects other revenue adjustments of $2,690 for the three months ended September 30, 2022 (three months ended September 30, 2021 - $2,693).

Net revenue was $105.4 million in the second quarter of fiscal 2023, as compared to $131.4 million in the second quarter of fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the continuing decrease in net revenue from our Canada cannabis segment, as increased competition in the Canadian recreational market has resulted in lower sales velocities, continued price compression and reduced traffic at our corporate-owned retail stores; (ii) the divestiture of all of our interest in C[3] in the fourth quarter of fiscal 2022; and (iii) softer performance in our This Works business. These declines were partially offset by growth in our BioSteel business resulting from the expansion of our distribution and retail channels.

Canada cannabis

Net revenue from our Canada cannabis segment was $52.3 million in the second quarter of fiscal 2023, as compared to $71.7 million in the second quarter of fiscal 2022.

Canadian recreational cannabis net revenue was $38.1 million in the second quarter of fiscal 2023, as compared to $58.6 million in the second quarter of fiscal 2022.

- Net revenue from the business-to-business channel was $25.3 million in the second quarter of fiscal 2023, as compared to $41.9 million in the second quarter of fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the continuing impacts of price compression across all categories of the Canadian recreational market, predominantly resulting from increased competition; and (ii) lower sales volumes, particularly in the value-priced dried flower category of the Canadian recreational market, resulting from both the strategic shift in our product portfolio and increased competition.
- Revenue from the business-to-consumer channel was $12.8 million in the second quarter of fiscal 2023, as compared to $16.7 million in the second 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 $14.2 million in the second quarter of fiscal 2023, as compared to $13.1 million in the second quarter of fiscal 2022. The year-over-year increase is primarily attributable to an increase in the average size of medical orders placed by our customers due largely to a shift in our customer mix, partially offset 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.

Rest-of-world cannabis

Rest-of-world cannabis revenue was $10.6 million in the second quarter of fiscal 2023, as compared to $23.7 million in the second quarter of fiscal 2022. The year-over-year decrease is attributable to: (i) the divestiture of C^3, which was completed on January 31, 2022 and resulted in a decrease in revenue of $11.9 million as compared to the second quarter of fiscal 2022; and (ii) a year-over-year decrease of $1.2 million in other rest-of-world cannabis revenue, primarily attributable to a decline in our U.S. CBD business as we focused and refined our portfolio of product and brand offerings. This decline was partially offset by year-over-year growth in our global medical cannabis business, particularly in Australia.

Storz & Bickel

Revenue from Storz & Bickel was $13.5 million in the second quarter of fiscal 2023, as compared to $14.5 million in the second quarter of fiscal 2022. The year-over-year decrease is primarily attributable to the continuing slowdown in consumer spending in North America and Europe, temporary disruptions with certain distributors, and the impact of changes in foreign exchange rates.

BioSteel

Revenue from BioSteel was $17.5 million in the second quarter of fiscal 2023, as compared to $7.5 million in the second quarter of fiscal 2022. The year-over-year increase is primarily attributable to the growth in our distribution and retail channels, which resulted in increased sales velocities, primarily in Canada. Each of BioSteel's major product lines contributed to the year-over-year revenue growth.

This Works

Revenue from This Works was $6.9 million in the second quarter of fiscal 2023, as compared to $9.0 million in the second quarter of fiscal 2022. The year-over-year decrease is primarily attributable to continuing softer performance in certain of our product lines, particularly our “Sleep” product line, relative to the second quarter of fiscal 2022, lower sales velocities through e-commerce channels, and the impact of changes in foreign exchange rates.

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 September 30, 2022 and 2021:

(in thousands of Canadian dollars except where indicated)	Three months ended September 30, 2022 (As Restated)	Three months ended September 30, 2021	$ Change	% Change
Net revenue	$ 105,418	$ 131,374	$ (25,956)	(20%)
Cost of goods sold	$ 113,373	$ 202,514	$ (89,141)	(44%)
Gross margin	(7,955)	(71,140)	63,185	89%
Gross margin percentage	(8%)	(54%)	-	4,600 bps

Cost of goods sold was $113.4 million in the second quarter of fiscal 2023, as compared to $202.5 million in the second quarter of fiscal 2022. Our gross margin was $(8.0) million in the second quarter of fiscal 2023, or (8%) of net revenue, as compared to a gross margin of $(71.1) million and gross margin percentage of (54%) of net revenue in the second quarter of fiscal 2022. The year-over-year increase in the gross margin percentage was primarily attributable to the inventory write-downs we recorded in the second quarter 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 the second quarter of fiscal 2022 was also impacted by charges totaling $3.1 million relating to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

These factors were partially offset by the following, which impacted our gross margin percentage in the second quarter of fiscal 2023:

- Restructuring charges of $8.0 million relating to inventory write-downs and other associated charges resulting primarily from: (i) 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; (ii) amounts deemed excess based on current and projected demand; and (iii) charges related to certain contract manufacturing agreements held by BioSteel that are not expected to recur past fiscal 2023;

- In our Canadian recreation cannabis business, the impacts on our gross margin percentage from the year-over-year decrease in net revenue and continued price compression were partially offset by the realized benefit of our cost savings program and strategic changes to our business that were initiated in the fourth quarter of fiscal 2022;
- A shift in the business mix relative to the second quarter of fiscal 2022 resulting from a decrease in the proportionate revenue contribution from the higher-margin C^3 business relative to the second quarter of fiscal 2022, as a result of the completion of the divestiture of C^3 on January 31, 2022; and
- A decrease in the amount of payroll subsidies received from the Canadian government pursuant to a COVID-19 relief program, from $6.9 million in the second quarter of fiscal 2022 to $nil in the second quarter of fiscal 2023.

The following table presents segmented gross margin and gross margin percentage for the three months ended September 30, 2022 and 2021:

	Three months ended September 30,			
(in thousands of Canadian dollars except where indicated)	2022 (As Restated)	2021	$ Change	% Change
Canada cannabis segment				
Net revenue	$ 52,304	$ 71,672	$ (19,368)	(27%)
Cost of goods sold	59,956	163,652	(103,696)	(63%)
Gross margin	(7,652)	(91,980)	84,328	92%
Gross margin percentage	(15%)	(128%)		11,300 bps
Rest-of-world cannabis segment				
Revenue	$ 10,552	$ 23,653	$ (13,101)	(55%)
Cost of goods sold	11,884	12,675	(791)	(6%)
Gross margin	(1,332)	10,978	(12,310)	(112%)
Gross margin percentage	(13%)	46%		(5,900) bps
Storz & Bickel segment				
Revenue	$ 13,494	$ 14,511	$ (1,017)	(7%)
Cost of goods sold	7,492	9,160	(1,668)	(18%)
Gross margin	6,002	5,351	651	12%
Gross margin percentage	44%	37%		700 bps
BioSteel segment				
Revenue	$ 17,477	$ 7,512	$ 9,965	133%
Cost of goods sold	24,821	7,916	16,905	214%
Gross margin	(7,344)	(404)	(6,940)	(1,718%)
Gross margin percentage	(42%)	(5%)		(3,700) bps
This Works segment				
Revenue	$ 6,868	$ 9,027	$ (2,159)	(24%)
Cost of goods sold	4,565	5,469	(904)	(17%)
Gross margin	2,303	3,558	(1,255)	(35%)
Gross margin percentage	34%	39%		(500) bps
Other				
Cost of goods sold	$ 4,655	$ 3,642	$ 1,013	28%

Canada cannabis

Gross margin for our Canada cannabis segment was $(7.7) million in the second quarter of fiscal 2023, or (15%) of net revenue, as compared to $(92.0) million in the second quarter of fiscal 2022, or (128%) of net revenue. The year-over-year increase in the gross margin percentage was primarily attributable to: (i) the previously-described inventory write-downs we recorded in the second quarter of fiscal 2022; and (ii) charges totaling $3.1 million recognized in the second quarter of fiscal 2022 relating to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

These factors were partially offset by the following, which impacted our gross margin percentage in the second quarter of fiscal 2023:

- The year-over-year decrease in net revenue and continued price compression, which were partially offset by the realized benefit of our cost savings program that we announced in April 2022; and
- A decrease in the amount of payroll subsidies received from the Canadian government pursuant to a COVID-19 relief program, from $6.9 million in the second quarter of fiscal 2022 to $nil in the second quarter of fiscal 2023.

Rest-of-world cannabis

Gross margin for our rest-of-world cannabis segment was $(1.3) million in the second quarter of fiscal 2023, or (13%) of net revenue, as compared to $11.0 million in the second quarter of fiscal 2022, or 46% of net revenue. The year-over-year decrease in the gross margin percentage is primarily attributable to:

- The decrease in the proportionate revenue contribution from the higher-margin C^3 business relative to the second quarter of fiscal 2022, as a result of the completion of the divestiture of C^3 on January 31, 2022; and
- Restructuring charges of $3.7 million relating to inventory write-downs associated with the strategic changes to our business that were initiated in the fourth quarter of fiscal 2022, and amounts deemed excess based on current and projected demand.

Storz & Bickel

Gross margin for our Storz & Bickel segment was $6.0 million in the second quarter of fiscal 2023, or 44% of net revenue, as compared to $5.4 million in the second quarter of fiscal 2022, or 37% of net revenue. The year-over-year increase in the gross margin percentage is primarily attributable to: (i) lower shipping, distribution and warehousing costs across North America relative to the second quarter of fiscal 2022; and (ii) a shift in Storz & Bickel’s product mix.

BioSteel

Gross margin for our BioSteel segment was $(7.3) million in the second quarter of fiscal 2023, or (42%) of net revenue, as compared to $(0.4) million in the second quarter of fiscal 2022, or (5%) of net revenue. The year-over-year decrease in the gross margin percentage is primarily attributable to charges of $3.2 million relating to costs associated with certain contract manufacturing agreements that are not expected to recur past fiscal 2023.

This Works

Gross margin for our This Works segment was $2.3 million in the second quarter of fiscal 2023, or 34% of net revenue, as compared to $3.6 million in the second quarter of fiscal 2022, or 39% of net revenue. The year-over-year decrease in the gross margin percentage is primarily attributable to restructuring charges of $1.1 million relating to inventory write-downs associated with the strategic changes to our business that were initiated in the fourth quarter of fiscal 2022.

Operating Expenses

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

	Three months ended September 30,			
(in thousands of Canadian dollars)	2022 (As Restated)	2021	$ Change	% Change
Operating expenses				
General and administrative	$ 30,402	$ 35,545	$ (5,143)	(14%)
Sales and marketing	65,436	64,534	902	1%
Research and development	5,489	8,764	(3,275)	(37%)
Acquisition-related costs	14,606	2,391	12,215	511%
Depreciation and amortization	9,909	14,522	(4,613)	(32%)
Selling, general and administrative expenses	125,842	125,756	86	-%
Share-based compensation	14,581	14,247	334	2%
Share-based compensation related to acquisition milestones	-	1,706	(1,706)	(100%)
Share-based compensation expense	14,581	15,953	(1,372)	(9%)
Asset impairment and restructuring costs	101,369	2,510	98,859	3,939%
Total operating expenses	$ 241,792	$ 144,219	$ 97,573	68%

Selling, general and administrative expenses

Selling, general and administrative expenses were $125.8 million in the second quarter of fiscal 2023, as compared to $125.8 million in the second quarter of fiscal 2022.

General and administrative expense was $30.4 million in the second quarter of fiscal 2023, as compared to $35.5 million in the second quarter of fiscal 2022. The year-over-year decrease is primarily attributable 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 second quarter of fiscal 2022 primarily in relation to: (i) compensation costs for finance, information technology, legal and other administrative functions; (ii) third-party costs associated with administrative functions; (iii) professional consulting fees; and (iv) 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 $0.1 million in the second quarter of fiscal 2023, as compared to $10.6 million received in the second quarter of fiscal 2022.

Sales and marketing expense was $65.4 million in the second quarter of fiscal 2023, consistent with $64.5 million in the second quarter of fiscal 2022.

Research and development expense was $5.5 million in the second quarter of fiscal 2023, as compared to $8.8 million in the second 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, as we continued to realize reductions in compensation costs and concluded or curtailed certain research and development projects. We also realized a reduction in research and development costs associated with the completion of the divestiture of C3 on January 31, 2022, which resulted in no costs being recorded in relation to C3 in the second quarter of fiscal 2023.

Acquisition-related costs were $14.6 million in the second quarter of fiscal 2023, as compared to $2.4 million in the second quarter of fiscal 2022. In the second quarter of fiscal 2023, costs were incurred primarily in relation to the Reorganization and the planned divestiture of certain of our corporate-owned retail stores, and evaluating other potential acquisition opportunities. Comparatively, in the second quarter of fiscal 2022, costs were incurred primarily in relation to the plan to acquire Wana, the completion of the acquisition of Supreme Cannabis, and evaluating other potential acquisition opportunities.

Depreciation and amortization expense was $9.9 million in the second quarter of fiscal 2023, as compared to $14.5 million in the second quarter of fiscal 2022. The year-over-year decrease is primarily attributable to the previously-noted restructuring actions that were initiated in fiscal 2022, including the closure of certain of our Canadian production facilities, and other operational changes to implement cultivation-related efficiencies and improvements in the Canadian recreational cannabis business. Additionally, depreciation and amortization expense decreased due to the impairment of certain of our intellectual property intangible assets in the fourth quarter of fiscal 2022, and the completion of the divestiture of C3 on January 31, 2022, which resulted in no depreciation and amortization expense being recorded in relation to C3 in the second quarter of fiscal 2023.

Share-based compensation expense

Share-based compensation expense was $14.6 million in the second quarter of fiscal 2023, relatively consistent with $14.2 million in the second quarter of fiscal 2022.

Share-based compensation expense related to acquisition milestones was $nil in the second quarter of fiscal 2023, as compared to $1.7 million in the second quarter of fiscal 2022. The year-over-year decrease is primarily attributable 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 $101.4 million in the second quarter of fiscal 2023, as compared to $2.5 million in the second quarter of fiscal 2022.

Asset impairment and restructuring costs recorded in the second quarter of fiscal 2023 were primarily related to:

- Impairment losses associated with the planned divestiture of our Canadian retail operations, as we recorded write-downs of property, plant and equipment, operating licenses and brand intangible assets, right-of-use assets, and certain other assets due to the excess of their carrying values over their estimated fair values;

- Incremental costs primarily associated with the restructuring actions completed in fiscal 2022, including the closure of certain of our Canadian production facilities; and
- Goodwill impairment losses of $57.4 million and $2.3 million associated with our BioSteel reporting unit and This Works reporting unit, respectively (refer to "Impairment of Goodwill" in "Critical Accounting Policies and Estimates" section below), and asset impairment charges relating to certain acquired brand intangible assets.

Comparatively, in the second quarter of fiscal 2022, we recorded charges primarily related to incremental costs associated with the closure of previously-identified Canadian production facilities in December 2020.

Other

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

	Three months ended September 30,			
(in thousands of Canadian dollars)	2022	2021	$ Change	% Change
Other income (expense), net	(47,844)	195,821	(243,665)	(124%)
Income tax (expense) recovery	(8,220)	3,207	(11,427)	(356%)

Other income (expense), net

Other income (expense), net was an expense amount of $47.8 million in the second quarter of fiscal 2023, as compared to an income amount of $195.8 million in the second quarter of fiscal 2022. The year-over-year change of $243.7 million, from an income amount to an expense amount, is primarily attributable to:

- Decrease in non-cash income of $288.0 million related to the non-cash fair value changes on the liability arising from the Acreage Arrangement, from an income amount of $288.0 million in the second quarter of fiscal 2022 to a fair value change of $nil in the second quarter of fiscal 2023. The fair value change of $nil associated with the Acreage Amended Arrangement in the second quarter of fiscal 2023 is a result of the change, in the first quarter of fiscal 2023, from a liability amount to an asset amount recorded in other financial assets; in the second quarter of fiscal 2023, the fair value of the Acreage call option increased, as explained below. Comparatively, the income amount recognized in the second quarter of fiscal 2022, associated with a decrease in the liability arising from the Acreage Arrangement, was primarily attributable to a decrease of approximately 41% in our share price in the second quarter of fiscal 2022, relative to a decrease of approximately 9% in Acreage's share price during that same period.

