CANOPY GROWTH CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2023
(IN CANADIAN DOLLARS)

Table of Contents

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

CANOPY GROWTH CORPORATION
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS
(in thousands of Canadian dollars, except number of shares and per share data, unaudited)

	June 30, 2023	March 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 533,266	$ 677,007
Short-term investments	37,802	105,595
Restricted short-term investments	9,131	11,765
Amounts receivable, net	128,469	93,987
Inventory	142,064	148,901
Prepaid expenses and other assets	32,492	39,999
Total current assets	883,224	1,077,254
Other financial assets	625,268	568,292
Property, plant and equipment	395,206	499,466
Intangible assets	182,942	188,719
Goodwill	84,385	85,563
Other assets	19,509	19,804
Total assets	$ 2,190,534	$ 2,439,098
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 57,554	$ 76,234
Other accrued expenses and liabilities	75,425	75,991
Current portion of long-term debt and convertible debentures	252,902	556,890
Other liabilities	65,276	94,727
Total current liabilities	451,157	803,842
Long-term debt	792,132	749,991
Deferred income tax liabilities	1,200	357
Other liabilities	98,540	124,886
Total liabilities	1,343,029	1,679,076
Commitments and contingencies		
Canopy Growth Corporation shareholders' equity:		
Common shares - $nil par value; Authorized - unlimited number of shares; Issued - 626,727,549 shares and 517,305,551 shares, respectively	8,065,281	7,938,571
Additional paid-in capital	2,500,040	2,506,485
Accumulated other comprehensive loss	(8,509)	(13,860)
Deficit	(9,710,882)	(9,672,761)
Total Canopy Growth Corporation shareholders' equity	845,930	758,435
Noncontrolling interests	1,575	1,587
Total shareholders' equity	847,505	760,022
Total liabilities and shareholders' equity	$ 2,190,534	$ 2,439,098

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

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

	Three months ended June 30, 2023	Three months ended June 30, 2022 (As Restated)
Revenue	$ 121,112	$ 118,667
Excise taxes	12,386	12,747
Net revenue	108,726	105,920
Cost of goods sold	102,789	111,506
Gross margin	5,937	(5,586)
Operating expenses		
Selling, general and administrative expenses	91,252	103,413
Share-based compensation	3,865	5,439
Asset impairment and restructuring costs	2,160	1,727,985
Total operating expenses	97,277	1,836,837
Operating loss	(91,340)	(1,842,423)
Other income (expense), net	51,497	(245,578)
Loss before income taxes	(39,843)	(2,088,001)
Income tax expense	(2,018)	(3,749)
Net loss	(41,861)	(2,091,750)
Net loss attributable to noncontrolling interests and redeemable noncontrolling interest	(3,740)	(5,307)
Net loss attributable to Canopy Growth Corporation	$ (38,121)	$ (2,086,443)
Basic and diluted loss per share	$ (0.07)	$ (5.24)
Basic and diluted weighted average common shares outstanding	550,459,365	398,467,568
Comprehensive income (loss):		
Net loss	$ (41,861)	$ (2,091,750)
Other comprehensive income (loss), net of income tax effect		
Fair value changes of own credit risk of financial liabilities	14,178	27,060
Foreign currency translation	(7,160)	758
Total other comprehensive income, net of income tax effect	7,018	27,818
Comprehensive loss	(34,843)	(2,063,932)
Comprehensive loss attributable to noncontrolling interests and redeemable noncontrolling interest	(3,740)	(5,307)
Comprehensive loss attributable to Canopy Growth Corporation	$ (31,103)	$ (2,058,625)

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

		Additional paid-in capital							
	Common shares	Share-based reserve	Warrants	Ownership changes	Redeemable noncontrolling interest	Accumulated other comprehensive income (loss)	Deficit	Noncontrolling interests	Total
Balance at March 31, 2023	$ 7,938,571	$ 498,150	$ 2,581,788	$ (521,961)	$ (51,492)	$ (13,860)	$ (9,672,761)	$ 1,587	$ 760,022
Other issuances of common shares and warrants	108,055	-	-	-	-	-	-	-	108,055
Share-based compensation	-	3,716	-	-	-	-	-	-	3,716
Issuance and vesting of restricted share units and performance share units	6,240	(6,240)	-	-	-	-	-	-	-
Changes in redeemable noncontrolling interest	-	-	-	-	(3,740)	-	-	3,740	-
Redemption of redeemable noncontrolling interest	-	-	-	(181)	-	-	-	(12)	(193)
Settlement of unsecured senior notes	12,415	-	-	-	-	(1,667)	-	-	10,748
Comprehensive income (loss)	-	-	-	-	-	7,018	(38,121)	(3,740)	(34,843)
Balance at June 30, 2023	$ 8,065,281	$ 495,626	$ 2,581,788	$ (522,142)	$ (55,232)	$ (8,509)	$ (9,710,882)	$ 1,575	$ 847,505

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

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

		Additional paid-in capital				Accumulated other comprehensive income (loss)			
	Common shares	Share-based reserve	Warrants	Ownership changes	Redeemable noncontrolling interest		Deficit	Noncontrolling interests	Total
Balance at March 31, 2022 (As Restated)	$ 7,482,809	$ 492,041	$ 2,581,788	$ (509,723)	$ (42,860)	$ (42,282)	$ (6,378,199)	$ 4,341	$ 3,587,915
Cumulative effect from adoption of ASU 2020-06	-	4,452	-	-	-	-	(729)	-	3,723
Other issuances of common shares and warrants	59,013	-	-	-	-	-	-	-	59,013
Exercise of Omnibus Plan stock options	1,282	(1,072)	-	-	-	-	-	-	210
Share-based compensation	-	5,265	-	-	-	-	-	-	5,265
Issuance and vesting of restricted share units	7,600	(7,600)	-	-	-	-	-	-	-
Changes in redeemable noncontrolling interest	-	-	-	-	(957)	-	-	5,307	4,350
Ownership changes relating to noncontrolling interests, net	-	-	-	-	-	-	-	174	174
Settlement of convertible senior notes	50,866	-	-	-	-	(7,090)	-	-	43,776
Comprehensive income (loss)	-	-	-	-	-	27,818	(2,086,443)	(5,307)	(2,063,932)
Balance at June 30, 2022 (As Restated)	$ 7,601,570	$ 493,086	$ 2,581,788	$ (509,723)	$ (43,817)	$ (21,554)	$ (8,465,371)	$ 4,515	$ 1,640,494

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

CANOPY GROWTH CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars, unaudited)

	Three months ended June 30, 2023	Three months ended June 30, 2022 (As Restated)
Cash flows from operating activities:		
Net loss	$ (41,861)	$ (2,091,750)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property, plant and equipment	11,343	15,129
Amortization of intangible assets	7,233	6,722
Share-based compensation	3,865	5,439
Asset impairment and restructuring costs	10,582	1,726,877
Income tax expense	2,018	3,749
Non-cash fair value adjustments and charges related to settlement of unsecured senior notes	(68,455)	213,610
Change in operating assets and liabilities, net of effects from purchases of businesses:		
Amounts receivable	(36,390)	3,781
Inventory	6,837	(993)
Prepaid expenses and other assets	7,045	(9,336)
Accounts payable and accrued liabilities	(22,521)	(15,549)
Other, including non-cash foreign currency	(28,367)	1,806
Net cash used in operating activities	(148,671)	(140,515)
Cash flows from investing activities:		
Purchases of and deposits on property, plant and equipment	(2,008)	(2,293)
Purchases of intangible assets	(304)	(606)
Proceeds on sale of property, plant and equipment	83,325	-
Redemption of short-term investments	72,222	153,996
Net cash proceeds on sale of subsidiaries	-	(475)
Investment in other financial assets	(472)	(29,205)
Other investing activities	(10,189)	-
Net cash provided by investing activities	142,574	121,417
Cash flows from financing activities:		
Proceeds from exercise of stock options	-	210
Repayment of long-term debt	(118,277)	(211)
Other financing activities	(14,833)	(1,043)
Net cash used in financing activities	(133,110)	(1,044)
Effect of exchange rate changes on cash and cash equivalents	(4,534)	13,632
Net decrease in cash and cash equivalents	(143,741)	(6,510)
Cash and cash equivalents, beginning of period	677,007	776,005
Cash and cash equivalents, end of period	$ 533,266	$ 769,495