- Decrease in non-cash income of $193.7 million related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI. The decrease of $0.9 million in the fair value of the warrant derivative liability (resulting in non-cash income) in the second quarter of fiscal 2023 is primarily attributable to a shorter expected time to maturity of the Tranche B Warrants, and an increase in the risk-free interest rate. Comparatively, the income amount recognized in the second quarter of fiscal 2022 of $194.5 million, associated with a decrease in the fair value of the warrant derivative liability, was primarily attributable to a decrease of approximately 41% in our share price during the second quarter of fiscal 2022, further impacted by a shorter expected time to maturity of the Tranche B Warrants.

- Change of $43.8 million related to the non-cash fair value changes on the Canopy Notes, from an income amount of $30.0 million in the second quarter of fiscal 2022 to an expense amount of $13.8 million in the second quarter of fiscal 2023. The year-over-year change is primarily attributable to the increase in our share price of approximately 2% during the second quarter of fiscal 2023, and the impact of the Exchange Transaction, including changes in credit spreads relative to the comparative fiscal period. Comparatively, the income amount recognized in the second quarter of fiscal 2022 was primarily attributable to the decrease in our share price of approximately 41% during that period.

- Increase in non-cash expense of $16.3 million related to non-cash fair value changes on acquisition related contingent consideration and other. In the second 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 attributable to changes in expectations of future cash flows to be generated by Wana.

- Decrease in non-cash expense of $279.3 million related to fair value changes on our other financial assets, from $279.4 million in the second quarter of fiscal 2022 to $0.1 million in the second quarter of fiscal 2023. The expense amount in the second quarter of fiscal 2023 is primarily attributable to fair value decreases relating to our investments in: (i) the TerrAscend Exchangeable Shares; (ii) the secured debentures issued by TerrAscend Canada and Arise Bioscience and associated TerrAscend Warrants (totaling $6.6 million); and (iii) the TerrAscend Option ($1.1 million), which were all driven largely by a decrease of approximately 40% in TerrAscend's share price in the second quarter of fiscal 2023. These fair value decreases were offset by: (i) a fair value increase associated with our investment in the Wana financial instrument of $34.8 million, primarily attributable to changes in expectations of the future cash flows to be generated by Wana; and (ii) a fair value increase related to the Acreage call option in the amount of $12.0 million, primarily attributable to: (i) a re-assessment of certain of the assumptions made and scenario outcomes contemplated in the probability-weighted expected return model used to determine the value of the Acreage call option; and (ii) the strengthening of the U.S. dollar relative to the Canadian dollar during the second quarter of fiscal 2023. Comparatively, in the second quarter of fiscal 2022 the expense amount was primarily attributable to fair value increases relating to our investments in the TerrAscend Exchangeable Shares ($166.0 million), and the secured debentures issued by TerrAscend Canada and Arise Bioscience and associated TerrAscend Warrants (totaling $109.0 million), driven largely by: (i) a decrease of approximately 38% in TerrAscend's share price in the second quarter of fiscal 2022; and (ii) re-assessments of the probability and timing of changes in federal laws in the United States regarding the permissibility of the cultivation, distribution or possession of marijuana.

- In the second quarter of fiscal 2023, we recognized income in the amount of $14.5 million in connection with the Exchange Transaction, in which we agreed to acquire and cancel approximately $262.6 million of aggregate principal amount of Canopy Notes from the Noteholders for an aggregate purchase price of $260.0 million, which was paid in our common shares. The income amount recognized in the second quarter of fiscal 2023 primarily includes 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 Canopy Notes that were acquired and cancelled in July 2022, partially offset by: (i) fair value changes, up through the Final Closing, on the derivative liability recognized 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; and (ii) professional fees associated with the Exchange Transaction.

Income tax (expense) recovery

Income tax expense in the second quarter of fiscal 2023 was $8.2 million, compared to an income tax recovery of $3.2 million in the second quarter of fiscal 2022. In the second quarter of fiscal 2023, income tax expense consisted of deferred income tax expense of $6.4 million (compared to a recovery of $1.4 million in the second quarter of fiscal 2022) and current income tax expense of $1.8 million (compared to a recovery of $1.8 million in the second quarter of fiscal 2022).

The change of $7.8 million, from a deferred income tax recovery to deferred income tax expense, is primarily a result of changes in the second quarter of fiscal 2023 in respect of the Canopy 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 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 $3.6 million, from a current income tax recovery to 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 in the second quarter of fiscal 2023 was $305.8 million, as compared to a net loss of $16.3 million in the second quarter of fiscal 2022. The year-over-year increase in the net loss is primarily attributable to: (i) the year-over-year change in other income (expense), net, of $243.7 million, from an income amount to an expense amount; and (ii) the year-over-year increase in asset impairment and restructuring costs. These factors were only partially offset by the year-over-year increase in our gross margin. These variances are described above.

Adjusted EBITDA (Non-GAAP Measure)

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

(in thousands of Canadian dollars)	Three months ended September 30, 2022 (As Restated)	2021	$ Change	% Change
Net loss	$ (305,811)	$ (16,331)	$ (289,480)	(1,773%)
Income tax expense (recovery)	8,220	(3,207)	11,427	356%
Other (income) expense, net	47,844	(195,821)	243,665	124%
Share-based compensation	14,581	15,953	(1,372)	(9%)
Acquisition-related costs	14,606	2,391	12,215	511%
Depreciation and amortization	21,293	28,780	(7,487)	(26%)
Asset impairment and restructuring costs	101,369	2,510	98,859	3,939%
Restructuring costs recorded in cost of goods sold	8,023	-	8,023	100%
Charges related to the flow-through of inventory step-up on business combinations	-	3,123	(3,123)	(100%)
Adjusted EBITDA	$ (89,875)	$ (162,602)	$ 72,727	45%

The Adjusted EBITDA loss in the second quarter of fiscal 2023 was $89.9 million, as compared to an Adjusted EBITDA loss of $162.6 million in the second quarter of fiscal 2022. The year-over-year decrease in the Adjusted EBITDA loss is primarily attributable to: (i) the year-over-year improvement in our gross margin; and (ii) the year-over-year reduction in our general and administrative, sales and marketing, and research and development expenses. These variances are described above.

Discussion of Results of Operations for the Six Months Ended September 30, 2022

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Six months ended September 30, 2022 (As Restated)	2021	$ Change	% Change
Selected consolidated financial information:				
Net revenue	$ 211,338	$ 267,583	$ (56,245)	(21%)
Gross margin percentage	(6%)	(16%)	-	1,000 bps
Net (loss) income	$ (2,397,561)	$ 373,624	$ (2,771,185)	(742%)
Net (loss) income attributable to Canopy Growth Corporation	$ (2,378,613)	$ 381,360	$ (2,759,973)	(724%)
Basic (loss) earnings per share[1]	$ (5.47)	$ 0.98	$ (6.45)	(658%)
Diluted (loss) earnings per share[1]	$ (5.47)	$ 0.72	$ (6.19)	(860%)

[1]For the six months ended September 30, 2022, the weighted average number of outstanding common shares, basic and diluted, totaled 435,229,653 (six months ended September 30, 2021 - basic of 388,696,975 and diluted of 409,158,915).

Revenue

The following table presents segmented net revenue, by channel, for the six months ended September 30, 2022 and 2021:

Revenue by Channel *(in thousands of Canadian dollars)*	Six months ended September 30, 2022 (As Restated)	Six months ended September 30, 2021	$ Change	% Change
Canada cannabis				
Canadian recreational cannabis				
Business-to-business[1]	$ 51,857	$ 84,620	$ (32,763)	(39%)
Business-to-consumer	25,207	33,996	(8,789)	(26%)
	77,064	118,616	(41,552)	(35%)
Canadian medical cannabis net revenue[2]	27,655	26,585	1,070	4%
	$ 104,719	$ 145,201	$ (40,482)	(28%)
Rest-of-world cannabis				
C[3]	-	23,330	(23,330)	(100%)
Other rest-of-world cannabis[3]	24,333	19,733	4,600	23%
	$ 24,333	$ 43,063	$ (18,730)	(43%)
Storz & Bickel	$ 29,137	$ 38,581	$ (9,444)	(24%)
BioSteel[4]	$ 31,170	$ 14,173	$ 16,997	120%
This Works	$ 12,388	$ 15,578	$ (3,190)	(20%)
Other	9,591	10,987	(1,396)	(13%)
Net revenue	$ 211,338	$ 267,583	$ (56,245)	(21%)

[1] Reflects excise taxes of $22,957 and other revenue adjustments, representing our determination of returns and pricing adjustments, of $903 for the six months ended September 30, 2022 (six months ended September 30, 2021 - excise taxes of $30,747 and other revenue adjustments of $3,000).
[2] Reflects excise taxes of $2,286 for the six months ended September 30, 2022 (six months ended September 30, 2021 - $2,741).
[3] Reflects other revenue adjustments of $4,372 for the six months ended September 30, 2022 (six months ended September 30, 2021 - $1,019).
[4] Reflects other revenue adjustments of $1,201 for the six months ended September 30, 2022 (six months ended September 30, 2021 - $4,630).

Net revenue was $211.3 million in the six months ended September 30, 2022, as compared to $267.6 million in the six months ended September 30, 2021. The year-over-year decrease is primarily attributable to: (i) the continuing decrease in net revenue from our Canada cannabis segment, as increased competition in the Canadian recreational market has resulted in lower sales velocities, continued price compression, and reduced traffic at our corporate-owned retail stores; (ii) the divestiture of all of our interest in C[3] in the fourth quarter of fiscal 2022; and (iii) lower revenues from our Storz & Bickel and This Works businesses. These declines were partially offset by growth in our BioSteel business, resulting from the expansion of our distribution and retail channels.

Canada cannabis

Net revenue from our Canada cannabis segment was $104.7 million in the six months ended September 30, 2022, as compared to $145.2 million in the six months ended September 30, 2021.

Canadian recreational cannabis net revenue was $77.1 million in the six months ended September 30, 2022, as compared to $118.6 million in the six months ended September 30, 2021.

- Net revenue from the business-to-business channel was $51.9 million in the six months ended September 30, 2022, as compared to $84.6 million in the six months ended September 30, 2021. The year-over-year decrease is primarily attributable to: (i) the continuing impacts of price compression across all categories of the Canadian recreational market, predominantly resulting from increased competition; and (ii) lower sales volumes, particularly in the value-priced dried flower category of the Canadian recreational market, resulting from both the strategic shift in our product portfolio and increased competition. These factors were partially offset by a more favorable product mix due primarily to a decrease in the volume of value-priced dried product sold compared to the prior year.
- Revenue from the business-to-consumer channel was $25.2 million in the six months ended September 30, 2022, as compared to $34.0 million in the six months ended September 30, 2021. 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 $27.7 million in the six months ended September 30, 2022, as compared to $26.6 million in the six months ended September 30, 2021. The year-over-year increase is primarily attributable to an increase in the average size of medical orders placed by our customers due largely to a shift in our customer mix, partially offset 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.

Rest-of-world cannabis

Rest-of-world cannabis revenue was $24.3 million in the six months ended September 30, 2022, as compared to $43.1 million in the six months ended September 30, 2021. The year-over-year decrease is attributable to the divestiture of C³, resulting in a decrease in revenue of $23.3 million as compared to the six months ended September 30, 2021, and a year-over-year increase of $4.6 million in other rest-of-world cannabis revenue, primarily attributable to: (i) bulk cannabis sales, predominantly to Israel, in the amount of $4.2 million, which did not occur in the six months ended September 30, 2021; (ii) growth in our global medical cannabis business, particularly in Australia; and (iii) an opportunistic sale of bulk crude CBD resin in the first quarter of fiscal 2023; these increases were partially offset by a year-over-year decline in revenue in our U.S. CBD business, as we focused and refined our portfolio and brand offerings.

Storz & Bickel

Revenue from Storz & Bickel was $29.1 million in the six months ended September 30, 2022, as compared to $38.6 million in the six months ended September 30, 2021. The year-over-year decrease is primarily attributable to the slowdown in consumer spending in North America and Europe, temporary disruptions with certain distributors, and the impact of changes in foreign exchange rates.

BioSteel

Revenue from BioSteel was $31.2 million in the six months ended September 30, 2022, as compared to $14.2 million in the six months ended September 30, 2021. The year-over-year increase is primarily attributable to the growth in our distribution and retail channels, which resulted in increased sales velocities, primarily in Canada.

This Works

Revenue from This Works was $12.4 million in the six months ended September 30, 2022, as compared to $15.6 million in the six months ended September 30, 2021. The year-over-year decrease is primarily attributable to: (i) softer performance relative to the six months ended September 30, 2022 in certain of our product lines, particularly our "Sleep" product line, which benefited during the period of COVID-19 restrictions in the first quarter of fiscal 2022; and (ii) and the impact of changes in foreign exchange rates.

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 six months ended September 30, 2022 and 2021:

(in thousands of Canadian dollars except where indicated)	Six months ended September 30, 2022 (As Restated)	Six months ended September 30, 2021	$ Change	% Change
Net revenue	$ 211,338	$ 267,583	$ (56,245)	(21%)
Cost of goods sold	$ 224,879	$ 311,485	$ (86,606)	(28%)
Gross margin	(13,541)	(43,902)	30,361	69%
Gross margin percentage	(6%)	(16%)	-	1,000 bps

Cost of goods sold was $224.9 million in the six months ended September 30, 2022, as compared to $311.5 million in the six months ended September 30, 2021. Our gross margin was $(13.5) million in the six months ended September 30, 2022, or (6%) of net revenue, as compared to a gross margin of $(43.9) million and gross margin percentage of (16%) of net revenue in the six months ended September 30, 2021. The year-over-year increase in the gross margin percentage was primarily attributable to: (i) the previously-described inventory write-downs we recorded in the second quarter of fiscal 2022; and (ii) charges totaling $4.5 million recognized in the six months ended September 30, 2021 relating to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

These factors were partially offset by the following, which impacted our gross margin percentage in the six months ended September 30, 2022:

- Restructuring charges totaling $12.0 million relating to inventory write-downs and other associated charges resulting primarily from: (i) 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; (ii) amounts deemed excess based on current and projected demand; and (iii) charges relating to certain contract manufacturing agreements held by BioSteel that are not expected to recur past fiscal 2023.

- In our Canadian recreational cannabis business, the impacts on our gross margin percentage from the year-over-year decrease in net revenue and continued price compression were partially offset by the realized benefit of our cost savings program and strategic changes to our business that were initiated in the fourth quarter of fiscal 2022;
- A shift in the business mix relative to the six months ended September 30, 2021 resulting from: (i) a decrease in the proportionate revenue contribution from the higher-margin C^3 business relative to the six months ended September 30, 2021, 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 and This Works businesses; and
- A decrease in the amount of payroll subsidies received from the Canadian government, pursuant to a COVID-19 relief program, from $14.2 million in the six months ended September 30, 2021 to $1.6 million in the six months ended September 30, 2022.