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

CANOPY GROWTH CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars, unaudited)

	Three months ended June 30,	
	2023	**2022**
Supplemental disclosure of cash flow information		
Cash received during the period:		
Income taxes	$ -	$ 202
Interest	$ 7,832	$ 3,950
Cash paid during the period:		
Income taxes	$ 245	$ 429
Interest	$ 30,410	$ 25,747
Noncash investing and financing activities		
Additions to property, plant and equipment	$ 635	$ 933

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

1. DESCRIPTION OF BUSINESS

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

The principal activities of the Company are the production, distribution and sale of a diverse range of cannabis and cannabinoid-based products for both adult-use and medical purposes under a portfolio of distinct brands in Canada pursuant to the *Cannabis Act*, SC 2018, c 16 (the "*Cannabis Act*"), which came into effect on October 17, 2018 and regulates both the medical and adult-use cannabis markets in Canada. The Company has also expanded to jurisdictions outside of Canada where cannabis and/or hemp is federally lawful, permissible and regulated, and the Company, through its subsidiaries, operates in the United States, Germany, and certain other global markets. Additionally, the Company produces, distributes and sells a range of other consumer products globally, including vaporizers; beauty, skincare, wellness and sleep products; and sports nutrition beverages.

2. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been presented in Canadian dollars and are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Canopy Growth has determined that the Canadian dollar is the most relevant and appropriate reporting currency as, despite continuing shifts in the relative size of the Company's operations across multiple geographies, the majority of its operations are conducted in Canadian dollars and its financial results are prepared and reviewed internally by management in Canadian dollars. The Company's condensed interim consolidated financial statements, and the financial information contained herein, are reported in thousands of Canadian dollars, except share and per share amounts or as otherwise stated.

Certain information and footnote disclosures normally included in the audited annual consolidated financial statements prepared in accordance with U.S. GAAP have been omitted or condensed. These condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2023 (the "Annual Report") and have been prepared on a basis consistent with the accounting policies as described in the Annual Report.

These condensed interim consolidated financial statements are unaudited and reflect adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary to provide a fair statement of results for the interim periods in accordance with U.S. GAAP.

The results reported in these condensed interim consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for an entire fiscal year. The policies set out below are consistently applied to all periods presented, unless otherwise noted.

Going Concern

The condensed interim consolidated 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 condensed interim consolidated financial statements, the Company has certain material debt obligations coming due in the short-term, has suffered recurring losses from operations and requires additional financing to fund its business and operations. If the Company is unable to raise additional capital, it is possible that it will be unable to meet certain of its financial obligations. As of June 30, 2023, the Company has $259,586 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 and in the three months ended June 30, 2023. As of June 30, 2023, the Company has cash and cash equivalents of $533,266 and short-term investments of $37,802 which are predominantly invested in term deposits.

These matters, when considered in the aggregate, raise substantial doubt about the Company's ability to continue as a going concern for at least twelve months from the issuance of these condensed interim consolidated financial statements.

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

Management plans to fund the operations and debt obligations of the Company through existing cash positions and proceeds from the sale of certain of the Company’s facilities. The Company is also currently evaluating several different strategies and intends to pursue actions that are expected to increase its liquidity position, including, but not limited to, pursuing additional actions under the Company's 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.

The Company's management cannot provide assurances that the Company will be successful in accomplishing any of its proposed financing plans. Management also cannot provide any assurance as to unforeseen circumstances that could occur within the next 12 months or, if the Company raises capital, thereafter, which could increase the Company’s need to raise additional capital on an immediate basis, which capital may not be available to the Company.

Principles of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and all entities in which the Company either has a controlling voting interest or is the primary beneficiary of a variable interest entity. All intercompany accounts and transactions have been eliminated on consolidation. Information on the Company’s subsidiaries with noncontrolling interests is included in Note 21.

Use of estimates

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

New accounting policies

Recently Adopted Accounting Pronouncements

Convertible Instruments and Contracts in an Entity’s Own Equity

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40):Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity* (“ASU 2020-06”), which simplifies the accounting for convertible instruments by removing the separation models for convertible debt instruments and convertible preferred stock with (1) cash conversion features, and (2) beneficial conversion features. In addition, ASU 2020-06 enhances information transparency by making targeted improvements to the disclosures for convertible instruments and earnings-per-share guidance and amends the guidance for the derivatives scope exception for contracts in an entity’s own equity to reduce form-over-substance-based accounting conclusions.

The Company adopted the guidance on April 1, 2022, using the modified retrospective approach with the cumulative effect recognized as an adjustment to the opening deficit balance, and, accordingly, prior period balances and disclosures have not been restated. Upon adoption of ASU 2020-06, the Supreme Debentures (as defined below) will be accounted for under the separation model for a substantial premium instead of a beneficial conversion feature resulting in an increased debt discount to be amortized over the life of the instrument. The adoption of this guidance resulted in increased additional paid-in capital by $4,452, decreased long-term debt by $3,723, and decreased accumulated deficit by $729 for non-cash accretion expense prior to April 1, 2022.

3. CANOPY USA

Reorganization - Creation of Canopy USA

On October 24, 2022, Canopy Growth completed a number of strategic transactions in connection with the creation of Canopy USA, LLC ("Canopy USA"), a new U.S.-domiciled holding company (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 (as defined below), including the issuance of the Fixed Shares (as defined below) to Canopy USA, to consummate the acquisitions of Acreage Holdings, Inc. ("Acreage"), Mountain High Products, LLC, Wana Wellness, LLC and The Cima Group, LLC (collectively, "Wana" and each, a "Wana Entity"), and Lemurian, Inc. ("Jetty"). There were no changes recorded in the estimated fair values of the U.S. cannabis investments described below upon implementation of the Reorganization, and their transfer from Canopy Growth to Canopy USA.

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 common share of Canopy Growth 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 with TerrAscend, TerrAscend Canada Inc. and Arise BioScience, Inc., 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. 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* ("ASC 810") 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 the Company 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.

Amendments to Canopy USA Structure

Following the creation of Canopy USA, the Nasdaq Stock Market LLC ("Nasdaq") communicated its position to the Company stating that companies that consolidate "the assets and revenues generated from activities in violation under federal law cannot continue to list on Nasdaq". Since the Company is committed to compliance with the listing requirements of the Nasdaq, the Company and Canopy USA effectuated certain changes to the initial structure of the Company's interest in Canopy USA such that the Company does not expect to consolidate the financial results of Canopy USA within the Company's financial statements. These changes included, among other things, modifying the terms of the Protection Agreement between the Company, its wholly-owned subsidiary and Canopy USA as well as the terms of Canopy USA's limited liability company agreement and amending the terms of certain agreements with third-party investors in Canopy USA to eliminate any rights to guaranteed returns (collectively, the "Reorganization Amendments").

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 (the "Trust Transaction"). 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.

The Company continues to report the financial performance of Canopy USA into its consolidated financial statements until such time as the Exchangeable Shares (as defined below) are created and the Trust Transaction is closed, at which time the Company no longer expects to consolidate the financial performance of Canopy USA within the Company's financial statements.

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 June 30, 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 (as described in Note 12) 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 Holdings LLC ("CBG") and Greenstar Canada Investment Limited Partnership ("Greenstar"), indirect, wholly-owned subsidiaries of Constellation Brands, Inc. ("CBI"), have converted their Canopy Growth common shares into Exchangeable Shares. 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) December 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 (as defined below) and the Floating Share Arrangement Agreement (as defined below).

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 (as defined below) 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 (as defined below) 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 entered into a voting and support agreement with Canopy Growth (the "Voting and Support Agreement"). 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.

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 Growth common 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.

4. ASSET IMPAIRMENT AND RESTRUCTURING COSTS

In the three months ended June 30, 2023, the Company recorded incremental impairment losses and other costs associated with the restructuring of its Canadian cannabis operations that was initiated in the three months ended March 31, 2023, including the closure of the Company's production facility at 1 Hershey Drive in Smiths Falls, Ontario. The Company recorded write-downs of certain production equipment and other assets due to the excess of their carrying values over their estimated fair values. These costs were partially offset by gains recognized in connection with the sale of certain of the Company's production facilities.

As a result, in the three months ended June 30, 2023, the Company recognized asset impairment and restructuring costs of $2,160 (three months ended June 30, 2022 – $1,727,985).

5. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are as follows:

	June 30, 2023	March 31, 2023
Cash	$ 460,940	$ 462,460
Cash equivalents	72,326	214,547
	$ 533,266	$ 677,007

6. SHORT-TERM INVESTMENTS

The components of short-term investments are as follows:

	June 30, 2023	March 31, 2023
Government securities	$ -	$ 60,226
Term deposits	30,000	30,000
Commercial paper and other	7,802	15,369
	$ 37,802	$ 105,595

The amortized cost of short-term investments at June 30, 2023 is $37,833 (March 31, 2023 – $107,661).

7. AMOUNTS RECEIVABLE, NET

The components of amounts receivable, net are as follows:

	June 30, 2023	March 31, 2023
Accounts receivable, net	$ 92,496	$ 66,820
Indirect taxes receivable	7,920	11,544
Interest receivable	2,551	3,966
Other receivables	25,502	11,657
	$ 128,469	$ 93,987

Included in the accounts receivable, net balance at June 30, 2023 is an allowance for doubtful accounts of $11,184 (March 31, 2023 – $9,296). Included in the other receivables balance is an amount due of $15,928 relating to a facility sale.

8. INVENTORY

The components of inventory are as follows:

	June 30, 2023	March 31, 2023
Raw materials, packaging supplies and consumables	$ 30,830	$ 28,982
Work in progress	33,634	34,104
Finished goods	77,600	85,815
	$ 142,064	$ 148,901

In the three months ended June 30, 2023, the Company recorded write-downs related to inventory in cost of goods sold of $6,076 (three months ended June 30, 2022 – $12,181).

9. PREPAID EXPENSES AND OTHER ASSETS

The components of prepaid expenses and other assets are as follows:

	June 30, 2023	March 31, 2023
Prepaid expenses	$ 23,722	$ 27,460
Deposits	1,887	1,734
Prepaid inventory	881	690
Other assets	6,002	10,115
	$ 32,492	$ 39,999

10. OTHER FINANCIAL ASSETS

The following table outlines changes in other financial assets. Additional details on how the fair value of significant investments is calculated are included in Note 22.

Entity	Instrument	Balance at March 31, 2023	Additions	Fair value changes	Foreign currency translation adjustments	Other	Balance at June 30, 2023
Acreage[1]	Fixed Shares option and Floating Shares agreement	$ 55,382	$ -	$ 44,714	$ (49)	$ -	$ 100,047
TerrAscend Exchangeable Shares	Exchangeable shares	93,000	-	19,889	(1,885)	-	111,004
TerrAscend - December 2022	Warrants	26,000		6,029	(528)	-	31,501
TerrAscend	Option	1,600	-	333	(33)	-	1,900
Wana	Option	239,078	-	(5,515)	(4,847)	-	228,716
Jetty	Options	75,014	-	-	(1,521)	-	73,493
Acreage Hempco[1]	Debenture	29,262	-	1,589	(593)		30,258
Acreage Debt Option Premium	Option	35,479	-	1,390	(718)	-	36,151
Acreage Tax Receivable Agreement	Other	3,109	-	(1,920)	(64)	-	1,125
Other - at fair value through net income (loss)	Various	1,870	2,156	(1,391)	(28)	-	2,607
Other - classified as held for investment	Loan receivable	8,498	-	-	-	(32)	8,466
		$ 568,292	$ 2,156	$ 65,118	$ (10,266)	$ (32)	$ 625,268

[1] See Note 26 for information regarding the Acreage Amended Arrangement and Acreage Hempco.

For information regarding the Reorganization and Reorganization Amendments, see Note 3. Following the implementation of the Reorganization, Canopy USA, as of October 24, 2022, holds an ownership interest in certain U.S. cannabis investments previously held by the Company, including, among others, interests in the Floating Shares of Acreage, Wana, Jetty, and TerrAscend.

11. PROPERTY, PLANT AND EQUIPMENT

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

	June 30, 2023	March 31, 2023
Buildings and greenhouses	$ 322,354	$ 413,832
Production and warehouse equipment	95,700	101,326
Leasehold improvements	11,068	15,529
Office and lab equipment	11,965	13,857
Computer equipment	8,566	8,697
Land	5,348	16,781
Right-of-use-assets		
Buildings and greenhouses	37,432	37,533
Production and warehouse equipment	637	637
Assets in process	1,755	3,281
	494,825	611,473
Less: Accumulated depreciation	(99,619)	(112,007)
	$ 395,206	$ 499,466

Depreciation expense included in cost of goods sold for the three months ended June 30, 2023 is $10,058 (three months ended June 30, 2022 – $11,074). Depreciation expense included in selling, general and administrative expenses for the three months ended June 30, 2023 is $1,285 (three months ended June 30, 2022 – $4,055).

12. INTANGIBLE ASSETS

The components of intangible assets are as follows:

	June 30, 2023		March 31, 2023	
	Gross Carrying Amount	Net Carrying Amount	Gross Carrying Amount	Net Carrying Amount
Finite lived intangible assets				
Intellectual property	$ 118,280	$ 67,109	$ 119,283	$ 70,588
Distribution channel	73,080	20,376	73,024	21,258
Operating licenses	24,400	18,255	24,400	19,012
Software and domain names	35,502	13,506	35,100	14,664
Brands	18,352	14,425	16,253	13,249
Amortizable intangibles in process	278	278	508	508
Total	$ 269,892	$ 133,949	$ 268,568	$ 139,279
Indefinite lived intangible assets				
Acquired brands		$ 48,993		$ 49,440
Total intangible assets		$ 182,942		$ 188,719

Amortization expense included in cost of goods sold for the three months ended June 30, 2023 is $15 (three months ended June 30, 2022 – $14). Amortization expense included in selling, general and administrative expenses for the three months ended June 30, 2023 is $7,218 (three months ended June 30, 2022 – $6,708).

13. GOODWILL

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

Balance, March 31, 2022	$ 1,866,503
Disposal of consolidated entities	(227)
Impairment losses	(1,785,080)
Foreign currency translation adjustments	4,367
Balance, March 31, 2023	$ 85,563
Foreign currency translation adjustments	(1,178)
Balance, June 30, 2023	$ 84,385

The Company does not believe that an event occurred or circumstances changed during the three months ended June 30, 2023 that would, more likely than not, reduce the fair value of the Storz & Bickel reporting unit below its carrying value. Therefore, the Company concluded that the quantitative goodwill impairment assessment was not required for the Storz & Bickel reporting unit at June 30, 2023. The carrying value of goodwill associated with the Storz & Bickel reporting unit was $84,385 at June 30, 2023.

The Company is required to perform its next annual goodwill impairment analysis on March 31, 2024, or earlier should there be an event that occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

14. OTHER ACCRUED EXPENSES AND LIABILITIES

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

	June 30, 2023	March 31, 2023
Employee compensation	$ 14,492	$ 30,816
Inventory	543	323
Professional fees	10,140	6,343
Taxes and government fees	6,635	5,734
Other	43,615	32,775
	$ 75,425	$ 75,991

15. DEBT

The components of debt are as follows:

	Maturity Date	June 30, 2023	March 31, 2023
Unsecured senior notes at 4.25% interest with semi-annual interest payments	July 15, 2023		
Principal amount		$ 224,880	$ 337,380
Accrued interest		4,513	3,148
Non-credit risk fair value adjustment		25,042	26,214
Credit risk fair value adjustment		(36,286)	(35,492)
		218,149	331,250
Supreme convertible debentures	September 10, 2025	31,335	31,503
Accretion debentures	September 10, 2025	9,067	8,780
Credit facility	March 18, 2026	700,776	840,058
Equity-settled convertible debentures	February 28, 2028	-	93,228
Promissory note	December 31, 2024	83,902	-
Other revolving debt facility, loan, and financings		1,805	2,062
		1,045,034	1,306,881
Less: current portion		(252,902)	(556,890)
Long-term portion		$ 792,132	$ 749,991

Credit Facility

On March 18, 2021, the Company entered into a term loan credit agreement (the "Credit Agreement") providing for a five-year, first lien senior secured term loan facility in an aggregate principal amount of US$750,000 (the “Credit Facility”). The Company had the ability to obtain up to an additional US$500,000 of incremental senior secured debt pursuant to the Credit Agreement. On October 24, 2022, the Company entered into agreements with certain of its lenders under the Credit Agreement pursuant to which the Company tendered US$187,500 of principal amount outstanding thereunder at a discounted price of US$930 per US$1,000 or US$174,375 in the aggregate. The first payment, which was oversubscribed, in the amount of $117,528 (US$87,852) was made on November 10, 2022 to reduce the principal indebtedness by $126,324 (US$94,427). The second payment of $116,847 (US$87,213) was made on April 17, 2023 to reduce principal indebtedness by $125,606 (US$93,750). The Company also agreed to the Credit Agreement Amendments which, among other things, resulted in: (i) reductions to the minimum liquidity covenant to US$100,000; (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$100,000; and (iv) the elimination of the additional US$500,000 incremental term loan facility.

The Credit Facility has no principal payments, matures on March 18, 2026, has a coupon of LIBOR plus 8.50% and is subject to a LIBOR floor of 1.00%. In the event that LIBOR can no longer be adequately ascertained or is no longer available, an alternative rate as permitted under the Credit Agreement will be used. The Company's obligations under the Credit Facility are guaranteed by material wholly-owned Canadian and U.S. subsidiaries of the Company. The Credit Facility is secured by substantially all of these assets, including material real property, of the borrowers and each of the guarantors. The Credit Agreement contains representations and warranties, and affirmative and negative covenants, including a financial covenant requiring minimum liquidity of US$100,000 at the end of each fiscal quarter.

As part of the Company's balance sheet deleveraging initiatives completed in July 2023 (see Note 28), on July 13, 2023, the Company entered into agreements with certain of its lenders under the Credit Agreement pursuant to which the Company and certain of its lenders agreed to amend certain terms of the Credit Agreement (collectively, the "Amended Credit Agreement"). The Amended Credit Agreement reduces the principal indebtedness under the Credit Facility in the amount of $100,000 for a cash payment of $93,000 (the "July 2023 Paydown") and includes an agreement from the Company to direct certain proceeds from completed and or contemplated asset sales to reduce indebtedness under the Credit Facility and receive principal reductions at, in certain circumstances, $0.95 on the dollar toward such repayments. In addition, the Amended Credit Agreement, among other things, contemplates: (i) that the US$100,000 minimum liquidity covenant will cease to be operative concurrently with the July 2023 Paydown; and (ii) the removal of the prepayment premium. The Company paid the July 2023 Paydown on July 21, 2023.

Unsecured Senior Notes

On June 20, 2018, the Company issued the Canopy Notes with an aggregate principal amount of $600,000. The Canopy Notes bear interest at a rate of 4.25% per annum, payable semi-annually on January 15th and July 15th of each year commencing from January 15, 2019. The Canopy Notes mature on July 15, 2023. The Canopy Notes are subordinated in right of payment to any existing and future senior indebtedness. The Canopy Notes will rank senior in right of payment to any future subordinated borrowings. The Canopy Notes are effectively junior to any secured indebtedness and the Canopy Notes are structurally subordinated to all indebtedness and other liabilities of the Company's subsidiaries.

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"), the Company irrevocably surrendered its right to settle the conversion of any Canopy Note with its common shares. As a result, all conversions of Canopy Notes following the execution of the Second Supplemental Indenture will be settled entirely in cash.

The Canopy Notes were initially recognized at fair value on the balance sheet and continue to be recorded at fair value. All subsequent changes in fair value, excluding the impact of the change in fair value related to the Company's own credit risk, are recorded in other income (expense), net. The changes in fair value related to the Company's own credit risk are recorded through other comprehensive income (loss). During the three months ended June 30, 2023, the Company entered into privately negotiated exchange agreements (the "June 2023 Exchange Agreements") with certain Noteholders, pursuant to which the Company acquired and cancelled an aggregate principal amount of Canopy Notes of $12,500 in exchange for cash, including accrued and unpaid interest owing under such Canopy Notes, and the issuance of an aggregate 24,342,740 Canopy Growth common shares. This resulted in a release of accumulated other comprehensive income into other income (expense), net for the three months ended June 30, 2023 of $2,373. The related tax impact of $707 for the three months ended June 30, 2023, associated with the aggregate principal amount acquired and cancelled was also released from accumulated other comprehensive income into income tax expense. Refer to Note 20.

On April 13, 2023, the Company entered into an exchange agreement (the "April 2023 Exchange Agreement") with Greenstar in order to acquire and cancel $100,000 aggregate principal amount of the Canopy Notes. Pursuant to the April 2023 Exchange Agreement, the Company agreed to acquire and cancel $100,000 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 (the "CBI Note") issuable to Greenstar in the aggregate amount of $100,000 payable on December 31, 2024. The CBI Note bears interest at a rate of 4.25% per year, payable on maturity of the CBI Note. As a result, Greenstar no longer holds any Canopy Notes. At June 30, 2023, the estimated fair value of the CBI Note was $83,902, measured using a discounted cash flow model. See Note 22 for additional details on how the fair value of the CBI Note is calculated on a recurring basis.

In connection with the Company's balance sheet deleveraging initiatives completed in July 2023 (see Note 28), on July 13, 2023, the Company entered into the Redemption Agreements (as defined below) with certain Noteholders, pursuant to which approximately $193,000 aggregate principal amount of the Canopy Notes was redeemed on the applicable closing date in exchange for: (i) a cash payment in the aggregate amount of approximately $101,000; (ii) an aggregate 90,430,920 Canopy Growth common shares; and (iii) $40,380 aggregate principal amount of Debentures (as defined below). The initial closing of the Redemption (as defined below) occurred on July 14, 2023 and the final closing of the Redemption occurred on July 17, 2023. Following the Redemption, the Company settled the remaining aggregate principal amount owing under the outstanding Canopy Notes and, as of the maturity date, there are no Canopy Notes outstanding.

The overall change in fair value of the Canopy Notes during the three months ended June 30, 2023 was a decrease of $113,101 (three months ended June 30, 2022 - a decrease of $69,542), which included contractual interest of $2,416 (three months ended June 30, 2022 – $6,047) and principal redemption of $112,500 (three months ended June 30, 2022 – $63,098). Upon redemption, the principal redeemed during the three months ended June 30, 2023 had a fair value of $109,125 (three months ended June 30, 2022 – $50,866). Refer to Note 22 for additional details on how the fair value of the Canopy Notes is calculated and Note 28 for additional changes after June 30, 2023.

Supreme Cannabis Convertible Debentures and Accretion Debentures

On October 19, 2018, The Supreme Cannabis Company, Inc. (“Supreme Cannabis”) entered into an indenture with Computershare Trust Company of Canada (the “Trustee”) pursuant to which Supreme Cannabis issued 6.0% senior unsecured convertible debentures (the “Supreme Debentures”) for gross proceeds of $100,000. On September 9, 2020, Supreme Cannabis and the Trustee entered into a supplemental indenture to effect certain amendments to the Supreme Debentures, which included among other things: (i) the cancellation of $63,500 of principal amount of the Supreme Debentures; (ii) an increase in the interest rate to 8% per annum; (iii) the extension of the maturity date to September 10, 2025; and (iv) a reduction in the conversion price to $0.285.

In addition, on September 9, 2020, Supreme Cannabis issued new senior unsecured non-convertible debentures (the “Accretion Debentures”). The principal amount began at $nil and accretes at a rate of 11.06% per annum based on the remaining principal amount of the Supreme Debentures of $36,500 to a maximum of $13,500, compounding on a semi-annual basis commencing on September 9, 2020, and ending on September 9, 2023. The Accretion Debentures are payable in cash, but do not bear cash interest and are not convertible into the common shares of Supreme Cannabis (the “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 completion of an arrangement, on June 22, 2021 by the Company and Supreme Cannabis, pursuant to which the Company acquired 100% of the issued and outstanding Supreme Shares (the “Supreme Arrangement”), the Supreme Debentures remain outstanding as securities of Supreme Cannabis, which, upon conversion will entitle the holder thereof to receive, in lieu of the number of Supreme Shares to which such holder was theretofore entitled, the consideration payable under the Supreme Arrangement that such holder would have been entitled to be issued and receive if, immediately prior to the effective time of the Supreme Arrangement, such holder had been the registered holder of the number of Supreme Shares to which such holder was theretofore entitled.