The following table presents segmented gross margin and gross margin percentage for the six months ended September 30, 2022 and 2021:

(in thousands of Canadian dollars except where indicated)	Six months ended September 30, 2022 (As Restated)	Six months ended September 30, 2021	$ Change	% Change
Canada cannabis segment				
Net revenue	$ 104,719	$ 145,201	$ (40,482)	(28%)
Cost of goods sold	124,904	230,005	(105,101)	(46%)
Gross margin	(20,185)	(84,804)	64,619	76%
Gross margin percentage	(19%)	(58%)		3,900 bps
Rest-of-world cannabis segment				
Revenue	$ 24,333	$ 43,063	$ (18,730)	(43%)
Cost of goods sold	25,825	23,478	2,347	10%
Gross margin	(1,492)	19,585	(21,077)	(108%)
Gross margin percentage	(6%)	45%		(5,100) bps
Storz & Bickel segment				
Revenue	$ 29,137	$ 38,581	$ (9,444)	(24%)
Cost of goods sold	17,514	22,130	(4,616)	(21%)
Gross margin	11,623	16,451	(4,828)	(29%)
Gross margin percentage	40%	43%		(300) bps
BioSteel segment				
Revenue	$ 31,170	$ 14,173	$ 16,997	120%
Cost of goods sold	40,275	17,886	22,389	125%
Gross margin	(9,105)	(3,713)	(5,392)	(145%)
Gross margin percentage	(29%)	(26%)		(300) bps
This Works segment				
Revenue	$ 12,388	$ 15,578	$ (3,190)	(20%)
Cost of goods sold	7,438	8,624	(1,186)	(14%)
Gross margin	4,950	6,954	(2,004)	(29%)
Gross margin percentage	40%	45%		(500) bps
Other				
Cost of goods sold	$ 8,923	$ 9,362	$ (439)	(5%)

Canada cannabis

Gross margin for our Canada cannabis segment was $(20.2) million in the six months ended September 30, 2022, or (19%) of net revenue, as compared to $(84.8) million in the six months ended September 30, 2021, or (58%) of net revenue. The year-over-year increase in the gross margin percentage was primarily attributable to: (i) the previously-described inventory write-downs we recorded in the second quarter of fiscal 2022; and (ii) charges totaling $4.5 million recognized in the six months ended September 30, 2021 relating to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

These factors were partially offset by the following, which impacted our gross margin percentage in the six months ended September 30, 2022:

- The year-over-year decrease in net revenue, continued price compression, and 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 and 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 $14.2 million in the six months ended September 30, 2021 to $1.6 million in the six months ended September 30, 2022.

Rest-of-world cannabis

Gross margin for our rest-of-world cannabis segment was $(1.5) million in the six months ended September 30, 2022, or 6% of net revenue, as compared to $19.6 million in the six months ended September 30, 2021, or 45% of net revenue. The year-over-year decrease in the gross margin percentage is primarily attributable to:

- The decrease in the proportionate revenue contribution from the higher-margin C^3 business relative to the six month ended September 30, 2022, as a result of the completion of the divestiture of C^3 on January 31, 2022; and
- Restructuring charges of $7.0 million recorded in the six months ended September 30, 2022 relating to inventory write-downs associated with: (i) the strategic changes to our business that were initiated in the fourth quarter of fiscal 2022; and (ii) amounts deemed excess based on current and projected demand.

Storz & Bickel

Gross margin for our Storz & Bickel segment was $11.6 million in the six months ended September 30, 2022, or 40% of net revenue, as compared to $16.5 million in the six months ended September 30, 2021, or 43% of net revenue. The year-over-year decrease in the gross margin percentage is primarily attributable to the decrease in revenue, as described above, partially offset by lower shipping, distribution and warehousing costs relative to the six months ended September 30, 2022.

BioSteel

Gross margin for our BioSteel segment was $(9.1) million in the six months ended September 30, 2022, or (29%) of net revenue, as compared to $(3.7) million in the six months ended September 30, 2021, or (26%) of net revenue. The year-over-year decrease in our gross margin percentage is primarily attributable to charges of $3.9 million relating to costs associated with certain contract manufacturing agreements that are not expected to recur past fiscal 2023.

This Works

Gross margin for our This Works segment was $5.0 million in the six months ended September 30, 2022, or 40% of net revenue, as compared to $7.0 million in the six months ended September 30, 2021, or 45% of net revenue. The year-over-year decrease in our gross margin percentage is primarily attributable to restructuring charges of $1.1 million recorded in the six months ended September 30, 2022 relating to inventory write-downs associated with the strategic changes to our business that were initiated in the fourth quarter of fiscal 2022.

Operating Expenses

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

(in thousands of Canadian dollars)	Six months ended September 30, 2022 (As Restated)	Six months ended September 30, 2021	$ Change	% Change
Operating expenses				
General and administrative	$ 58,773	$ 69,222	$ (10,449)	(15%)
Sales and marketing	118,618	115,066	3,552	3%
Research and development	12,442	17,106	(4,664)	(27%)
Acquisition-related costs	18,799	8,171	10,628	130%
Depreciation and amortization	20,623	28,765	(8,142)	(28%)
Selling, general and administrative expenses	229,255	238,330	(9,075)	(4%)
Share-based compensation	20,020	25,674	(5,654)	(22%)
Share-based compensation related to acquisition milestones	-	3,405	(3,405)	(100%)
Share-based compensation expense	20,020	29,079	(9,059)	(31%)
Asset impairment and restructuring costs	1,829,354	91,759	1,737,595	1,894%
Total operating expenses	$ 2,078,629	$ 359,168	$ 1,719,461	479%

Selling, general and administrative expenses

Selling, general and administrative expenses were $229.3 million in the six months ended September 30, 2022, as compared to $238.3 million in the six months ended September 30, 2021.

General and administrative expense was $58.8 million in the six months ended September 30, 2022, as compared to $69.2 million in the six months ended September 30, 2021. The year-over-year decrease is primarily attributable 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 six months ended September 30, 2021 primarily in relation to: (i) compensation costs for finance, information technology, legal and other administrative functions; (ii) third-party costs associated with administrative functions; (iii) professional consulting fees; and (iv) 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 $2.9 million in the six months ended September 30, 2022, as compared to $23.3 million received in the six months ended September 30, 2021.

Sales and marketing expense was $118.6 million in the six months ended September 30, 2022, as compared to $115.1 million in the six months ended September 30, 2021. The year-over-year increase is primarily attributable to higher sponsorship fees associated with BioSteel's partnership deals, including the partnership with the National Hockey League and National Hockey League Players' Association, and increased advertising, trade activity and promotion expenses associated with new product launches for BioSteel. These increases were partially offset by the impact of the previously-noted restructuring actions that were initiated in the fourth quarter of fiscal 2022, which resulted in a reduction in compensation costs and a rationalization of our sales and marketing spending in certain areas of our business.

Research and development expense was $12.4 million in the six months ended September 30, 2022, as compared to $17.1 million in the six months ended September 30, 2021. 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 in-line with the rationalization of 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 second quarter of fiscal 2023.

Acquisition-related costs were $18.8 million in the six months ended September 30, 2022, as compared to $8.2 million in the six months ended September 30, 2021. In the six months ended September 30, 2022, costs were incurred primarily in relation to the Reorganization and the planned divestiture of certain of our corporate-owned retail stores, and evaluating other potential acquisition opportunities. Comparatively, in the six months ended September 30, 2021, costs were incurred in relation to the acquisitions of Supreme Cannabis and Ace Valley, the plan to acquire Wana, and evaluating other potential acquisition opportunities.

Depreciation and amortization expense was $20.6 million in the six months ended September 30, 2022, as compared to $28.8 million in the six months ended September 30, 2021. 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 six months ended September 30, 2022.

Share-based compensation expense

Share-based compensation expense was $20.0 million in the six months ended September 30, 2022, as compared to $25.7 million in the six months ended September 30, 2021. The year-over-year decrease was primarily attributable to the impact of our previously-noted restructuring actions, which resulted in 1.8 million stock option forfeitures in the third and fourth quarters of fiscal 2022, and a further 3.7 million stock option forfeitures in the six months ended September 30, 2022. This decrease was partially offset by: (i) the impact of stock option grants totaling 3.4. million in the six months ended September 30, 2022; and (ii) incremental share-based compensation expense recognized in connection with the excess consideration received by certain employee and consultant option holders of BioSteel for the first tranche of the redeemable noncontrolling interest, over the contractual settlement consideration after correcting for the revenue misstatements described above.

Share-based compensation expense related to acquisition milestones was $nil in the six months ended September 30, 2022, as compared to $3.4 million in the six months ended September 30, 2021. The year-over-year decrease is primarily attributable 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 $1.8 billion in the six months ended September 30, 2022, as compared to $91.8 million in the six months ended September 30, 2021.

Asset impairment and restructuring costs recorded in the six months ended September 30, 2022 were primarily related to:

- Goodwill impairment losses of $1.8 billion, substantially of which was associated with our cannabis operations reporting unit in the global cannabis segment. Refer to "Impairment of Goodwill" in "Critical Accounting Policies and Estimates" section below;
- Impairment losses associated with the planned divestiture of our Canadian retail operations, as we recorded write-downs of property, plant and equipment, operating license and brand intangible assets, right-of-use assets, and certain other assets due to the excess of their carrying values over their estimated fair value; and
- 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 six months ended September 30, 2021, we recorded charges related to operational changes resulting from the continuing strategic review of our business as a result of fiscal 2022 acquisition activities, resulting in the closure of our Niagara-on-the-Lake, Ontario and Langley, British Columbia facilities. Additionally, we recognized incremental costs associated with the closure of previously-identified Canadian production facilities in December 2020.

Other

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

	Six months ended September 30,			
(in thousands of Canadian dollars)	2022	2021	$ Change	% Change
Loss from equity method investments	$ -	$ (100)	$ 100	100%
Other income (expense), net	(293,422)	776,487	(1,069,909)	(138%)
Income tax (expense) recovery	(11,969)	307	(12,276)	(3,999%)

Loss from equity method investments

The loss from equity method investments was $nil in the six months ended September 30, 2022, as compared to $0.1 million in the six months ended September 30, 2021. The year-over-year decrease in the loss is primarily attributable to the impairment of our remaining investment in Agripharm in the first quarter of fiscal 2022. As a result of this impairment, there were no remaining equity method investment balances at September 30, 2022.

Other income (expense), net

Other income (expense), net was an expense amount of $293.4 million in the six months ended September 30, 2022, as compared to an income amount of $776.5 million in the six months ended September 30, 2021. The year-over-year change of $1.1 billion, from an income amount to an expense amount, is primarily attributable to:

- Decrease in non-cash income of $484.6 million related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI. The decrease of $26.2 million in the fair value of the warrant derivative liability (resulting in non-cash income) in the six months ended September 30, 2022 is primarily attributable to a decrease of approximately 60% in our share price during the six months ended September 30, 2022, 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 six months ended September 30, 2021 of $510.8 million, associated with a decrease in the fair value of the warrant derivative liability, was primarily attributable to a decrease of approximately 57% in our share price during that period, further impacted by a shorter expected time to maturity of the Tranche B Warrants.

- Decrease in non-cash income of $391.0 million related to the non-cash fair value changes on the liability arising from the Acreage Arrangement, from $438.0 million in the six months ended September 30, 2021 to $47.0 in the six months ended September 30, 2022. The income amount recognized in the six months ended September 30, 2022, associated with a decrease in the liability arising from the Acreage Arrangement to $nil during 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, relative to a decrease of approximately 27% in Acreage's share price during that same period. As a result, the model at September 30, 2022 reflects a lower estimated value of the Canopy Growth common 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; in the first quarter of fiscal 2023, this resulted in a change from a liability amount to an asset amount of $60.0 million recorded in other financial assets. Fair value changes associated with the Acreage call option asset in the six months ended September 30, 2022 are described below. Comparatively, the income amount recognized in the six months ended September 30, 2021, associated with a decrease in the liability arising from the Acreage Arrangement, was primarily attributable to a decrease of approximately 57% in our share price in the six months ended September 30, 2021, relative to a decrease of approximately 32% in Acreage's share price during that same period.

- Increase in non-cash expense of $105.7 million related to fair value changes on our other financial assets, from $195.3 million in the six months ended September 30, 2021 to $300.9 million in the six months ended September 30, 2022. The expense amount in the six months ended September 30, 2022 is primarily attributable to fair value decreases relating to our investments in: (i) the TerrAscend Exchangeable Shares ($175.5 million); (ii) the secured debentures issued by TerrAscend Canada and Arise Bioscience and associated TerrAscend Warrants (totaling $68.6 million); and (iii) the TerrAscend Option ($4.9 million), which were all driven largely by a decrease of approximately 75% in TerrAscend's share price in the six months ended September 30, 2022. Additionally, the fair value of our investment in the Wana financial instrument decreased $119.2 million, due primarily to changes in expectations of the future cash flows to be generated by Wana. These fair value decreases were only partially offset by a fair value increase related to the Acreage call option in the amount of $72.0 million, primarily attributable to: (i) a re-assessment of certain of the assumptions made and scenario outcomes contemplated in the probability-weighted expected return model used to determine the value of the Acreage call option; and (ii) the factors described above in our discussion of fair value changes on the liability arising from the Acreage Arrangement. Comparatively, in the six months ended September 30, 2021 the expense amount was primarily attributable to fair value increases relating to our investments in the TerrAscend Exchangeable Shares ($113.0 million), and the secured debentures issued by TerrAscend Canada and Arise Bioscience and associated TerrAscend Warrants (totaling $76.3 million), driven largely by: (i) a decrease of approximately 31% in TerrAscend's share price in the six months ended September 30, 2021; and (ii) re-assessments of the probability and timing of changes in federal laws in the United States regarding the permissibility of the cultivation, distribution or possession of marijuana in the second quarter of fiscal 2022.

- Change of $104.1 million related to the non-cash fair value changes on the Canopy Notes, from an income amount of $80.7 million in the six months ended September 30, 2021 to an expense amount of $23.4 million in the six months ended September 30, 2022. The year-over-year change is primarily attributable to the impact of the Exchange Transaction, including changes in credit spreads relative to the comparative fiscal period, partially offset by the increase in our share price of approximately 60% during the six months ended September 30, 2022. Comparatively, the income amount recognized in the six months ended September 30, 2021 was primarily attributable to the decrease in our share price of approximately 57% during that period.

- In the six months ended September 30, 2022, we recognized charges in the amount of $4.7 million in connection with the Exchange Transaction. These charges primarily include: (i) the recognition of, and fair value changes through to the Final Closing on, 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; and (ii) professional fees associated with the Exchange Transaction. These charges were partially offset by 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 Canopy Notes that were acquired and cancelled in June and July 2022.

- Increase in non-cash income of $24.3 million related to fair value changes on acquisition related contingent consideration and other. In the six months ended September 30, 2022, 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) recovery

Income tax expense in the six months ended September 30, 2022 was $12.0 million, compared to income tax recovery of $0.3 million in the six months ended September 30, 2021. In the six months ended September 30, 2022, the income tax expense consisted of deferred income tax expense of $8.8 million (compared to a recovery of $2.0 million in the six months ended September 30, 2021) and current income tax expense of $3.1 million (compared to an expense of $1.7 million in the six months ended September 30, 2021).

The change of $10.8 million, from a deferred income tax recovery to deferred income tax expense, is primarily a result of changes in the Canopy Notes, and current year changes being less than prior year in respect of deferred tax liabilities that arose in connection with the required revaluation of the accounting carrying value, but not the tax basis, of property, plant and equipment, intangible assets, and other financial assets. In connection with certain deferred tax assets, mainly in respect to losses for tax purposes, where the accounting criteria for recognition of an asset has yet to be satisfied and it is not probable that they will be used, the deferred tax asset has not been recognized.

The increase of $1.5 million in the 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) Income

The net loss in the six months ended September 30, 2022 was $2.4 billion, as compared to net income of $373.6 million in the six months ended September 30, 2021. 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 $1.8 billion recorded in the first quarter of fiscal 2023; and (ii) the year-over-year change in other income (expense), net, of $1.1 billion, from an income amount to an expense amount. These factors were only partially offset by the year-over-year increase in our gross margin. These variances are described above.

Adjusted EBITDA (Non-GAAP Measure)

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

(in thousands of Canadian dollars)	Six months ended September 30, 2022 (As Restated)	Six months ended September 30, 2021	$ Change	% Change
Net (loss) income	$ (2,397,561)	$ 373,624	$ (2,771,185)	(742%)
Income tax expense (recovery)	11,969	(307)	12,276	3999%
Other (income) expense, net	293,422	(776,487)	1,069,909	138%
Loss on equity method investments	-	100	(100)	(100%)
Share-based compensation	20,020	29,079	(9,059)	(31%)
Acquisition-related costs	18,799	8,171	10,628	130%
Depreciation and amortization	43,144	53,912	(10,768)	(20%)
Asset impairment and restructuring costs	1,829,354	81,128	1,748,226	2155%
Restructuring costs recorded in cost of goods sold	11,984	-	11,984	100%
Charges related to the flow-through of inventory step-up on business combinations	-	4,537	(4,537)	(100%)
Adjusted EBITDA	$ (168,869)	$ (226,243)	$ 57,374	25%

The Adjusted EBITDA loss in the six months ended September 30, 2022 was $168.9 million, as compared to an Adjusted EBITDA loss of $226.2 million in the six months ended September 30, 2021. The year-over-year decrease in the Adjusted EBITDA loss is primarily attributable to the year-over-year improvement in our gross margin, and the year-over-year reduction in our total selling, general and administrative expense. These variances are described above.