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

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

Convertible Debentures

On February 21, 2023, the Company 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$150,000 aggregate principal amount of senior unsecured convertible debentures (“Convertible Debentures”) in a registered direct offering. The Convertible Debentures were issued pursuant to the indenture dated February 21, 2023 (the “Indenture”) between the Company and Computershare Trust Company of Canada, as trustee. Pursuant to the Convertible Debenture Agreement, an initial $135,160 (US$100,000) aggregate principal amount of the Convertible Debentures was sold to the Institutional Investor on February 21, 2023.

The conditions with respect to the remaining US$50,000 aggregate principal amount of the Convertible Debentures were neither satisfied nor waived.

In the three months ended June 30, 2023, $93,228 (US$72,800) in aggregate principal amount of the Convertible Debentures were converted for 84,458,937 Canopy Growth common shares. As of June 30, 2023, all conversions pursuant to the Convertible Debentures have been completed and the amount outstanding under the Convertible Debentures was $nil.

16. OTHER LIABILITIES

The components of other liabilities are as follows:

	As at June 30, 2023			As at March 31, 2023		
	Current	Long-term	Total	Current	Long-term	Total
Lease liabilities	$ 14,511	$ 75,415	$ 89,926	$ 28,684	$ 80,625	$ 109,309
Acquisition consideration and other investment related liabilities	24,411	14,448	38,859	25,945	30,323	56,268
Refund liability	8,105	-	8,105	7,123	-	7,123
Settlement liabilities and other	18,249	8,677	26,926	32,975	13,938	46,913
	$ 65,276	$ 98,540	$ 163,816	$ 94,727	$ 124,886	$ 219,613

The estimated deferred payments associated with the Wana financial instrument (the "Wana Deferred Payments") within acquisition consideration and other investment related liabilities at June 30, 2023 is $22,697 (March 31, 2023 – $26,370). See Note 22 for additional details on how the fair value of the Wana Deferred Payments is calculated on a recurring basis.

17. REDEEMABLE NONCONTROLLING INTEREST

The net changes in the redeemable noncontrolling interests are as follows:

	BioSteel	Total
As at March 31, 2023	$ -	$ -
Net income (loss) attributable to redeemable noncontrolling interest	(3,740)	(3,740)
Adjustments to redemption amount	3,740	3,740
As at June 30, 2023	$ -	$ -

	Vert Mirabel	BioSteel (As Restated)	Total
As at March 31, 2022	$ 1,000	$ 31,500	$ 32,500
Net income (loss) attributable to redeemable noncontrolling interest	495	(5,802)	(5,307)
Adjustments to redemption amount	(495)	1,452	957
As at June 30, 2022	$ 1,000	$ 27,150	$ 28,150

18. SHARE CAPITAL

CANOPY GROWTH

Authorized

An unlimited number of common shares.

(i) Equity financings

There were no equity financings during the three months ended June 30, 2023 (three months ended June 30, 2022 - none).

(ii) Other issuances of common shares

During the three months ended June 30, 2023, the Company issued the following common shares, net of share issuance costs, as a result of business combinations, milestones being met, and other equity-settled transactions:

	Number of common shares	Share capital	Share based reserve
Settlement of Convertible Debentures	84,458,937	$ 108,055	$ -
Total	84,458,937	$ 108,055	$ -

During the three months ended June 30, 2022, the Company issued the following common shares, net of share issuance costs, as a result of business combinations, milestones being met, and other equity-settled transactions:

	Number of common shares	Share capital	Share based reserve
Jetty Agreements	8,426,539	$ 59,013	$ -
Total	8,426,539	$ 59,013	$ -

(iii) Warrants

	Number of whole warrants	Average exercise price	Warrant value
Balance outstanding at March 31, 2023[1]	128,193,047	$ 58.04	$ 2,581,788
Expiry of warrants	-	-	-
Balance outstanding at June 30, 2023[1]	128,193,047	$ 58.04	$ 2,581,788

[1] This balance excludes the Tranche C Warrants (as defined below), which represent a derivative liability and have nominal value. See Note 26.

	Number of whole warrants	Average exercise price	Warrant value
Balance outstanding at March 31, 2022[1]	128,193,047	$ 58.04	$ 2,581,788
Expiry of warrants	-	-	-
Balance outstanding at June 30, 2022[1]	128,193,047	$ 58.04	$ 2,581,788

[1] This balance excludes the Tranche C Warrants, which represent a derivative liability and have nominal value. See Note 26.

19. SHARE-BASED COMPENSATION

CANOPY GROWTH CORPORATION SHARE-BASED COMPENSATION PLAN

Canopy Growth's eligible employees participate in a share-based compensation plan as noted below.

On September 21, 2020, the Company's shareholders approved amendments to the Company's Amended and Restated Omnibus Incentive Plan (as amended and restated, the "Omnibus Plan") pursuant to which the Company can issue share-based long-term incentives. The Omnibus Plan approved by the shareholders extended the maximum term of each Option (as defined below) to be granted by the Company to ten years from the date of grant rather than six years from the date of grant. On May 27, 2021, the Board approved certain amendments to the Omnibus Plan in order to reduce the maximum number of shares available for issuance under the Omnibus Plan from 15% of the issued and outstanding shares to 10% of the issued and outstanding shares from time to time less the number of shares issuable pursuant to other security-based compensation arrangements of the Company. All directors, officers, employees and independent contractors of the Company are eligible to receive awards of common share purchase options ("Options"), restricted share units ("RSUs"), performance share units ("PSUs"), deferred share units, stock appreciation rights, performance awards, or other shares-based awards (collectively, the "Awards") under the Omnibus Plan.

The maximum number of common shares reserved for Awards is 62,672,755 at June 30, 2023. As of June 30, 2023, the only Awards issued have been Options, RSUs and PSUs under the Omnibus Plan.

The Omnibus Plan is administered by the Corporate Governance, Compensation and Nominating Committee of the Board (the "CGC&N Committee") which establishes exercise prices, at not less than the market price at the date of grant, and expiry dates.

Awards under the Omnibus Plan generally vest in increments with 1/3 vesting on each of the first, second and third anniversaries from the date of grant, with expiry dates set at ten years from issuance, subject to the discretion of the CGC&N Committee pursuant to the Omnibus Plan to provide for an alternative expiry date or vesting period in an award agreement for the grant of Awards, subject to limits contained in the Omnibus Plan.

Under the Company's Employee Share Purchase Plan (the "Purchase Plan") the aggregate number of common shares that may be issued is 600,000, and the maximum number of common shares which may be issued in any one fiscal year shall not exceed 300,000. For the three months ended June 30, 2023, no common shares were issued under the Purchase Plan (three months ended June 30, 2022 – none). The Purchase Plan will conclude in August 2023 as all of the common shares available will have been issued and the Company does not currently intend to reinstate the ESPP.

The following is a summary of the changes in the Options outstanding during the three months ended June 30, 2023:

	Options issued	Weighted average exercise price
Balance outstanding at March 31, 2023	13,750,888	$ 27.12
Options granted	24,039,233	0.62
Options forfeited	(1,998,242)	36.40
Balance outstanding at June 30, 2023	35,791,879	$ 8.81

The following is a summary of the Options outstanding as at June 30, 2023:

	Options Outstanding		Options Exercisable	
Range of Exercise Prices	Outstanding at June 30, 2023	Weighted Average Remaining Contractual Life (years)	Exercisable at June 30, 2023	Weighted Average Remaining Contractual Life (years)
$0.06 - $24.62	28,896,292	5.76	1,489,961	3.64
$24.63 - $33.53	2,816,916	2.16	1,668,496	1.90
$33.54 - $36.80	1,099,305	1.45	1,099,305	1.45
$36.81 - $42.84	1,293,127	1.41	1,286,850	1.38
$42.85 - $67.64	1,686,239	1.62	1,686,239	1.62
	35,791,879	4.99	7,230,851	2.03

At June 30, 2023, the weighted average exercise price of the Options outstanding and Options exercisable was $8.81 and $34.55, respectively (March 31, 2023 – $27.12 and $37.28, respectively).

The Company recorded $3,069 in share-based compensation expense related to Options and Purchase Plan shares issued to employees and contractors for the three months ended June 30, 2023 (three months ended June 30, 2022 – $377). The share-based compensation expense for the three months ended June 30, 2023, includes an amount related to 1,078,748 Options being provided in exchange for services which are subject to performance conditions (for the three months ended June 30, 2022 – 1,173,866).

The Company uses the Black-Scholes option pricing model to establish the fair value of Options granted during the three months ended June 30, 2023 and 2022, on their measurement date by applying the following assumptions:

	June 30, 2023	June 30, 2022
Risk-free interest rate	3.83%	3.48%
Expected life of options (years)	3 - 5	3 - 5
Expected volatility	83%	75%
Expected forfeiture rate	21%	19%
Expected dividend yield	nil	nil
Black-Scholes value of each option	$0.38	$2.80

Volatility was estimated by using the historical volatility of the Company. The expected life in years represents the period of time that Options granted are expected to be outstanding. The risk-free rate was based on zero coupon Canada government bonds with a remaining term equal to the expected life of the Options.

During the three months ended June 30, 2023, no Options were exercised (for the three months ended June 30, 2022 – 54,570 Options were exercised ranging in price from $2.68 to $8.18 for gross proceeds of $210).

For the three months ended June 30, 2023, the Company recorded $648, in share-based compensation expense related to RSUs and PSUs (for the three months ended June 30, 2022 – $4,888).

The following is a summary of the changes in the Company's RSUs and PSUs during the three months ended June 30, 2023:

	Number of RSUs and PSUs
Balance outstanding at March 31, 2023	2,583,214
RSUs and PSUs released	(620,321)
RSUs and PSUs cancelled and forfeited	(231,285)
Balance outstanding at June 30, 2023	1,731,608

During the three months ended June 30, 2023, no common shares were released on completion of acquisition milestones (during the three months ended June 30, 2022 – none). At June 30, 2023, there were up to 125,489 common shares to be issued on the completion of acquisition and asset purchase milestones. In certain cases, the number of common shares to be issued is based on the volume weighted average share price at the time the milestones are met. The number of common shares has been estimated assuming the milestones were met at June 30, 2023.

BioSteel share-based payments

On October 1, 2019, the Company purchased 72% of the outstanding shares of BioSteel Sports Nutrition Inc. ("BioSteel"). BioSteel has a stock option plan under which non-transferable options to purchase common shares of BioSteel may be granted to directors, officers, employees, or independent contractors of BioSteel. As at June 30, 2023, BioSteel has 529,025 (March 31, 2023 – 614,778) options outstanding which vest on October 1, 2022 and October 1, 2024. In determining the amount of share-based compensation related to these options, BioSteel used the Black-Scholes option pricing model to establish the fair value of options on their measurement date. The Company recorded $148 of share-based compensation expense related to the BioSteel options during the three months ended June 30, 2023 (three months ended June 30, 2022 – $174).

20. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income includes the following components:

	Foreign currency translation adjustments	Changes of own credit risk of financial liabilities	Accumulated other comprehensive income (loss)
As at March 31, 2023	(30,261)	16,401	(13,860)
Settlement of unsecured senior notes, net of deferred income tax	-	(1,667)	(1,667)
Other comprehensive (loss) income	(7,160)	14,178	7,018
As at June 30, 2023	$ (37,421)	$ 28,912	$ (8,509)

	Foreign currency translation adjustments	Changes of own credit risk of financial liabilities	Accumulated other comprehensive income (loss)
As at March 31, 2022	$ (57,468)	$ 15,186	$ (42,282)
Settlement of unsecured senior notes, net of deferred income tax	-	(7,090)	(7,090)
Other comprehensive income	758	27,060	27,818
As at June 30, 2022	$ (56,710)	$ 35,156	$ (21,554)

21. NONCONTROLLING INTERESTS

The net change in the noncontrolling interests is as follows:

	BioSteel	Other	Total
As at March 31, 2023	1,447	140	1,587
Comprehensive loss	(3,740)	-	(3,740)
Net loss attributable to redeemable noncontrolling interest	3,740	-	3,740
Ownership changes	(12)	-	(12)
As at June 30, 2023	$ 1,435	$ 140	$ 1,575

	Vert Mirabel	BioSteel (As Restated)	Other non-material interests	Total
As at March 31, 2022	$ -	$ 2,497	$ 1,844	$ 4,341
Comprehensive income (loss)	495	(5,802)	-	(5,307)
Net (income) loss attributable to redeemable noncontrolling interest	(495)	5,802	-	5,307
Share-based compensation	-	174	-	174
As at June 30, 2022	$ -	$ 2,671	$ 1,844	$ 4,515

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements are made using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value:

- Level 1 – defined as observable inputs such as quoted prices in active markets;
- Level 2 – defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3 – defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The fair value measurement is categorized in its entirety by reference to its lowest level of significant input.

The Company records cash, accounts receivable, interest receivable and accounts payable, and other accrued expenses and liabilities at cost. The carrying values of these instruments approximate their fair value due to their short-term maturities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

Assets and liabilities recognized or disclosed at fair value on a nonrecurring basis may include items such as property, plant and equipment, goodwill and other intangible assets, equity and other investments and other assets. The Company determines the fair value of these items using Level 3 inputs, as described in the related sections below.

The following table represents the Company's financial assets and liabilities measured at estimated fair value on a recurring basis:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
June 30, 2023				
Assets:				
Short-term investments	$ 37,802	$ -	$ -	$ 37,802
Restricted short-term investments	9,131	-	-	9,131
Other financial assets	1,014	-	615,788	616,802
Liabilities:				
Long-term debt	-	302,051	-	302,051
Other liabilities	-	-	22,697	22,697
March 31, 2023				
Assets:				
Short-term investments	$ 105,595	$ -	$ -	$ 105,595
Restricted short-term investments	11,765	-	-	11,765
Other financial assets	269	-	559,525	559,794
Liabilities:				
Unsecured senior notes	-	331,250	-	331,250
Other liabilities	-	-	29,952	29,952

The following table summarizes the valuation techniques and significant unobservable inputs in the fair value measurement of significant level 2 financial instruments:

Financial asset / financial liability	Valuation techniques	Key inputs
Unsecured senior notes	Senior note pricing model	Quoted prices in over-the-counter broker market

The following table summarizes the valuation techniques and significant unobservable inputs in the fair value measurement of significant level 3 financial instruments:

Financial asset / financial liability	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Acreage financial instrument	Probability weighted expected return model	Probability of each scenario	Change in probability of occurrence in each scenario will result in a change in fair value
		Number of common shares to be issued	Increase or decrease in value and number of common shares will result in a decrease or increase in fair value
		Intrinsic value of Acreage	Increase or decrease in intrinsic value will result in an increase or decrease in fair value
		Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value
		Estimated premium on US legalization	Increase or decrease in estimated premium on US legalization will result in an increase or decrease in fair value
		Control premium	Increase or decrease in estimated control premium will result in an increase or decrease in fair value
		Market access premium	Increase or decrease in estimated market access premium will result in an increase or decrease in fair value
TerrAscend Exchangeable Shares, TerrAscend Option	Put option pricing model	Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value

Hempco Debenture	Discounted cash flow	Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
TerrAscend warrants - December 2022	Black-Sholes option pricing model	Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value
Wana financial instrument - Call Options	Discounted cash flow	Expected future Wana cash flows	Increase or decrease in expected future Wana cash flows will result in an increase or decrease in fair value
		Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
Wana financial instrument - Deferred Payments	Monte Carlo simulation model	Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value
		Volatility of Wana equity	Increase or decrease in volatility will result in an increase or decrease in fair value
Jetty financial instrument - Call Options	Discounted cash flow	Expected future Jetty cash flows	Increase or decrease in expected future Jetty cash flows will result in an increase or decrease in fair value
		Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
Jetty financial instrument - Deferred Payments	Monte Carlo simulation model	Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value
		Volatility of Jetty equity and revenue	Increase or decrease in volatility will result in an increase or decrease in fair value
CBI promissory note	Discounted cash flow	Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
BioSteel redeemable noncontrolling interest	Discounted cash flow	Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
		Expected future BioSteel cash flows	Increase or decrease in expected future BioSteel cash flows will result in an increase or decrease in fair value
Acreage Debt Option Premium	Monte Carlo simulation model	Volatility of Acreage share price	Increase or decrease in volatility will result in a decrease or increase in fair value
Acreage Tax Receivable Agreement	Discounted cash flow	Discount rate	Increase or decrease in discount rate will result in a decrease or increase in fair value
	Probability-weighted expected return model	Probability of each scenario	Change in probability of occurrence in each scenario will result in a change in fair value
		Probability and timing of US legalization	Increase or decrease in probability of US legalization will result in an increase or decrease in fair value

23. REVENUE

Revenue is disaggregated as follows:

	Three months ended June 30, 2023	Three months ended June 30, 2022 (As Restated)
Canada cannabis		
Canadian adult-use cannabis		
Business-to-business[1]	$ 24,189	$ 26,540
Business-to-consumer	-	12,435
	24,189	38,975
Canadian medical cannabis[2]	14,425	13,440
	$ 38,614	$ 52,415
Rest-of-world cannabis	$ 10,162	$ 13,781
Storz & Bickel	$ 18,073	$ 15,643
BioSteel	$ 32,468	$ 13,693
This Works	$ 6,017	$ 5,520
Other	3,392	4,868
Net revenue	$ 108,726	$ 105,920

[1]Canadian adult-use business-to-business net revenue during the three months ended June 30, 2023 reflects excise taxes of $11,026 (three months ended June 30, 2022 – $11,591).
[2]Canadian medical cannabis net revenue for the three months ended June 30, 2023 reflects excise taxes of $1,360 (three months ended June 30, 2022 – $1,156).