Discussion of Results of Operations for the Three and Nine Months Ended December 31, 2022

Discussion of Third Quarter of Fiscal 2023 Results of Operations

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Three months ended December 31, 2022 (As Restated)	Three months ended December 31, 2021	$ Change	% Change
Selected consolidated financial information:				
Net revenue	$ 104,031	$ 140,972	$ (36,941)	(26%)
Gross margin percentage	0%	7%	-	(700 bps)
Net loss	$ (264,376)	$ (115,496)	$ (148,880)	(129%)
Net loss attributable to Canopy Growth Corporation	$ (259,465)	$ (108,925)	$ (150,540)	(138%)
Basic and diluted loss per share[1]	$ (0.53)	$ (0.28)	$ (0.25)	(89%)

[1]For the three months ended December 31, 2022, the weighted average number of outstanding common shares, basic and diluted, totaled 486,112,598 (three months ended December 31, 2021 - 393,818,282).

Revenue

The following table presents segmented net revenue, by channel, for the three months ended December 31, 2022 and 2021:

Revenue by Channel *(in thousands of Canadian dollars)*	Three months ended December 31, 2022 (As Restated)	Three months ended December 31, 2021	$ Change	% Change
Canada cannabis				
Canadian adult-use cannabis				
Business-to-business[1]	$ 21,522	$ 33,282	$ (11,760)	(35%)
Business-to-consumer	11,036	14,477	(3,441)	(24%)
	32,558	47,759	(15,201)	(32%)
Canadian medical cannabis[2]	14,059	12,919	1,140	9%
	$ 46,617	$ 60,678	$ (14,061)	(23%)
Rest-of-world cannabis				
C^3	-	9,675	(9,675)	(100%)
Other rest-of-world cannabis[3]	5,846	12,624	(6,778)	(54%)
	$ 5,846	$ 22,299	$ (16,453)	(74%)
Storz & Bickel	$ 20,214	$ 25,205	$ (4,991)	(20%)
BioSteel[4]	$ 19,181	$ 16,974	$ 2,207	13%
This Works	$ 8,289	$ 10,730	$ (2,441)	(23%)
Other	3,884	5,086	(1,202)	(24%)
Net revenue	$ 104,031	$ 140,972	$ (36,941)	(26%)

[1] Reflects excise taxes of $10,797 and other revenue adjustments, representing our determination of returns and pricing adjustments, of $2,000 for the three months ended December 31, 2022 (three months ended December 31, 2021 - excise taxes of $12,754 and other revenue adjustments of $1,000).
[2] Reflects excise taxes of $1,339 for the three months ended December 31, 2022 (three months ended December 31, 2021 - $1,298).
[3] Reflects other revenue adjustments of $3,684 for the three months ended December 31, 2022 (three months ended December 31, 2021 - $1,421).
[4] Reflects other revenue adjustments of $3,185 for the three months ended December 31, 2022 (three months ended December 31, 2021 - $1,305).

Net revenue was $104.0 million in the third quarter of fiscal 2023, as compared to $141.0 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the continuing decrease in net revenue from our Canada cannabis segment, as increased competition in the Canadian adult-use market has resulted in lower sales velocities and continued price compression; (ii) the divestiture of our interest in C^3 in the fourth quarter of fiscal 2022; (iii) a decline in our U.S. CBD business, as we focused our product and brand portfolio; and (iv) softer performance in our Storz & Bickel and This Works businesses. These decreases were only partially offset by growth in our BioSteel business.

Canada cannabis

Net revenue from our Canada cannabis segment was $46.6 million in the third quarter of fiscal 2023, as compared to $60.7 million in the third quarter of fiscal 2022.

Canadian adult-use cannabis net revenue was $32.6 million in the third quarter of fiscal 2023, as compared to $47.8 million in the third quarter of fiscal 2022.

- Net revenue from the business-to-business channel was $21.5 million in the third quarter of fiscal 2023, as compared to $33.3 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the continuing impacts of price compression across all categories of the Canadian adult-use market, predominantly resulting from increased competition; and (ii) lower sales volumes across the premium and value-priced categories of the Canadian adult-use cannabis market.
- Revenue from the business-to-consumer channel was $11.0 million in the third quarter of fiscal 2023, as compared to $14.5 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the closing of the FOUR20 Transaction on October 26, 2022; (ii) 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 continued to operate in certain provinces; and (iii) price compression resulting from the increased competition, which impacted most of our product categories.

Canadian medical cannabis net revenue was $14.1 million in the third quarter of fiscal 2023, as compared to $12.9 million in the third quarter of fiscal 2022. The year-over-year increase is primarily attributable to an increase in the average size of medical orders placed by our customers due largely to a shift in our customer mix, partially offset by a year-over-year decrease in the total number of medical orders which was primarily related to the increasing number of adult-use cannabis retail stores across Canada.

Rest-of-world cannabis

Rest-of-world cannabis revenue was $5.8 million in the third quarter of fiscal 2023, as compared to $22.3 million in the third quarter of fiscal 2022. The year-over-year decrease is attributable to:

- The divestiture of C^3, which was completed on January 31, 2022, and resulted in a decrease in revenue of $9.7 million as compared to the third quarter of fiscal 2022; and
- A year-over-year decrease of $6.8 million in other rest-of-world cannabis revenue, primarily attributable to: (i) a decline in our U.S. CBD business following our strategy shift initiated in the fourth quarter of fiscal 2022 to re-focus and refine our portfolio of product and brand offerings, and we recognized additional variable consideration which we expect to incur as a result; and (ii) in the third quarter of fiscal 2022, we generated revenue of $4.2 million from opportunistic bulk cannabis sales, predominantly to Israel; these sales did not repeat in the third quarter of fiscal 2023. Additionally, in the third quarter of fiscal 2023, we recognized a downward adjustment of $0.9 million related to a customer in Israel. These declines were partially offset by year-over-year growth in our global medical cannabis business, particularly in Australia and in our European markets.

Storz & Bickel

Revenue from Storz & Bickel was $20.2 million in the third quarter of fiscal 2023, as compared to $25.2 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the slowdown in consumer spending in North America and Europe, as consumers are exercising caution in an uncertain and inflationary environment; and (ii) the impact of changes in foreign exchange rates.

BioSteel

Revenue from BioSteel was $19.2 million in the third quarter of fiscal 2023, as compared to $17.0 million in the third quarter of fiscal 2022. The year-over-year increase is primarily attributable to the growth in our distribution and retail channels, which resulted in increased sales velocities, primarily in Canada.

This Works

Revenue from This Works was $8.3 million in the third quarter of fiscal 2023, as compared to $10.7 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to: (i) continuing softer performance in certain of our product lines, particularly our “Sleep” line, relative to the third quarter of fiscal 2022; (ii) lower sales velocities through e-commerce channels; and (iii) the impact of changes in foreign exchange rates.

Cost of Goods Sold and Gross Margin

The following table presents cost of goods sold, gross margin and gross margin percentage on a consolidated basis for the three months ended December 31, 2022 and 2021:

(in thousands of Canadian dollars except where indicated)	Three months ended December 31, 2022 (As Restated)	Three months ended December 31, 2021	$ Change	% Change
Net revenue	$ 104,031	$ 140,972	$ (36,941)	(26%)
Cost of goods sold	$ 104,126	$ 130,882	$ (26,756)	(20%)
Gross margin	(95)	10,090	(10,185)	(101%)
Gross margin percentage	0%	7%	-	(700 bps)

Cost of goods sold was $104.1 million in the third quarter of fiscal 2023, as compared to $130.9 million in the third quarter of fiscal 2022. Our gross margin was $(0.1) million in the third quarter of fiscal 2023, or 0% of net revenue, as compared to a gross margin of $10.1 million and gross margin percentage of 7% of net revenue in the third quarter of fiscal 2022. The year-over-year decrease in the gross margin percentage was primarily attributable to:

- A shift in the business mix relative to the third quarter of fiscal 2022 resulting from a decrease in the proportionate revenue contribution from the higher-margin C^3 business, as a result of the completion of the divestiture of C^3 on January 31, 2022;
- A decrease in the amount of payroll subsidies received from the Canadian government pursuant to a COVID-19 relief program, from $6.6 million in the third quarter of fiscal 2022 to $nil in the third quarter of fiscal 2023; and
- Additional variable consideration recognized in respect of our U.S. CBD business, which we expect to incur in relation to the re-focusing of our product and brand portfolio.

These factors, resulting in a year-over-year decrease in our gross margin percentage, were partially offset by the following:

- Improvement in our Canada cannabis segment, attributable to the realized benefit of our cost savings program and strategic changes to our business that were initiated in the fourth quarter of fiscal 2022;
- Charges totaling $3.1 million in the third quarter of fiscal 2022 relating to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022;
- A year-over-year decrease in restructuring charges, from $4.6 million in the third quarter of fiscal 2022, related to inventory write-downs resulting from strategic changes to our business, including the closure of our facility in Langley, British Columbia, to $3.6 million in the third quarter of fiscal 2023, related to inventory write-downs and other associated charges resulting primarily from the strategic changes to our business that were initiated in the fourth quarter of fiscal 2022, and charges associated with certain contract manufacturing agreements held by BioSteel that are not expected to recur past fiscal 2023; and
- The realized benefit of our cost savings program and the strategic changes to our U.S. CBD business, including the shift to a the re-focusing of our U.S. CBD product and brand portfolio.

The following table presents segmented gross margin and gross margin percentage for the three months ended December 31, 2022 and 2021:

(in thousands of Canadian dollars except where indicated)	Three months ended December 31, 2022 (As Restated)	Three months ended December 31, 2021	$ Change	% Change
Canada cannabis segment				
Net revenue	$ 46,617	$ 60,678	$ (14,061)	(23%)
Cost of goods sold	51,898	73,799	(21,901)	(30%)
Gross margin	(5,281)	(13,121)	7,840	60%
Gross margin percentage	(11%)	(22%)		1,100 bps
Rest-of-world cannabis segment				
Revenue	$ 5,846	$ 22,299	$ (16,453)	(74%)
Cost of goods sold	8,030	17,639	(9,609)	(54%)
Gross margin	(2,184)	4,660	(6,844)	(147%)
Gross margin percentage	(37%)	21%		(5,800) bps
Storz & Bickel segment				
Revenue	$ 20,214	$ 25,205	$ (4,991)	(20%)
Cost of goods sold	11,028	14,033	(3,005)	(21%)
Gross margin	9,186	11,172	(1,986)	(18%)
Gross margin percentage	45%	44%		100 bps
BioSteel segment				
Revenue	$ 19,181	$ 16,974	$ 2,207	13%
Cost of goods sold	24,504	15,622	8,882	57%
Gross margin	(5,323)	1,352	(6,675)	(494%)
Gross margin percentage	(28%)	8%		(3,600) bps
This Works segment				
Revenue	$ 8,289	$ 10,730	$ (2,441)	(23%)
Cost of goods sold	4,257	5,261	(1,004)	(19%)
Gross margin	4,032	5,469	(1,437)	(26%)
Gross margin percentage	49%	51%		(200) bps
Other				
Cost of goods sold	$ 4,409	$ 4,528	$ (119)	(3%)

Canada cannabis

Gross margin for our Canada cannabis segment was $(5.3) million in the third quarter of fiscal 2023, or (11%) of net revenue, as compared to $(13.1) million in the third quarter of fiscal 2022, or (22%) of net revenue. The year-over-year increase in the gross margin percentage was primarily attributable to: (i) the realized benefit of our cost savings program and strategic changes to our business that were initiated in the fourth quarter of fiscal 2022; and (ii) charges totaling $3.1 million recognized in the third quarter of fiscal 2022 relating to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

These factors were partially offset by: (i) the impacts on our gross margin percentage from the year-over-year decrease in net revenue and continued price compression; and (ii) a decrease in the amount of payroll subsidies received from the Canadian government pursuant to a COVID-19 relief program, from $6.6 million in the third quarter of fiscal 2022 to $nil in the third quarter of fiscal 2023.

Rest-of-world cannabis

Gross margin for our rest-of-world cannabis segment was $(2.2) million in the third quarter of fiscal 2023, or (37%) of net revenue, as compared to $4.7 million in the third quarter of fiscal 2022, or 21% of net revenue. The year-over-year decrease in the gross margin percentage is primarily attributable to:

- The decrease in the proportionate revenue contribution from the higher-margin C^3 business relative to the third quarter of fiscal 2022, as a result of the completion of the divestiture of C^3 on January 31, 2022;
- Additional variable consideration recognized in respect of our U.S. CBD business, which we expect to incur in relation to the re-focusing of our product and brand portfolio; and
- A significant reduction in bulk cannabis sales relative to the third quarter of fiscal 2022, and an adjustment related to a customer in Israel which further impacted revenue.

These factors were partially offset by: (i) the growth in our Australian medical cannabis business; (ii) the realized benefit of our cost savings program and the strategic changes to our U.S. CBD 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 re-focusing of our U.S. CBD product and brand portfolio; and (iii) the year-over-year decrease in restructuring charges, as we recorded charges of $2.6 million in the third quarter of fiscal 2022 relating to inventory write-downs resulting from strategic changes to our business. These charges decreased to $0.3 million in the third quarter of fiscal 2023.

Storz & Bickel

Gross margin for our Storz & Bickel segment was $9.2 million in the third quarter of fiscal 2023, as compared to $11.2 million in the third quarter of fiscal 2022. Our gross margin percentage was 45% in the third quarter of fiscal 2023, relatively consistent with our gross margin percentage of 44% in the third quarter of fiscal 2022.

BioSteel

Gross margin for our BioSteel segment was $(5.3) million in the third quarter of fiscal 2023, or (28%) of net revenue, as compared to $1.4 million in the third quarter of fiscal 2022, or 8% of net revenue. The year-over-year decrease in the gross margin percentage is primarily attributable to: (i) inventory write-downs, primarily related to aging inventory; and (ii) charges of $1.6 million, relating primarily to costs associated with certain contract manufacturing agreements that are not expected to recur past fiscal 2023; and (iii) higher shipping, distribution and warehousing costs across North America relative to the third quarter of fiscal 2022.

This Works

Gross margin for our This Works segment was $4.0 million in the third quarter of fiscal 2023, as compared to $5.5 million in the third quarter of fiscal 2022. Our gross margin percentage was 49% in the third quarter of fiscal 2023, relatively consistent with our gross margin percentage of 51% in the third quarter of fiscal 2022.

Operating Expenses

The following table presents operating expenses for the three months ended December 31, 2022 and 2021:

	Three months ended December 31,			
(in thousands of Canadian dollars)	2022	2021	$ Change	% Change
Operating expenses				
General and administrative	$ 33,677	$ 27,421	$ 6,256	23%
Sales and marketing	62,207	64,398	(2,191)	(3%)
Research and development	4,907	6,510	(1,603)	(25%)
Acquisition-related costs	13,347	1,617	11,730	725%
Depreciation and amortization	8,498	16,889	(8,391)	(50%)
Selling, general and administrative expenses	122,636	116,835	5,801	5%
Share-based compensation	6,428	5,806	622	11%
Share-based compensation related to acquisition milestones	-	971	(971)	(100%)
Share-based compensation expense	6,428	6,777	(349)	(5%)
Asset impairment and restructuring costs	22,259	36,439	(14,180)	(39%)
Total operating expenses	$ 151,323	$ 160,051	$ (8,728)	(5%)

Selling, general and administrative expenses

Selling, general and administrative expenses were $122.6 million in the third quarter of fiscal 2023, as compared to $116.8 million in the third quarter of fiscal 2022.

General and administrative expense was $33.7 million in the third quarter of fiscal 2023, as compared to $27.4 million in the third quarter of fiscal 2022. The year-over-year increase is primarily attributable to:

- A year-over-year decrease in the amount of payroll subsidies received from the Canadian government pursuant to a COVID-19 relief program, from $10.6 million received in the third quarter of fiscal 2022 to $nil in the third quarter of fiscal 2023.
- The increase noted above was partially offset by the impact of 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 third quarter of fiscal 2022 primarily in relation to: (i) compensation costs for finance, information technology, legal and other administrative functions; (ii) third-party costs associated with administrative functions; and (iii) facilities and insurance costs.

Sales and marketing expense was $62.2 million in the third quarter of fiscal 2023, as compared to $64.4 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to the previously-noted restructuring actions that were initiated in the fourth quarter of fiscal 2022, which resulted in a reduction in compensation costs and a rationalization of our sales and marketing spending in certain areas of our business. This decrease was partially offset by a year-over-year increase attributable to higher sponsorship fees associated with BioSteel's partnership deals, including the partnership with the National Hockey League and National Hockey League Players' Association, and increased advertising, trade activity and promotion expenses associated with BioSteel's new product launches.

Research and development expense was $4.9 million in the third quarter of fiscal 2023, as compared to $6.5 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to cost reductions associated with the previously-noted restructuring actions that were initiated in the fourth quarter of fiscal 2022, as we continued to realize reductions in compensation costs and concluded or curtailed certain research and development projects. 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 third quarter of fiscal 2023.

Acquisition-related costs were $13.3 million in the third quarter of fiscal 2023, as compared to $1.6 million in the third quarter of fiscal 2022. In the third quarter of fiscal 2023, costs were incurred primarily in relation to the Reorganization and the divestiture of certain of our corporate-owned retail stores in Canada, and evaluating other potential acquisition opportunities. Comparatively, in the third quarter of fiscal 2022, costs were incurred primarily in relation to the plan to acquire Wana, the divestiture of C^3, and evaluating other potential acquisition opportunities.

Depreciation and amortization expense was $8.5 million in the third quarter of fiscal 2023, as compared to $16.9 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable to:

- The previously-noted restructuring actions that were initiated in fiscal 2022, including the closure of certain of our Canadian facilities and other operational changes to implement cultivation-related efficiencies and improvements in the Canadian adult-use cannabis business, and the shift to a contract manufacturing model for certain product formats;
- The divestiture of certain of our corporate-owned retail stores in Canada in connection with the OEGRC Transaction and the FOUR20 Transaction;
- The decrease in amortization expense associated with the impairment of certain of our intellectual property intangible assets in the fourth quarter of fiscal 2022; and
- 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 third quarter of fiscal 2023.

Share-based compensation expense

Share-based compensation expense was $6.4 million in the third quarter of fiscal 2023, as compared to $5.8 million in the third quarter of fiscal 2022. The year-over-year increase is primarily attributable to 4.7 million stock option grants, and 3.1 million RSU and PSU grants in the nine months ended December 31, 2022. The increase related to these grants was partially offset by the impact of our previously-noted restructuring actions, which resulted in 6.1 million stock option forfeitures and 1.9 million RSU and PSU forfeitures in the nine months ended December 31, 2022 (including 2.4 million stock option forfeitures and 0.8 million RSU and PSU forfeitures in the third quarter of fiscal 2023).

Share-based compensation expense related to acquisition milestones was $nil in the third quarter of fiscal 2023, as compared to $1.0 million in the third quarter of fiscal 2022. The year-over-year decrease is primarily attributable 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 $22.3 million in the third quarter of fiscal 2023, as compared to $36.4 million in the third quarter of fiscal 2022.

Asset impairment and restructuring costs recorded in the third quarter of fiscal 2023 were primarily related to:

- Asset impairment charges totaling $10.6 million relating to certain acquired brand intangible assets within our Canada cannabis segment;
- Employee-related restructuring charges associated with actions completed in the third quarter of fiscal 2023 as part of our ongoing program to align general and administrative costs with business objectives, and further streamline the organization;
- Incremental impairment losses associated with the divestiture of our Canadian retail operations in connection with the OEGRC Transaction and the FOUR20 Transaction, as we recorded write-downs of certain other assets due to the excess of their carrying values over their estimated fair values, and recognized contractual and other settlement obligations; and
- Incremental costs primarily associated with the restructuring actions completed in fiscal 2022, including the closure of certain of our Canadian production facilities.

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

Other

The following table presents other income (expense), net, and income tax (expense) recovery for the three months ended December 31, 2022 and 2021:

	Three months ended December 31,			
(in thousands of Canadian dollars)	2022	2021	$ Change	% Change
Other income (expense), net	(113,340)	34,282	(147,622)	(431%)
Income tax recovery	382	183	199	109%

Other income (expense), net

Other income (expense), net was an expense amount of $113.3 million in the third quarter of fiscal 2023, as compared to an income amount of $34.3 million in the third quarter of fiscal 2022. The year-over-year change of $147.6 million, from an income amount to an expense amount, is primarily attributable to:

- Decrease in non-cash income of $67.3 million related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI. The fair value of the warrant derivative liability remained consistent during the third quarter of fiscal 2023, as the impact of the decrease in our share price during the period was completely offset by: (i) the fact that the warrant derivative liability was valued at only $0.7 million at September 30, 2022, meaning the impact of factors such as changes in our share price during the period are having an increasingly insignificant impact on the fair value determination; and (ii) the shorter expected time to maturity of the Tranche B Warrants. Comparatively, the income amount recognized in the third quarter of fiscal 2022 of $67.3 million, associated with a decrease in the fair value of the warrant derivative liability, was primarily attributable to a decrease of approximately 37% in our share price during the third quarter of fiscal 2022, further impacted by a shorter expected time to maturity of the Tranche B Warrants.

- Decrease in non-cash income of $59.0 million related to the non-cash fair value changes on the liability arising from the Acreage Arrangement, from an income amount of $59.0 million in the third quarter of fiscal 2022 to a fair value change of $nil in the third quarter of fiscal 2023. The fair value change of $nil associated with the Acreage Amended Arrangement in the third quarter of fiscal 2023 is a result of the change, in the first quarter of fiscal 2023, from a liability amount to an asset amount recorded in other financial assets; in the third quarter of fiscal 2023, the fair value of the Acreage call option decreased, as explained below, but remained in an asset position. Comparatively, the income amount recognized in the third quarter of fiscal 2022, associated with a decrease in the liability arising from the Acreage Arrangement, was primarily attributable to a decrease of approximately 37% in our share price in the third quarter of fiscal 2022, relative to a decrease of approximately 40% in Acreage's share price during that same period. As a result, the probability-weighted expected return model used to determine the fair value of the liability arising from the Acreage Arrangement at December

31, 2021 reflected a lower estimated value of the Canopy Growth common shares expected to be issued at the exchange ratio of 0.3048 upon a Triggering Event, relative to the estimated value of the Fixed 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 in the third quarter of fiscal 2022.

- Change of $9.6 million related to the non-cash fair value changes on the Canopy Notes, from an income amount of $0.6 million in the third quarter of fiscal 2022 to an expense amount of $9.0 million in the third quarter of fiscal 2023. The expense amount recognized in the third quarter of fiscal 2023 was primarily attributable to the accrual of interest on the Canopy Notes, and changes in credit spreads during the period. Comparatively, the income amount recognized in the third quarter of fiscal 2022 was primarily attributable to the decrease in our share price of approximately 37% during that period.

- Increase in non-cash expense of $27.1 million related to fair value changes on our other financial assets, from $68.7 million in the third quarter of fiscal 2022 to $95.8 million in the third quarter of fiscal 2023. The expense amount in the third quarter of fiscal 2023 is primarily attributable to fair value decreases relating to our investments in:
  - The TerrAscend Exchangeable Shares, including the additional 24.6 million TerrAscend Exchangeable Shares received on December 9, 2022 as part of the TerrAscend Arrangement, in the amount of $31.5 million. This decrease is primarily attributable to: (i) a decrease of approximately 12% in TerrAscend's share price during the third quarter of fiscal 2023, impacting the 38.9 million TerrAscend Exchangeable Shares that were held by us throughout the entire period; and (ii) a decrease of approximately 43% in TerrAscend's share price from December 9, 2022 to December 31, 2022, impacting the additional TerrAscend Exchangeable Shares received as part of the TerrAscend Arrangement;
  - The Wana and Jetty financial instruments, in the amounts of $16.2 million and $10.2 million, respectively, attributable primarily to an increase in the discount rates used in the valuation of these instruments; this increase was in-line with the increase in interest rates relative to the prior fiscal period;
  - The Acreage call option, in the amount of $35.0 million. On a quarterly basis, we determine the fair value of the Acreage call option using a probability-weighted expected return model, incorporating several potential scenarios and outcomes associated with the Acreage Amended Arrangement. The fair value decrease in the third quarter of fiscal 2023 is primarily attributable to a decrease of approximately 16% in our share price during the third quarter of fiscal 2023, relative to a decrease of approximately 29% in Acreage's share price during that same period. As a result, the model at December 31, 2022 reflects both a lower estimated value of the Canopy Growth common shares expected to be issued upon a Triggering Event, and a lower estimated value of the Acreage shares expected to be acquired at that time. In the third quarter of fiscal 2023, the relative share price movements resulted in a decrease in the value of the Acreage call option;
  - The New Warrants issued by TerrAscend as part of the TerrAscend Arrangement, in the amount of $17.5 million, primarily attributable to a decrease of approximately 43% in TerrAscend's share price from December 9, 2022 to December 31, 2022.

These fair value decreases were partially offset by fair value increases associated with the secured debentures issued by TerrAscend Canada and Arise Bioscience and the associated Prior Warrants, up to the closing of the TerrAscend Arrangement on December 9, 2022 (totaling $9.9 million), which were driven largely by an increase of approximately 55% in TerrAscend’s share price from September 30, 2022 to December 9, 2022.

Comparatively, in the third quarter of fiscal 2022 the expense amount was primarily attributable to fair value decreases 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 Prior Warrants (totaling $13.0 million), driven largely by: (i) a decrease of approximately 12% in TerrAscend’s share price in the third quarter of fiscal 2022; and (ii) re-assessments of the probability and timing of changes in federal laws in the United States regarding the permissibility of the cultivation, distribution or possession of marijuana in the third quarter of fiscal 2022.

- Increase in interest expense of $6.9 million, from $26.4 million in the third quarter of fiscal 2022 to $33.3 million in the third quarter of fiscal 2023. The year-over-year increase is primarily attributable to: (i) the increase in interest rates relative to the prior period, thus impacting the amount of interest payable associated with the variable interest rate debt owing under the Credit Agreement; and (ii) the strengthening of the U.S. dollar relative to the Canadian dollar, as compared to the prior year period.

- In the third quarter of fiscal 2023, we recognized income in the amount of $8.9 million in connection with the Paydown, pursuant to the balance sheet actions completed as part of the Reorganization. The income amount represents the gain recognized upon the first payment made in connection with the Paydown on November 10, 2022, as we repaid approximately $126.3 million (US$94.4 million) of the principal amount outstanding under the Credit Agreement at a discounted price of US$930 per US$1,000.

- Increase in interest income of $5.5 million, from $1.6 million in the third quarter of fiscal 2022 to $7.0 million in the third quarter of fiscal 2023. The year-over-year increase is primarily attributable to the increase in interest rates relative to the comparative fiscal period, the impact of which was only partially offset by the year-over-year combined decrease in our cash and cash equivalents and short-term investments balances.

- In the third quarter of fiscal 2023, we recognized a gain of $4.1 million associated with the closing of the OEGRC Transaction and the FOUR20 Transaction, and the derecognition of the assets and liabilities of the Canadian retail operations from our consolidated financial statements. The gain represents the difference between the carrying amounts of the derecognized assets and liabilities, and the fair value of the consideration received.

Income tax recovery

Income tax recovery in the third quarter of fiscal 2023 was $0.4 million, compared to an income tax recovery of $0.2 million in the third quarter of fiscal 2022. In the third quarter of fiscal 2023, income tax expense consisted of deferred income tax recovery of $0.9 million (compared to an expense of $2.4 million in the third quarter of fiscal 2022) and current income tax expense of $0.5 million (compared to a recovery of $2.6 million in the third quarter of fiscal 2022).

The change of $3.2 million, from deferred income tax expense to deferred income tax recovery, is primarily a result of the change 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 to losses for tax purposes, where the accounting criteria for recognition of an asset has yet to be satisfied and it is not probable that they will be used, the deferred tax asset has not been recognized.

The change of $3.0 million, from a current income tax recovery to 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 in the third quarter of fiscal 2023 was $264.4 million, as compared to a net loss of $115.5 million in the third quarter of fiscal 2022. The year-over-year increase in the net loss is primarily attributable to: (i) the year-over-year change in other income (expense), net, of $147.6 million, from an income amount to an expense amount; (ii) the year-over-year decrease in our gross margin; and (iii) the year-over-year increase in selling, general and administrative expenses. These factors were only partially offset by the year-over-year decrease in asset impairment and restructuring costs. These variances are described above.

Adjusted EBITDA (Non-GAAP Measure)

The following table presents Adjusted EBITDA for the three months ended December 31, 2022 and 2021:

	Three months ended December 31,			
(in thousands of Canadian dollars)	2022 (As Restated)	2021	$ Change	% Change
Net loss	$ (264,376)	$ (115,496)	$ (148,880)	(129%)
Income tax recovery	(382)	(183)	(199)	(109%)
Other (income) expense, net	113,340	(34,282)	147,622	431%
Share-based compensation	6,428	6,777	(349)	(5%)
Acquisition-related costs	13,347	1,617	11,730	725%
Depreciation and amortization	20,602	30,017	(9,415)	(31%)
Asset impairment and restructuring costs	22,259	36,439	(14,180)	(39%)
Restructuring costs recorded in cost of goods sold	3,626	4,554	(928)	(20%)
Charges related to the flow-through of inventory step-up on business combinations	-	3,147	(3,147)	(100%)
Adjusted EBITDA	$ (85,156)	$ (67,410)	$ (17,746)	(26%)

The Adjusted EBITDA loss in the third quarter of fiscal 2023 was $85.2 million, as compared to an Adjusted EBITDA loss of $67.4 million in the third quarter of fiscal 2022. The year-over-year increase in the Adjusted EBITDA loss is primarily attributable to the year-over-year decrease our gross margin, and the year-over-year increase in our general and administrative expenses. These variances are described above.

Discussion of Results of Operations for the Nine Months Ended December 31, 2022

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Nine months ended December 31,			
	2022 (As Restated)	2021	$ Change	% Change
Selected consolidated financial information:				
Net revenue	$ 315,369	$ 408,555	$ (93,186)	(23%)
Gross margin percentage	(4%)	(8%)	-	400 bps
Net (loss) income	$ (2,661,937)	$ 258,128	$ (2,920,065)	(1,131%)
Net (loss) income attributable to Canopy Growth Corporation	$ (2,638,078)	$ 272,435	$ (2,910,513)	(1,068%)
Basic (loss) earnings per share[1]	$ (5.82)	$ 0.70	$ (6.52)	(931%)
Diluted (loss) earnings per share[1]	$ (5.82)	$ 0.43	$ (6.25)	(1,453%)

[1]For the nine months ended December 31, 2022, the weighted average number of outstanding common shares, basic and diluted, totaled 453,237,882 (nine months ended December 31, 2021 - basic of 390,423,083 and diluted of 410,986,802).