The Company recognizes variable consideration related to estimated future product returns and price adjustments as a reduction of the transaction price at the time revenue for the corresponding product sale is recognized. Net revenue reflects actual returns and variable consideration related to estimated returns and price adjustments in the amount of $8,546 for the three months ended June 30, 2023 (three months ended June 30, 2022 – $2,898). As of June 30, 2023, the liability for estimated returns and price adjustments was $8,105 (March 31, 2023 – $7,123).

24. OTHER INCOME (EXPENSE), NET

Other income (expense), net is disaggregated as follows:

	Three months ended June 30, 2023	Three months ended June 30, 2022
Fair value changes on other financial assets	$ 65,118	$ (300,854)
Fair value changes on liability arising from Acreage Arrangement	-	47,000
Fair value changes on debt	1,852	(9,612)
Fair value changes on warrant derivative liability	-	25,365
Fair value changes on acquisition related contingent consideration and other	6,776	40,425
Gain and charges related to settlement of debt	(5,291)	(19,168)
Interest income	7,832	3,950
Interest expense	(32,186)	(26,901)
Foreign currency gain (loss)	5,257	(4,935)
Other income (expense), net	2,139	(848)
	$ 51,497	$ (245,578)

25. INCOME TAXES

There have been no material changes to income tax matters in connection with normal course operations during the three months ended June 30, 2023.

The Company is subject to income tax in numerous jurisdictions with varying income tax rates. During the most recent period ended and the fiscal year to date, there were no material changes to the statutory income tax rates in the taxing jurisdictions where the majority of the Company’s income for tax purposes was earned, or where its temporary differences or losses are expected to be realized or settled. Although statutory income tax rates remain stable, the Company’s effective income tax rate may fluctuate, arising as a result of the Company’s evolving footprint, discrete transactions and other factors that, to the extent material, are disclosed in these financial statements.

The Company continues to believe that the amount of unrealized tax benefits appropriately reflects the uncertainty of items that are or may in the future be under discussion, audit, dispute or appeal with a tax authority or which otherwise result in uncertainty in the determination of income for tax purposes. If appropriate, an unrealized tax benefit will be realized in the reporting period in which the Company determines that realization is not in doubt. Where the final determined outcome is different from the Company’s estimate, such difference will impact the Company’s income taxes in the reporting period during which such determination is made.

26. ACREAGE ARRANGEMENT AND AMENDMENTS TO CBI INVESTOR RIGHTS AGREEMENT AND WARRANTS

Acreage Arrangement

On September 23, 2020, the Company and Acreage entered into a second amendment (the “Acreage Amending Agreement”) to the arrangement agreement (the “Original Acreage Arrangement Agreement”) and plan of arrangement (the “Original Acreage Arrangement”) between the Company and Acreage dated April 18, 2019, as amended on May 15, 2019. In connection with the Acreage Amending Agreement, the Company and Acreage implemented an amended and restated plan of arrangement (the “Acreage Amended Arrangement”) on September 23, 2020. Pursuant to the terms of the Original Acreage Arrangement, shareholders of Acreage and holders of certain securities convertible into the existing Acreage subordinated voting shares as of June 26, 2019, received an immediate aggregate total payment of US$300,000 ($395,190) in exchange for granting Canopy Growth both the right and the obligation to acquire all of the issued and outstanding shares of Acreage following the occurrence or waiver (at the Company's discretion) of changes in U.S. federal law to permit the general cultivation, distribution, and possession of marijuana or to remove the regulation of such activities from the federal laws of the United States (the “Triggering Event”) and subject to the satisfaction or waiver of the conditions set out in the Original Acreage Arrangement Agreement.

The Acreage Amended Arrangement provides for, among other things, the following:

- Following the occurrence or waiver (at the discretion of Canopy Growth) of the Triggering Event and subject to the satisfaction or waiver of the conditions set out in the Original Acreage Arrangement Agreement (as modified in connection with the Acreage Amending Agreement), Canopy Growth will acquire all of the issued and outstanding Fixed Shares based on an amended exchange ratio equal to 0.3048 of a common share to be received for each Fixed Share held. The foregoing exchange ratio for the Fixed Shares is subject to adjustment in accordance with the Acreage Amended Arrangement if, among other things, Acreage issues greater than the permitted number of Fixed Shares;
- Upon the occurrence or waiver (at the discretion of Canopy Growth) of the Triggering Event, Canopy Growth will have the right (the "Acreage Floating Option") exercisable for a period of 30 days, to acquire all of the issued and outstanding Floating Shares for cash or common shares or a combination thereof, in Canopy Growth’s sole discretion at a price equal to the 30-day volume weighted average trading price of the Floating Shares on the Canadian Securities Exchange, subject to a minimum call price of US$6.41 per Floating Share. The foregoing exchange ratio for the Floating Shares is subject to adjustment in accordance with the Acreage Amended Arrangement if Acreage issues greater than the permitted number of Floating Shares. The acquisition of the Floating Shares, if acquired, will take place concurrently with the closing of the acquisition of the Fixed Shares;
- Immediately prior to the acquisition of the Fixed Shares, each issued and outstanding Class F multiple voting share will automatically be exchanged for one Fixed Share and thereafter be acquired by Canopy Growth upon the same terms and conditions as the acquisition of the Fixed Shares;
- If the occurrence or waiver of the Triggering Event does not occur by September 23, 2030, Canopy Growth’s rights to acquire both the Fixed Shares and the Floating Shares will terminate;
- Upon implementation of the Acreage Amended Arrangement, Canopy Growth made a cash payment to the shareholders of Acreage and holders of certain convertible securities in the aggregate amount of US$37,500 ($49,849); and
- Acreage is only permitted to issue an aggregate of up to 32,700,000 Fixed Shares and Floating Shares.

See Note 3 for information regarding the Reorganization. In connection with the Reorganization and the Floating Share Arrangement Agreement, Canopy Growth irrevocably waived the Acreage Floating Option and subject to, among other things, the terms of the Floating Share Arrangement Agreement, Canopy USA will acquire all of the issued and outstanding Floating Shares. Following the implementation of the Reorganization, Canopy USA, as of October 24, 2022, holds certain U.S. cannabis investments previously held by the Company, which is expected to enable Canopy USA, following, among other things, the Meeting 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.

At June 30, 2023, the right and the obligation to: (i) acquire the Fixed Shares pursuant to the Existing Acreage Arrangement Agreement; and (ii) acquire the Floating Shares pursuant to the Floating Share Arrangement Agreement (together, the "Acreage financial instrument"), represents a financial asset of $100,047 (March 31, 2023 – $55,382 asset). At June 30, 2023, the estimated fair value of the Acreage business is more than the estimated fair value of the consideration to be provided upon the exercise of the Acreage financial instrument. Fair value changes on the Acreage financial instrument are recognized in other income (expense), net; see Note 24. The fair value determination includes a high degree of subjectivity and judgment, which results in significant estimation uncertainty. See Note 22 for additional details on how the fair value of the Acreage financial instrument is calculated on a recurring basis. From a measurement perspective, the Company has elected the fair value option under ASC 825 - *Financial Instruments* ("ASC 825").