Revenue

The following table presents segmented net revenue, by channel, for the nine months ended December 31, 2022 and 2021:

Revenue by Channel *(in thousands of Canadian dollars)*	Nine months ended December 31,			
	2022 (As Restated)	2021	$ Change	% Change
Canada cannabis				
Canadian adult-use cannabis				
Business-to-business[1]	$ 73,379	$ 117,902	$ (44,523)	(38%)
Business-to-consumer	36,243	48,473	(12,230)	(25%)
	109,622	166,375	(56,753)	(34%)
Canadian medical cannabis net revenue[2]	41,714	39,504	2,210	6%
	$ 151,336	$ 205,879	$ (54,543)	(26%)
Rest-of-world cannabis				
C[3]	-	33,005	(33,005)	(100%)
Other rest-of-world cannabis[3]	30,179	32,357	(2,178)	(7%)
	$ 30,179	$ 65,362	$ (35,183)	(54%)
Storz & Bickel	$ 49,351	$ 63,786	$ (14,435)	(23%)
BioSteel[4]	$ 50,351	$ 31,147	$ 19,204	62%
This Works	$ 20,677	$ 26,308	$ (5,631)	(21%)
Other	13,475	16,073	(2,598)	(16%)
Net revenue	$ 315,369	$ 408,555	$ (93,186)	(23%)

[1] Reflects excise taxes of $33,754 and other revenue adjustments, representing our determination of returns and pricing adjustments, of $2,903 for the nine months ended December 31, 2022 (nine months ended December 31, 2021 - excise taxes of $43,501 and other revenue adjustments of $4,000).
[2] Reflects excise taxes of $3,625 for the nine months ended December 31, 2022 (nine months ended December 31, 2021 - $4,039).
[3] Reflects other revenue adjustments of $4,885 for the nine months ended December 31, 2022 (nine months ended December 31, 2021 - $2,440).
[4] Reflects other revenue adjustments of $7,557 for the nine months ended December 31, 2022 (nine months ended December 31, 2021 - $5,935).

Net revenue was $315.4 million in the nine months ended December 31, 2022, as compared to $408.6 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable to: (i) the continuing decrease in net revenue from our Canada cannabis segment, as increased competition in the Canadian adult-use market has resulted in lower sales velocities, continued price compression, and reduced traffic at our corporate-owned retail stores; (ii) the divestiture of our interest in C[3] in the fourth quarter of fiscal 2022; (iii) a decline in our U.S. CBD business, as we focused our product and brand offerings; and (iv) lower revenues from our Storz & Bickel and This Works businesses. These decreases were partially offset by growth in our BioSteel business, resulting primarily from the expansion of our distribution and retail channels.

Canada cannabis

Net revenue from our Canada cannabis segment was $151.3 million in the nine months ended December 31, 2022, as compared to $205.9 million in the nine months ended December 31, 2021.

Canadian adult-use cannabis net revenue was $109.6 million in the nine months ended December 31, 2022, as compared to $166.4 million in the nine months ended December 31, 2021.

- Net revenue from the business-to-business channel was $73.4 million in the nine months ended December 31, 2022, as compared to $117.9 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable to: (i) the continuing impacts of price compression across all categories of the Canadian adult-use market, predominantly resulting from increased competition; and (ii) lower sales volumes across the premium and value-priced categories of the Canadian adult-use market. These factors were partially offset by a more favorable product mix due primarily to a decrease in the volume of value-priced dried product sold compared to the prior year.
- Revenue from the business-to-consumer channel was $36.2 million in the nine months ended December 31, 2022, as compared to $48.5 million in the nine months ended December 31, 2021. 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; (ii) price compression resulting from the increased competition; and (iii) the closing of the FOUR20 Transaction on October 26, 2022.

Canadian medical cannabis net revenue was $41.7 million in the nine months ended December 31, 2022, as compared to $39.5 million in the nine months ended December 31, 2021. The year-over-year increase is primarily attributable to an increase in the average size of medical orders placed by our customers due largely to a shift in our customer mix, partially offset by a year-over-year decrease in the total number of medical orders which was primarily related to the increasing number of adult-use cannabis retail stores across Canada.

Rest-of-world cannabis

Rest-of-world cannabis revenue was $30.2 million in the nine months ended December 31, 2022, as compared to $65.4 million in the nine months ended December 31, 2021. The year-over-year decrease is attributable to:

- The divestiture of C^3, which resulted in a decrease in revenue of $33.0 million as compared to the nine months ended December 31, 2021; and
- A year-over-year decrease of $2.2 million in other rest-of-world cannabis revenue, primarily attributable to: (i) a decline in revenue in our U.S. CBD business following our strategy shift initiated in the fourth quarter of fiscal 2022 to re-focus and refine our portfolio of product and brand offerings, and we recognized additional variable consideration which we expect to incur as a result; and (ii) a decrease in bulk cannabis sales relative to the nine months ended December 31, 2021, and a downward adjustment of $0.9 million related to a customer Israel. These declines were partially offset by the year-over-year growth in our global medical cannabis business, particularly in Australia.

Storz & Bickel

Revenue from Storz & Bickel was $49.4 million in the nine months ended December 31, 2022, as compared to $63.8 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable to: (i) the slowdown in consumer spending in North America and Europe; (ii) temporary disruptions with certain distributors; and (iii) the impact of changes in foreign exchange rates.

BioSteel

Revenue from BioSteel was $50.4 million in the nine months ended December 31, 2022, as compared to $31.1 million in the nine months ended December 31, 2021. The year-over-year increase is primarily attributable to the growth in our distribution and retail channels, which resulted in increased sales velocities, primarily in Canada. Each of BioSteel's major product lines contributed to the year-over-year revenue growth.

This Works

Revenue from This Works was $20.7 million in the nine months ended December 31, 2022, as compared to $26.3 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable to: (i) softer performance relative to the nine months ended December 31, 2022 in certain of our product lines, particularly our "Sleep" line; (ii) lower sales velocities through e-commerce channels; and (iii) and the impact of changes in foreign exchange rates.

Cost of Goods Sold and Gross Margin

The following table presents cost of goods sold, gross margin and gross margin percentage on a consolidated basis for the nine months ended December 31, 2022 and 2021:

(in thousands of Canadian dollars except where indicated)	Nine months ended December 31, 2022 (As Restated)	Nine months ended December 31, 2021	$ Change	% Change
Net revenue	$ 315,369	$ 408,555	$ (93,186)	(23%)
Cost of goods sold	$ 329,005	$ 442,367	$ (113,362)	(26%)
Gross margin	(13,636)	(33,812)	20,176	60%
Gross margin percentage	(4%)	(8%)	-	400 bps

Cost of goods sold was $329.0 million in the nine months ended December 31, 2022, as compared to $442.4 million in the nine months ended December 31, 2021. Our gross margin was $(13.6) in the nine months ended December 31, 2022, or (4%) of net revenue, as compared to a gross margin of $(33.8) million and gross margin percentage of (8%) of net revenue in the nine months ended December 31, 2021. The year-over-year increase in the gross margin percentage was primarily attributable to:

- The inventory write-downs we recorded in the second quarter 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;
- The realized benefit of our cost savings program and strategic changes to our business that were initiated in the fourth quarter of fiscal 2022; and
- Charges totaling $7.7 million recognized in the nine months ended December 31, 2021 relating to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

These factors were partially offset by the following:

- Restructuring charges totaling $15.6 million relating to: (i) inventory write-downs and other associated charges resulting primarily from the strategic changes to our business that were initiated in the fourth quarter of fiscal 2022; and (ii) charges associated with certain contract manufacturing agreements held by BioSteel that are not expected to recur past fiscal 2023. Comparatively, in the nine months ended December 31, 2021, we recorded restructuring charges totaling $4.6 million relating to inventory write-downs resulting from strategic changes to our business, including the closure of our facility in Langley, British Columbia;
- A decrease in the amount of payroll subsidies received from the Canadian government, pursuant to a COVID-19 relief program, from $20.8 million in the nine months ended December 31, 2021 to $1.6 million in the nine months ended December 31, 2022;
- A shift in the business mix relative to the nine months ended December 31, 2021, resulting from a decrease in the proportionate revenue contribution from the higher-margin C^3 business relative to the nine months ended December 31, 2021, as a result of the completion of the divestiture of C^3 on January 31, 2022;
- In our Canadian adult-use cannabis business, the impacts on our gross margin percentage from the year-over-year decrease in net revenue and continued price compression; and
- Additional variable consideration recognized in respect of our U.S. CBD business, which we expect to incur in relation to the re-focusing of our product and brand portfolio.

The following table presents segmented gross margin and gross margin percentage for the nine months ended December 31, 2022 and 2021:

(in thousands of Canadian dollars except where indicated)	Nine months ended December 31, 2022 (As Restated)	Nine months ended December 31, 2021	$ Change	% Change
Canada cannabis segment				
Net revenue	$ 151,336	$ 205,879	$ (54,543)	(26%)
Cost of goods sold	176,802	303,804	(127,002)	(42%)
Gross margin	(25,466)	(97,925)	72,459	74%
Gross margin percentage	(17%)	(48%)		3,100 bps
Rest-of-world cannabis segment				
Revenue	$ 30,179	$ 65,362	$ (35,183)	(54%)
Cost of goods sold	33,855	41,117	(7,262)	(18%)
Gross margin	(3,676)	24,245	(27,921)	(115%)
Gross margin percentage	(12%)	37%		(4,900) bps
Storz & Bickel segment				
Revenue	$ 49,351	$ 63,786	$ (14,435)	(23%)
Cost of goods sold	28,542	36,163	(7,621)	(21%)
Gross margin	20,809	27,623	(6,814)	(25%)
Gross margin percentage	42%	43%		(100) bps
BioSteel segment				
Revenue	$ 50,351	$ 31,147	$ 19,204	62%
Cost of goods sold	64,779	33,508	31,271	93%
Gross margin	(14,428)	(2,361)	(12,067)	(511%)
Gross margin percentage	(29%)	(8%)		(2,100) bps
This Works segment				
Revenue	$ 20,677	$ 26,308	$ (5,631)	(21%)
Cost of goods sold	11,695	13,885	(2,190)	(16%)
Gross margin	8,982	12,423	(3,441)	(28%)
Gross margin percentage	43%	47%		(400) bps
Other				
Cost of goods sold	$ 13,332	$ 13,890	$ (558)	(4%)

Canada cannabis

Gross margin for our Canada cannabis segment was $(25.5) million in the nine months ended December 31, 2022, or (17%) of net revenue, as compared to $(97.9) million in the nine months ended December 31, 2021, or (48%) of net revenue. The year-over-year increase in the gross margin percentage was primarily attributable to: (i) the previously-described inventory write-downs we recorded in the second quarter of fiscal 2022; (ii) the realized benefit of our cost savings program and strategic changes to our business that were initiated in the fourth quarter of fiscal 2022; and (iii) charges totaling $7.7 million recognized in the nine months ended December 31, 2021 relating to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

These factors were partially offset by: (i) the year-over-year decrease in net revenue, continued price compression, and the impact of the under-absorption of costs attributable to lower production volumes; and (ii) a decrease in the amount of payroll subsidies received from the Canadian government pursuant to a COVID-19 relief program, from $20.8 million in the nine months ended December 31, 2021 to $1.6 million in the nine months ended December 31, 2022.

Rest-of-world cannabis

Gross margin for our rest-of-world cannabis segment was $(3.7) million in the nine months ended December 31, 2022, or (12%) of net revenue, as compared to $24.2 million in the nine months ended December 31, 2021, or 37% of net revenue. The year-over-year decrease in the gross margin percentage is primarily attributable to:

- The decrease in the proportionate revenue contribution from the higher-margin C^3 business relative to the nine months ended December 31, 2021, as a result of the completion of the divestiture of C^3 on January 31, 2022;
- Additional variable consideration recognized in respect of our U.S. CBD business, which we expect to incur in relation to the re-focusing of our product and brand portfolio; and
- Restructuring charges of $7.3 million recorded in the nine months ended December 31, 2022 relating to inventory write-downs at our U.S. CBD business associated with: (i) the strategic changes to our business that were initiated in the fourth quarter of fiscal 2022; and (ii) amounts deemed excess based on current and projected demand. Comparatively, in the nine months ended December 31, 2021, we recorded restructuring charges of $2.6 million relating to inventory write-downs resulting from strategic changes to our business.

These factors were partially offset by: (i) the growth in our Australian medical business; and (ii) the realized benefit of our cost savings program and 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 re-focusing of our U.S. CBD product and brand portfolio.

Storz & Bickel

Gross margin for our Storz & Bickel segment was $20.8 million in the nine months ended December 31, 2022 as compared to $27.6 million in the nine months ended December 31, 2021. Our gross margin percentage was 42% in the nine months ended December 31, 2022, relatively consistent with our gross margin percentage of 43% in the nine months ended December 31, 2021.

BioSteel

Gross margin for our BioSteel segment was $(14.4) million in the nine months ended December 31, 2022, or (29%) of net revenue, as compared to $(2.4) million in the nine months ended December 31, 2021, or (8%) of net revenue. The year-over-year decrease in our gross margin percentage is primarily attributable to: (i) inventory write-downs, primarily related to aging inventory; and (ii) charges of $5.5 million relating to costs associated with certain contract manufacturing agreements that are not expected to recur past fiscal 2023.

This Works

Gross margin for our This Works segment was $9.0 million in the nine months ended December 31, 2022, or 43% of net revenue, as compared to $12.4 million in the nine months ended December 31, 2021, or 47% of net revenue. The year-over-year decrease in our gross margin percentage is primarily attributable to restructuring charges of $1.2 million recorded in the nine months ended December 31, 2021 relating to inventory write-downs associated with the strategic changes to our business that were initiated in the fourth quarter of fiscal 2022.

Operating Expenses

The following table presents operating expenses for the nine months ended December 31, 2022 and 2021:

(in thousands of Canadian dollars)	Nine months ended December 31, 2022 (Restated)	Nine months ended December 31, 2021	$ Change	% Change
Operating expenses				
General and administrative	$ 92,450	$ 96,643	$ (4,193)	(4%)
Sales and marketing	180,825	179,464	1,361	1%
Research and development	17,349	23,616	(6,267)	(27%)
Acquisition-related costs	32,146	9,788	22,358	228%
Depreciation and amortization	29,121	45,654	(16,533)	(36%)
Selling, general and administrative expenses	351,891	355,165	(3,274)	(1%)
Share-based compensation	26,448	31,480	(5,032)	(16%)
Share-based compensation related to acquisition milestones	-	4,376	(4,376)	(100%)
Share-based compensation expense	26,448	35,856	(9,408)	(26%)
Asset impairment and restructuring costs	1,851,613	128,198	1,723,415	1,344%
Total operating expenses	$ 2,229,952	$ 519,219	$ 1,710,733	329%

Selling, general and administrative expenses

Selling, general and administrative expenses were $351.9 million in the nine months ended December 31, 2022, as compared to $355.2 million in the nine months ended December 31, 2021.

General and administrative expense was $92.5 million in the nine months ended December 31, 2022, as compared to $96.6 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable 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 nine months ended December 31, 2021, primarily in relation to: (i) compensation costs for finance, information technology, legal and other administrative functions; (ii) third-party costs associated with administrative functions; (iii) professional consulting fees; and (iv) 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 $2.9 million in the nine months ended December 31, 2022, as compared to $33.9 million received in the nine months ended December 31, 2021.

Sales and marketing expense was $180.8 million in the nine months ended December 31, 2022, relatively consistent with $179.5 million in the nine months ended December 31, 2021.

Research and development expense was $17.3 million in the nine months ended December 31, 2022, as compared to $23.6 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable to cost reductions associated with 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 in-line with the rationalization of 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 third quarter of fiscal 2023.

Acquisition-related costs were $32.1 million in the nine months ended December 31, 2022, as compared to $9.8 million in the nine months ended December 31, 2021. In the nine months ended December 31, 2022, costs were incurred primarily in relation to the Reorganization and the divestiture of certain of our corporate-owned retail stores in Canada in connection with the OEGRC Transaction and the FOUR20 Transaction, and evaluating other potential acquisition opportunities. Comparatively, in the nine months ended December 31, 2021, costs were incurred primarily in relation to the plan to acquire Wana, the divestiture of C^3, the acquisitions of Supreme Cannabis and Ace Valley, and evaluating other potential acquisition opportunities.

Depreciation and amortization expense was $29.1 million in the nine months ended December 31, 2022, as compared to $45.7 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable to:

- The previously-noted restructuring actions that were initiated in fiscal 2022;

- The divestiture of certain of our corporate-owned retail stores in Canada in connection with the OEGRC Transaction and the FOUR20 Transaction;
- The decrease in amortization expense associated with the impairment of certain of our intellectual property intangible assets; and
- 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 nine months ended December 31, 2022.

Share-based compensation expense

Share-based compensation expense was $26.4 million in the nine months ended December 31, 2022, as compared to $31.5 million in the nine months ended December 31, 2021. The year-over-year decrease was primarily attributable to the impact of our previously-noted restructuring actions, which resulted in 6.1 million stock option forfeitures and 1.9 million RSU and PSU forfeitures in the nine months ended December 31, 2022. This decrease was partially offset by: (i) the impact of the 4.7 million stock option grants and 3.1 million RSU and PSU grants in the nine months ended December 31, 2022; and (ii) incremental share-based compensation expense recognized in connection with the excess consideration received by certain employee and consultant option holders of BioSteel for the first tranche of the redeemable noncontrolling interest, over the contractual settlement consideration after correcting for the revenue misstatements described above.

Share-based compensation expense related to acquisition milestones was $nil in the nine months ended December 31, 2022, as compared to $4.4 million in the nine months ended December 31, 2021. The year-over-year decrease is primarily attributable 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 $1.9 billion in the nine months ended December 31, 2022, as compared to $128.2 million in the nine months ended December 31, 2021.

Asset impairment and restructuring costs recorded in the nine months ended December 31, 2022 were primarily related to:

- Goodwill impairment losses of $1.8 billion, substantially all of which was associated with our cannabis operations reporting unit in the global cannabis segment. Refer to “Impairment of Goodwill” in “Critical Accounting Policies and Estimates” section below;
- Asset impairment charges totaling $13.1 million relating to certain acquired brand intangible assets, primarily within our Canada cannabis segment;
- Impairment losses associated with the divestiture of our Canadian retail operations in connection with the OEGRC Transaction and the FOUR20 Transaction, as we: (i) recorded write-downs of property, plant and equipment, operating license and brand intangible assets, right-of-use assets, and certain other assets due to the excess of their carrying values over their estimated fair value; and (ii) recognized contractual and other settlement obligations;
- 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 adult-use cannabis business; and (ii) implement a flexible manufacturing platform, including contract manufacturing for certain product formats; and
- Employee-related restructuring charges associated with actions completed in the third quarter of fiscal 2023 as part of our ongoing program to align general and administrative costs with business objectives, and further streamline the organization.

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

- Operational changes resulting from the continuing strategic review of our business as a result of fiscal 2022 acquisition activities, which resulted in the closure of our Niagara-on-the-Lake, Ontario and Langley, British Columbia facilities in November 2021;
- Adjustments related to changes in the estimated fair value of certain of our Canadian sites that were closed in December 2020, and the Canadian facilities that were closed in November 2021. Adjustments for certain of these facilities were made to reflect either their final or estimated selling prices; and
- Incremental costs associated with the closure of these facilities.

Other

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

(in thousands of Canadian dollars)	Nine months ended December 31, 2022	2021	$ Change	% Change
Loss from equity method investments	$ -	$ (100)	$ 100	100%
Other income (expense), net	(406,762)	810,769	(1,217,531)	(150%)
Income tax (expense) recovery	(11,587)	490	(12,077)	(2,465%)

Loss from equity method investments

The loss from equity method investments was $nil in the nine months ended December 31, 2022, as compared to $0.1 million in the nine months ended December 31, 2021. The year-over-year decrease in the loss is primarily attributable to the impairment of our remaining investment in Agripharm in the first quarter of fiscal 2022. As a result of this impairment, there were no remaining equity method investment balances at December 31, 2022.

Other income (expense), net

Other income (expense), net was an expense amount of $406.8 million in the nine months ended December 31, 2022, as compared to an income amount of $810.8 million in the nine months ended December 31, 2021. The year-over-year change of $1.2 billion, from an income amount to an expense amount, is primarily attributable to:

- Decrease in non-cash income of $551.8 million related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI. The decrease of $26.3 million in the fair value of the warrant derivative liability (resulting in non-cash income) in the nine months ended December 31, 2022 is primarily attributable to a decrease of approximately 67% in our share price during the nine months ended December 31, 2022, 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 nine months ended December 31, 2021 of $578.1 million, associated with a decrease in the fair value of the warrant derivative liability, was primarily attributable to a decrease of approximately 73% in our share price during that period, further impacted by a shorter expected time to maturity of the Tranche B Warrants.

- Decrease in non-cash income of $450.0 million related to the non-cash fair value changes on the liability arising from the Acreage Arrangement, from $497.0 million in the nine months ended December 31, 2021 to $47.0 million in the nine months ended December 31, 2022. The income amount recognized in the nine months ended December 31, 2022, associated with a decrease in the liability arising from the Acreage Arrangement to $nil during 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, 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 reflected a lower estimated value of the Canopy Growth common shares expected to be issued at the exchange ratio of 0.3048 upon a Triggering Event, relative to the estimated value of the Fixed Shares expected to be acquired at that time; in the first quarter of fiscal 2023, this resulted in a change from a liability amount to an asset amount of $60.0 million recorded in other financial assets. Fair value changes associated with the Acreage call option asset in the nine months ended December 31, 2022 are described below. Comparatively, the income amount recognized in the nine months ended December 31, 2021, associated with a decrease in the liability arising from the Acreage Arrangement, was primarily attributable to a decrease of approximately 73% in our share price in the nine months ended December 31, 2021, relative to a decrease of approximately 59% in Acreage's share price during that same period.

- Change of $113.7 million related to the non-cash fair value changes on the Canopy Notes, from an income amount of $81.3 million in the nine months ended December 31, 2021 to an expense amount of $32.4 million in the nine months ended December 31, 2022. The expense amount recognized in the nine months ended December 31, 2022 was primarily attributable to the impact of the acquisition and cancellation of approximately $262.6 million of aggregate principal amount of the Canopy Notes pursuant to the Exchange Transaction, including changes in credit spreads resulting from the Exchange Transaction. These changes were partially offset by the decrease in our share price of approximately 61% up to the date of the Exchange Transaction, at which time we surrendered our right to settle the conversion of any Note with our common shares. Comparatively, the income amount recognized in the nine months ended December 31, 2021 was primarily attributable to the decrease in our share price of approximately 73% during that period.

- Increase in non-cash expense of $132.8 million related to fair value changes on our other financial assets, from $263.9 million in the nine months ended December 31, 2021 to $396.8 million in the nine months ended December 31, 2022. The expense amount in the nine months ended December 31, 2022 is primarily attributable to fair value decreases relating to our investments in:

- o The TerrAscend Exchangeable Shares, including the additional 24.6 million TerrAscend Exchangeable Shares received on December 9, 2022 as part of the TerrAscend Arrangement, in the amount of $207.0 million. This decrease is primarily attributable to: (i) a decrease of approximately 78% in TerrAscend's share price during the nine months ended December 31, 2022, impacting the 38.9 million TerrAscend Exchangeable Shares that were held by us throughout the entire period; and (ii) a decrease of approximately 43% in TerrAscend's share price from December 9, 2022 to December 31, 2022, impacting the additional TerrAscend Exchangeable Shares received as part of the TerrAscend Arrangement;
- o The secured debentures issued by TerrAscend Canada and Arise Bioscience and the associated Prior Warrants, up to the closing of the TerrAscend Arrangement on December 9, 2022 (totaling $58.7 million), which were driven largely by a decrease of approximately 62% in TerrAscend's share price from March 31, 2022 to December 9, 2022;
- o The TerrAscend Option, in the amount of $5.1 million, which was driven largely by a decrease of approximately 78% in TerrAscend's share price in the nine months ended December 31, 2022; and
- o The New Warrants issued by TerrAscend as part of the TerrAscend Arrangement, in the amount of $17.5 million, primarily attributable to a decrease of approximately 43% in TerrAscend's share price from December 9, 2022 to December 31, 2022.
- o The Wana and Jetty financial instruments, in the amounts of $135.4 million and $9.8 million, respectively, attributable primarily to: (i) changes in expectations of the future cash flows to be generated by Wana; and (ii) an increase in discount rates used in the valuation of both the Wana and Jetty financial instruments, in-line with the increase in interest rates relative to the prior fiscal period.

These fair value decreases were partially offset by (i) a fair value increase related to the Acreage call option in the amount of $37.0 million, primarily attributable to: (i) a re-assessment of certain of the assumptions made and scenario outcomes contemplated in the probability-weighted expected return model used to determine the value of the Acreage call option; and (ii) the factors described above in our discussion of fair value changes on the liability arising from the Acreage Arrangement. The factors resulting in a fair value increase related to the Acreage call option were partially offset by the share price changes for both Canopy Growth and Acreage during the third quarter of fiscal 2023, as described above under our analysis of our results for the third quarter of fiscal 2023, which resulted in a fair value decrease related to the Acreage call option during that period.

Comparatively, in the nine months ended December 31, 2021 the expense amount was primarily attributable to fair value decreases relating to our investments in the TerrAscend Exchangeable Shares ($166.0 million), and the secured debentures issued by TerrAscend Canada and Arise Bioscience and associated Prior Warrants (totaling $89.3 million), driven largely by: (i) a decrease of approximately 39% in TerrAscend's share price in the nine months ended December 31, 2021; and (ii) re-assessments of the probability and timing of changes in federal laws in the United States regarding the permissibility of the cultivation, distribution or possession of marijuana in the second quarter of fiscal 2022.

- Increase in interest expense of $13.0 million, from $77.6 million in the nine months ended December 31, 2021 to $90.7 million in the nine months ended December 31, 2022. The year-over-year increase is primarily attributable to: (i) the increase in interest rates relative to the prior year period, thus impacting the amount of interest payable associated with the variable interest rate debt owing under the Credit Agreement; and (ii) the strengthening of the U.S. dollar relative to the Canadian dollar, as compared to the prior year period.

- Increase in non-cash income of $25.4 million related to fair value changes on acquisition related contingent consideration and other. In the nine months ended December 31, 2022, 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.

- Increase in interest income of $8.9 million, from $7.0 million in the nine months ended December 31, 2021 to $15.9 million in the nine months ended December 31, 2022. The year-over-year increase is primarily attributable to the increase in interest rates relative to the comparative fiscal period, the impact of which was only partially offset by the year-over-year combined decrease in our cash and cash equivalents and short-term investments balances.

- Change of $7.9 million, from a loss of $1.7 million in the nine months ended December 31, 2021 to a gain of $6.2 million in the nine months ended December 31, 2022, related to the disposal of consolidated entities. The year-over-year change is primarily attributable to the gain recognized in the third quarter of fiscal 2023 associated with the closing of the divestiture of our Canadian retail operations in connection with the OEGRC Transaction and the FOUR20 Transaction.

<u>Income tax (expense) recovery</u>

Income tax expense in the nine months ended December 31, 2022 was $11.6 million, compared to an income tax recovery of $0.5 million in the nine months ended December 31, 2021. In the nine months ended December 31, 2022, the income tax expense consisted of deferred income tax expense of $8.0 million (compared to an expense of $0.4 million in the nine months ended December 31, 2021) and current income tax expense of $3.6 million (compared to a recovery of $0.9 million in the nine months ended December 31, 2021).

The increase of $7.6 million in the deferred income tax expense is primarily a result of changes in the convertible senior notes, current year changes being less than prior year in respect of deferred tax liabilities that arose in connection with the required revaluation of the accounting carrying value, but not the tax basis, of property, plant and equipment, intangible assets, and other financial assets. In connection with certain deferred tax assets, mainly in respect to losses for tax purposes, where the accounting criteria for recognition of an asset has yet to be satisfied and it is not probable that they will be used, the deferred tax asset has not been recognized.

The change of $4.5 million, from a current income tax recovery to a 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) Income

The net loss in the nine months ended December 31, 2022 was $2.7 billion, as compared to net income of $258.1 million in the nine months ended December 31, 2021. The year-over-year change from net income to a net loss is primarily attributable: (i) to the year-over-year increase in asset impairment and restructuring costs, which was largely related to the goodwill impairment losses of $1.8 billion recorded in the first quarter of fiscal 2023; and (ii) the year-over-year change in other income (expense), net, of $1.2 billion, from an income amount to an expense amount. These variances are described above.

Adjusted EBITDA (Non-GAAP Measure)

The following table presents Adjusted EBITDA for the nine months ended December 31, 2022 and 2021:

(in thousands of Canadian dollars)	Nine months ended December 31, 2022 (As Restated)	Nine months ended December 31, 2021	$ Change	% Change
Net (loss) income	$ (2,661,937)	$ 258,128	$ (2,920,065)	(1,131%)
Income tax expense (recovery)	11,587	(490)	12,077	2,465%
Other (income) expense, net	406,762	(810,769)	1,217,531	150%
Loss on equity method investments	-	100	(100)	(100%)
Share-based compensation	26,448	35,856	(9,408)	(26%)
Acquisition-related costs	32,146	9,788	22,358	228%
Depreciation and amortization	63,746	83,929	(20,183)	(24%)
Asset impairment and restructuring costs	1,851,613	117,567	1,734,046	1,475%
Restructuring costs recorded in cost of goods sold	15,610	4,554	11,056	243%
Charges related to the flow-through of inventory step-up on business combinations	-	7,684	(7,684)	(100%)
Adjusted EBITDA	$ (254,025)	$ (293,653)	$ 39,628	13%

The Adjusted EBITDA loss in the nine months ended December 31, 2022 was $254.0 million, as compared to an Adjusted EBITDA loss of $293.7 million in the nine months ended December 31, 2021. The year-over-year decrease in the Adjusted EBITDA loss is primarily attributable to the year-over-year improvement in our gross margin and the year-over-year reduction in our total selling, general and administrative expense. These variances are described above.

Part 3 – Financial Liquidity and Capital Resources

The Financial Statements have been prepared in accordance with generally accepted accounting principles on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

As reflected in the Financial Statements, we have certain material debt obligations coming due in the short-term, have suffered recurring losses from operations and require additional financing to fund our business and operations. If we are unable to raise additional capital, it is possible that we will be unable to meet certain of our financial obligations. For example, we may not be able to satisfy the minimum liquidity covenant under our Credit Facility during our first quarter of fiscal year 2025, which breach could trigger an acceleration of our senior secured indebtedness. As of March 31, 2023, we had $468.0 million in required principal repayments under debt obligations to be settled in cash due within the next 12 months, and cash flow from operations was negative throughout fiscal 2023. As of March 31, 2023, we had cash and cash equivalents of $677.0 million and short-term investments of $105.6 million, which are predominantly invested in liquid securities issued by the United States government.

These matters, when considered in the aggregate raise substantial doubt about our ability to continue as a going concern for at least twelve months from the issuance of the Financial Statements.

In view of these matters, continuation as a going concern is dependent upon our continued operations, which in turn is dependent upon our ability to meet our financial requirements and to raise additional capital, and the success of our future operations. The Financial Statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should we not continue as a going concern.

Management plans to fund our operations and debt obligations through existing cash positions and proceeds from the sale of certain of our facilities. We are also currently evaluating several different strategies and intend to pursue actions that are expected to increase our liquidity position, including, but not limited to, pursuing additional actions under our cost-savings plan, seeking additional financing from both the public and private markets through the issuance of equity and/or debt securities, and monetizing additional assets.

Our management cannot provide assurances that we will be successful in accomplishing any of our proposed financing plans. Our management also cannot provide any assurance as to unforeseen circumstances that could occur within the next 12 months or, if after we raise capital, thereafter, which could increase our need to raise additional capital on an immediate basis, which capital may not be available to us. See "*Risk Factors—Risks Relating to Our Growth Strategy and Entry into New Markets—Management has raised substantial doubt as to the Company's ability to continue as a going concern due to certain material debt obligations coming due in the short term. If we are unable to obtain additional capital, our financial results, financial condition and our ability to continue as a going concern will be adversely affected and we may have to delay or terminate some or all of our business development or commercialization plans or cease certain of our operations*" and "*Risk Factors—Risks Relating to Our Growth Strategy and Entry into New Markets—We may not be able to secure adequate or reliable sources of funding required to operate our business*" under Item 1A of this Comprehensive Form 10-K.

We have recently completed the following debt financings:

- In March 2021, we entered into 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 the Credit Facility in the initial aggregate principal amount of US$750.0 million. As described under "Recent Developments" above, pursuant to the balance sheet actions completed in connection with the Reorganization, we have entered into agreements with certain of our lenders to complete the Paydown, which resulted in us tendering US$187.5 million of the principal amount outstanding under the Credit Agreement. The first payment of approximately $117.5 million (US$87.9 million) was made on November 10, 2022 to reduce the principal indebtedness by approximately $126.3 million (US$94.4 million). The second payment of approximately $116.8 million (US$87.2 million) was made on April 17, 2023 to reduce principal indebtedness by approximately $125.6 million (US$93.8 million).
- As described above under "Recent Developments," on February 21, 2023, we entered into the Convertible Debenture Agreement with an Institutional Investor pursuant to which the Institutional Investor agreed to purchase up to US$150.0 million aggregate principal amount of Convertible Debentures in a registered direct offering. Pursuant to the Convertible Debenture Agreement, an initial approximately $135.2 million (US$100.0 million) aggregate principal amount of the Convertible Debentures was sold to the Institutional Investor on February 21, 2023, and the remaining US$50.0 million aggregate principal amount of the Convertible Debentures will be issued and paid for in the event that certain conditions outlined in the Indenture are satisfied or waived. As of June 16, 2023, the amount outstanding under the Convertible Debentures was $7.1 million.
- As described above under "Recent Developments," on April 13, 2023, we entered into the April 2023 Exchange Agreement with Greenstar in order to extinguish $100.0 million aggregate principal amount of our outstanding Canopy Notes. Pursuant to the April 2023 Exchange Agreement, we agreed to acquire and cancel $100.0 million aggregate principal amount of the Canopy Notes held by Greenstar in exchange for: (i) a cash payment to Greenstar in the amount of the unpaid and accrued

interest owing under the Canopy Notes held by Greenstar; and (ii) the CBI Note (collectively, the "CBI Transaction"). As a result, Greenstar no longer holds any Canopy Notes. Following closing of the CBI Transaction and the creation of the Exchangeable Shares, we maintain our intention to negotiate an exchange with Greenstar to purchase the CBI Notes in exchange for Exchangeable Shares.

In addition to the above, 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. We may from time to time seek to retire our outstanding debt through cash purchases and/or exchanges for equity securities, and open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Cash Flows

The table below presents cash flows for the years ended March 31, 2023, 2022 and 2021:

	Years ended March 31,		
(in thousands of Canadian dollars)	2023	2022	2021
Net cash (used in) provided by:			
Operating activities	$ (557,546)	$ (545,811)	$ (465,729)
Investing activities	$ 433,379	230,819	(884,105)
Financing activities	$ (19,694)	(45,533)	1,264,769
Effect of exchange rate changes on cash and cash equivalents	$ 44,863	(18,123)	(63,458)
Net decrease in cash and cash equivalents	$ (98,998)	(378,648)	(148,523)
Cash and cash equivalents, beginning of period	$ 776,005	1,154,653	1,303,176
Cash and cash equivalents, end of period	$ 677,007	$ 776,005	$ 1,154,653

Operating activities

Cash used in operating activities totaled $557.5 million in fiscal 2023, relatively consistent with cash used of $545.8 million in fiscal 2022.

Cash used in operating activities totaled $545.8 million in fiscal 2022, as compared to cash used of $465.7 million in fiscal 2021. The increase in the cash used in operating activities was 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.

Investing activities

The cash provided by investing activities totaled $433.4 million in fiscal 2023. Purchases of property, plant and equipment were $9.2 million, primarily related to improvements made at certain of our Canadian cultivation and production facilities, and at our Storz & Bickel facilities. Our strategic investments in other financial assets were $67.2 million and related primarily to: (i) the upfront payment made as consideration for entering the Jetty Agreements ($29.2 million); and (ii) the payment of the Option Premium in the amount of $38.0 million (US$28.5 million) to acquire an option to purchase the Acreage Debt from the Lenders, pursuant to the option agreement entered into with the Lenders in connection with the Reorganization; see “Recent Developments” above for further details. The net cash outflow associated with acquisitions was $24.2 million, and related to the completion of the acquisition of a manufacturing facility located Verona, Virginia (the "Verona Facility") from Flow Beverage Corp. ("Flow") The acquisition was completed through BioSteel on November 8, 2022. Net redemptions of short-term investments were $502.6 million, and related to the redemption of short-term investments largely to fund operations and investing activities as described above. Additional cash inflows include proceeds of $14.9 million from the sale of certain wholly-owned subsidiaries, and proceeds of $13.6 million from the sale of property, plant and equipment. Finally, other investing activities resulted in a cash inflow of $4.2 million, primarily related to the partial repayment of the principal on a loan associated with the sale of a wholly-owned subsidiary in fiscal 2022, partially offset by the cash outflow associated with the redemption of the first tranche of the BioSteel redeemable noncontrolling interest.

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 divestiture of our interest in C^3 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 associated with the acquisition of ebbu in fiscal 2019, partially offset by a recovery of certain amounts related to construction financing.

Financing activities

The cash used in financing activities totaled $19.7 million in fiscal 2023, as we made repayments of long-term debt in the amount of $118.2 million related primarily to the first payment made pursuant to the Paydown, which is described above in the context of the balance sheet actions completed in connection with the Reorganization (see "Recent Developments" above). We received net proceeds of $135.2 million (US$100.0 million) pursuant to the purchase, by an Institutional Investor, of Convertible Debentures in February 2023 (see "Recent Developments" above). Also, other financing activities resulted in a cash outflow of $38.0 million, primarily related to fees paid in connection with the Exchange Transaction, the Paydown, and the registered direct offering of Convertible Debentures (all of which are described above).

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.

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, 2023, 2022 and 2021:

	Years ended March 31,		
(in thousands of Canadian dollars)	2023	2022	2021
Net cash used in operating activities	$ (557,546)	$ (545,811)	$ (465,729)
Purchases of and deposits on property, plant and equipment	(9,217)	(36,684)	(164,502)
Free cash flow[1]	$ (566,763)	$ (582,495)	$ (630,231)

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

Free cash flow in fiscal 2023 was an outflow of $566.8 million, as compared to an outflow of $582.5 million in fiscal 2022. The year-over-year decrease in the free cash outflow primarily reflects the decrease 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.

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.

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, 2023 was $1.3 billion, as compared to $1.5 billion as of March 31, 2022. The total principal amount owing, which excludes fair value adjustments related to the Canopy Notes, was $1.3 billion at March 31, 2023, a decrease from $1.6 billion at March 31, 2022. These decreases were due to: (i) the Exchange Transaction, which resulted in the acquisition and cancellation of $262.6 million of aggregate principal amount of the Canopy Notes from a limited number of holders of the Canopy Notes including Greenstar (collectively, the "Noteholders"); and (ii) the repayment of $126.3 million (US$94.4 million) of the principal amount outstanding under the Credit Agreement as part of the Paydown, as described under "Recent Developments" above.

These reductions in total debt outstanding were partially offset by: (i) net proceeds of $135.2 million (US$100.0 million) received pursuant to the purchase, by an Institutional Investor, of Convertible Debentures in February 2023 (see "Recent Developments" above); and (ii) the impact of the strengthening of the U.S. dollar against the Canadian dollar on amounts borrowed on the Credit Facility.

Credit Facility

The Credit Agreement provides for the Credit Facility in the aggregate principal amount of US$750.0 million. The Credit Agreement also provided the ability to obtain up to an additional US$500.0 million of incremental senior secured debt pursuant to the Credit Agreement. As described under "Recent Developments" above, pursuant to the balance sheet actions completed in connection with the Reorganization, we have entered into agreements with certain of our lenders party to the Credit Agreement to complete the Paydown, which resulted in us tendering US$187.5 million of the principal amount outstanding under the Credit Agreement. The first payment of approximately $117.5 million (US$87.9 million) was made on November 10, 2022 to reduce the principal indebtedness by approximately $126.3 million (US$94.4 million). The second payment of approximately $116.8 million (US$87.2 million) was made on April 17, 2023 to reduce principal indebtedness by approximately $125.6 million (US$93.8 million). We also agreed to certain amendments to the Credit Agreement with our lenders which, among other things, eliminated the additional US$500.0 million incremental term loan facility.

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%. 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. 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$100.0 million at the end of each fiscal quarter.

Unsecured Senior Notes (the 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 15 and July 15 of each year commencing January 15, 2019. The Canopy Notes mature on July 15, 2023. 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 Canopy 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.

The Canopy Notes were issued pursuant to an indenture dated June 20, 2018, as supplemented on April 30, 2019 and June 29, 2022 (collectively, the "Canopy Notes Indenture"). As a result of a supplement to the Canopy Notes 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 Canopy Notes following the execution of the Supplemental Indenture will be settled entirely in cash.

On April 13, 2013, we entered into the April 2023 Exchange Agreement with Greenstar in order to extinguish $100.0 million aggregate principal amount of our outstanding Canopy Notes. Pursuant to the April 2023 Exchange Agreement, we agreed to acquire and cancel $100.0 million aggregate principal amount of the Canopy Notes held by Greenstar in exchange for: (i) a cash payment to Greenstar in the amount of the unpaid and accrued interest owing under the Canopy Notes held by Greenstar; and (ii) the CBI Note. As a result, Greenstar no longer holds any Canopy Notes.

Supreme 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.

Convertible Debentures

On February 21, 2023, we entered into the Convertible Debenture Agreement with an Institutional Investor for the purchase and sale of up to US$150.0 million aggregate principal amount of Convertible Debentures in a registered direct offering. Pursuant to the Convertible Debenture Agreement, an initial $135.2 million (US$100.0 million) aggregate principal amount of the Convertible Debentures was sold to the Institutional Investor on February 21, 2023, and the remaining US$50.0 million aggregate principal amount of the Convertible Debentures will be issued and paid for in the event that certain conditions outlined in the Indenture are satisfied or waived.

Contractual Obligations and Commitments

The table below presents information about our contractual obligations and commitments as of March 31, 2023, excluding equity-settled convertible debentures, and the timing and effect that such obligations and commitments are expected to have on our liquidity and cash flows in future periods:

	Payments due by period				
(CDN $000's)	Total	Less than 1 year	1-3 years	3-5 years	Over 5 years
Long-term debt obligations	$ 1,262,778	$ 467,957	$ 794,821	$ -	$ -
Interest payments on debt obligations	322,325	114,327	207,998	-	-
Operating leases[1]	58,472	11,661	22,015	16,730	8,066
Finance leases[1]	64,122	21,410	38,333	654	3,725
Purchase obligations	82,419	73,853	8,201	365	-
Other liabilities[2]	110,304	66,043	44,261	-	-
Other obligations[3]	126,831	44,358	63,162	19,311	-
	$ 2,027,251	$ 799,609	$ 1,178,791	$ 37,060	$ 11,791

[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 $8.4 million and $4.9 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, 2023

As described above under "Recent Developments," pursuant to the Reorganization the Company entered into certain agreements with CBI, including the Third Consent Agreement. See "Reorganization - Creation of Canopy USA - Relationship with CBI" above.

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 (formerly Canopy Rivers Corporation). Refer to Note 30(c) 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 our 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

<u>Fiscal 2022</u>

We changed the structure of our internal management reporting in the fourth quarter of fiscal 2021, and accordingly, identified two operating and reportable segments: (i) global cannabis; and (ii) other consumer products. The reorganization of our reporting structure also changed the composition of our reporting units and required that goodwill be reassigned to the reporting units using a relative fair value allocation approach. Our reporting units with goodwill in the global cannabis segment included: (i) cannabis operations; and (ii) C^3. Our reporting units with goodwill in the other consumer products segment include: (i) Storz & Bickel; (ii) This Works; and (iii) BioSteel. In the fourth quarter of fiscal 2022, we further changed the composition of our reporting units within the global cannabis segment as a result of: (i) the completion of the divestiture of our interest in C^3; 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 was at risk for impairment in future periods.

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

Fiscal 2023

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, which was a reportable segment in the first quarter of fiscal 2023. 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 we 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.

While we changed our reportable segments in the second quarter of fiscal 2023 (see “Segment Reporting” under Part 1 - Business Overview above), there were no changes to the composition of our reporting units to which goodwill remained assigned at September 30, 2022. In the second quarter of fiscal 2023, we determined there to be indicators of impairment for both our BioSteel and This Works reporting units, as slower growth rates resulted in updated long-term financial forecasts indicating lower forecasted revenue and cash flow generation. As a result, we performed a quantitative interim goodwill impairment test for these reporting units as of September 30, 2022 and concluded that the carrying values of both our BioSteel and This Works reporting units were higher than their estimated fair values, as determined using the income valuation method. We recognized a goodwill impairment loss totaling $59.7 million in the second quarter of fiscal 2023, representing: (i) the entirety of the goodwill assigned to our BioSteel reporting unit of $57.4 million; and (ii) the entirety of the goodwill assigned to our This Works the reporting unit of $2.3 million.

At March 31, 2023, we performed our annual goodwill impairment analysis using the quantitative assessment. No impairment was noted for our Storz & Bickel reporting unit, as the estimated fair value of the Storz & Bickel reporting unit exceeded its carrying value. The estimated fair value of the Storz & Bickel reporting unit was 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; (iii) revenue growth rate projections; and (iv) annual cash flow projections. This methodology is consistent with that used by us for our annual impairment test conducted at March 31, 2022.

The carrying value, at March 31, 2023, of the goodwill associated with the Storz & Bickel reporting unit was $85.6 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 5% and result in an impairment charge. 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% and result in an impairment charge. If all other assumptions were held constant and the revenue growth rate projections were decreased by 250 basis points, the estimated fair value would decrease by 11% and result in an impairment charge. 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, 2023, the fair value of the Storz & Bickel reporting unit to which goodwill is assigned exceeded its carrying value by approximately 3%. Accordingly, the goodwill assigned to the Storz & Bickel 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 Storz & Bickel reporting unit, to the extent we experience declines in the expected long-term growth rate, revenue growth rate projections or annual cash flow projections, or if discount rates increase, or if other indicators of impairment arise.

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 adult-use cannabis brand intangible assets, and certain of our operating license intangible assets. In fiscal 2023, we recognized intangible asset impairment losses totaling $14.6 million in connection with certain acquired brand intangible assets, primarily within our Canada cannabis segment. 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 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 brands might also be below their carrying values, 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.

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 Black-Scholes option pricing 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 options associated with the Wana Agreements (the "Wana Options"), which represents options to purchase 100% of Wana for payments 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 Options 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 Options 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 the volatility of Wana equity.

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

Jetty financial instrument fair value measurement

Critical estimates. As a result of entering into the Jetty Agreements, we recognized: (i) the call options associated with the Jetty Agreements (the "Jetty Options"), which represents two option agreements, with the first option agreement exercisable in two tranches, to purchase 100% of Jetty; and (ii) the Jetty Deferred Payments, which are additional deferred payments that we expect to make in respect of Jetty, computed based on a pre-determined contractual formula. Refer to Note 12 of our Financial Statements for further details. The Jetty Options and Jetty Deferred Payments are measured at fair value through net income (loss) using Level 3 inputs.

Assumptions and judgment. The valuation of the Jetty Options is measured using a discounted cash flow model, which requires assumptions and judgment to determine the expected future cash flows associated with Jetty. The valuation of the Jetty 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 the volatility of Jetty equity and revenues.

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

Other fair value measurements

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

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

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

Revenue recognition

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

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

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

Stock-based compensation

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

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

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

Income taxes

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

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

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

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

Foreign currency risk

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

A hypothetical 10% change in the U.S. dollar against the Canadian dollar compared to the exchange rate at March 31, 2023, would affect the carrying value of net assets by approximately $14.8 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, 2023, would affect the carrying value of net assets by approximately $25.3 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, 2023, our cash and cash equivalents, and short-term investments, consisted of $0.3 billion, as compared to $0.9 billion at March 31, 2022, 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, 2023	March 31, 2022	March 31, 2023	March 31, 2022	March 31, 2023	March 31, 2022
Unsecured senior notes	$ 337,380	$ 600,000	$ 331,250	$ 563,958	$ (1,552)	$ (6,600)
Fixed interest rate debt	135,573	43,386	N/A	N/A	N/A	N/A
Variable interest rate debt	840,058	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 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.