In connection with the Acreage Amended Arrangement, on September 23, 2020, an affiliate of the Company advanced US$50,000 ($66,995) to Universal Hemp, LLC, a wholly owned subsidiary of Acreage ("Acreage Hempco") pursuant to a secured debenture ("Hempco Debenture"). In accordance with the terms of the Hempco Debenture, the funds advanced to Acreage Hempco cannot be used, directly or indirectly, in connection with or for any cannabis or cannabis-related operations in the United States, unless and until such operations comply with all applicable laws of the United States. The Hempco Debenture bears interest at a rate of 6.1% per annum and matures on September 23, 2030, or such earlier date in accordance with the terms of the Hempco Debenture. All interest payments made pursuant to the Hempco Debenture are payable in cash by Acreage Hempco. The Hempco Debenture is not convertible and is not guaranteed by Acreage. In connection with the Reorganization, as described in Note 3, on October 24, 2022, the Company transferred the Hempco Debenture to Canopy USA.

The amount advanced on September 23, 2020 pursuant to the Hempco Debenture has been recorded in other financial assets (see Note 10), and the Company has elected the fair value option under ASC 825 (see Note 22). At June 30, 2023, the estimated fair value of the Hempco Debenture issued to an affiliate of the Company by Acreage Hempco was $30,258 (March 31, 2023 – $29,262), measured using a discounted cash flow model (see Note 22). Refer to Note 10 for details on fair value changes, foreign currency translation adjustment, and interest received. An additional US$50,000 may be advanced pursuant to the Hempco Debenture subject to the satisfaction of certain conditions by Acreage Hempco.

Amendment to the CBI Investor Rights Agreement and warrants

On April 18, 2019, certain wholly owned subsidiaries of CBI and Canopy Growth entered into the Second Amended and Restated Investor Rights Agreement (the "Amended Investor Rights Agreement") and a consent agreement. In connection with these agreements, on June 27, 2019, Canopy Growth (i) extended the term of the first tranche of warrants, which allow CBI to acquire 88.5 million additional shares of Canopy Growth for a fixed price of $50.40 per share (the "Tranche A Warrants"), to November 1, 2023; and (ii) replaced the second tranche of warrants with two new tranches of warrants (the "Tranche B Warrants" and the "Tranche C Warrants") as follows:

- the Tranche B Warrants are exercisable to acquire 38.5 million common shares at a price of C$76.68 per common share; and
- the Tranche C Warrants are exercisable to acquire 12.8 million common shares at a price equal to the 5-day volume-weighted average price of the common shares immediately prior to exercise.

In connection with the Tranche B Warrants and the Tranche C Warrants, Canopy Growth will provide CBI with a share repurchase credit of up to $1.583 billion on the aggregate exercise price of the Tranche B Warrants and Tranche C Warrants in the event that Canopy Growth does not purchase for cancellation the lesser of (i) 27,378,866 common shares; and (ii) common shares with a value of $1.583 billion, during the period commencing on April 18, 2019 and ending on the date that is 24 months after the date that CBI exercises all of the Tranche A Warrants. The share repurchase credit feature is accounted for as a derivative liability, with the fair value continuing to be $nil at June 30, 2023.

The modifications to the Tranche A Warrants resulted in them meeting the definition of a derivative instrument under ASC 815 - *Derivatives and Hedging* ("ASC 815"). They continue to be classified in equity as the number of shares and exercise price were both fixed at inception.

The Tranche B Warrants are accounted for as derivative instruments (the "warrant derivative liability") measured at fair value in accordance with ASC 815. At June 30, 2023, the fair value of the warrant derivative liability was $nil (March 31, 2023 – $nil), and fair value changes are recognized in other income (expense), net; see Note 24. See Note 22 for additional details on how the fair value of the warrant derivative liability is calculated on a recurring basis.

The Tranche C Warrants are accounted for as derivative instruments, with the fair value continuing to be $nil at June 30, 2023.

As described in Note 3, in connection with the Reorganization, the Company entered into the Third Consent Agreement, pursuant to which CBG and Greenstar agreed, among other things, that in the event that CBG and Greenstar convert their ownership in the Company's common shares into Exchangeable Shares, CBG will surrender the warrants held by CBG to purchase 139,745,453 common shares of the Company for cancellation for no consideration. In addition, following such conversion by CBG and Greenstar of their common shares into Exchangeable Shares, other than the Third Consent Agreement and the termination rights contained therein and the CBI Note (as defined below), all agreements between the Company and CBI will terminate, including the Amended Investor Rights Agreement. In such circumstances it is expected that the CBI nominees that are currently sitting on the Board will resign as directors of the Company following the termination of the Amended Investor Rights Agreement.

27. SEGMENT INFORMATION

Reportable segments

Prior to the three months ended September 30, 2022, the Company 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 three months ended March 31, 2022, and which were aligned with the Company's strategic review of its business, the Company has changed the structure of its internal management financial reporting. Accordingly, in the three months ended September 30, 2022, the Company began reporting its 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 the Company's operations are managed, how the Company's Chief Executive Officer, who is the Chief Operating Decision Maker ("CODM"), allocates resources and evaluates performance, and how the Company's internal management financial reporting is structured. The Company's 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. Accordingly, 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 the Company's operations include revenue derived from, and cost of sales associated with, the Company's non-cannabis extraction activities and other ancillary activities; these are included within "other".

	Three months ended	
	June 30, 2023	June 30, 2022 (As Restated)
Segmented net revenue		
Canada cannabis	$ 38,614	$ 52,415
Rest-of-world cannabis	10,162	13,781
Storz & Bickel	18,073	15,643
BioSteel	32,468	13,693
This Works	6,017	5,520
Other	3,392	4,868
	$ 108,726	$ 105,920
Segmented gross margin:		
Canada cannabis	(495)	$ (12,534)
Rest-of-world cannabis	3,481	(160)
Storz & Bickel	7,707	5,621
BioSteel	(7,825)	(1,762)
This Works	2,895	2,647
Other	174	602
	5,937	(5,586)
Selling, general and administrative expenses	91,252	103,413
Share-based compensation	3,865	5,439
Asset impairment and restructuring costs	2,160	1,727,985
Operating loss	(91,340)	(1,842,423)
Other income (expense), net	51,497	(245,578)
Loss before incomes taxes	$ (39,843)	$ (2,088,001)

Asset information by segment is not provided to, or reviewed by, the Company's CODM as it is not used to make strategic decisions, allocate resources, or assess performance.

Entity-wide disclosures

Disaggregation of net revenue by geographic area:

	Three months ended	
	June 30, 2023	June 30, 2022 (As Restated)
Canada	$ 71,293	$ 70,254
Germany	11,748	12,364
United States	14,347	11,613
Other	11,338	11,689
	$ 108,726	$ 105,920

Disaggregation of property, plant and equipment by geographic area:

	June 30, 2023	March 31, 2023
Canada	$ 314,122	$ 361,778
United States	30,152	85,772
Germany	50,840	51,341
Other	92	575
	$ 395,206	$ 499,466

For the three months ended June 30, 2023, one customer represented more than 10% of the Company's net revenue (three months ended June 30, 2022 – none).

28. SUBSEQUENT EVENTS

Balance Sheet Deleveraging Initiatives

On July 13, 2023, the Company entered into privately negotiated redemption agreements (collectively, the "Redemption Agreements") with certain Noteholders of the Canopy Notes, pursuant to which approximately $193,000 aggregate principal amount of the outstanding Canopy Notes held by such Noteholders were redeemed by the Company (the "Redemption") on the applicable closing date for: (i) an aggregate cash payment of approximately $101,000; (ii) the issuance of 90,430,920 Canopy Growth common shares; and (iii) the issuance of approximately $40,380 aggregate principal amount of newly issued unsecured non-interest bearing convertible debentures (the "Debentures"). The initial closing of the Redemption occurred on July 14, 2023 and the final closing of the Redemption occurred on July 17, 2023.

The Debentures will mature on January 15, 2024 (the "Debenture Maturity Date") unless earlier converted in accordance with the terms of a debenture indenture dated July 14, 2023 between the Company and Odyssey Trust Company, as trustee. The Debentures are convertible into Canopy Growth common shares (the "Debenture Shares") at the option of the holder at any time or times following approval from the Company's shareholders for the issuance of all of the Debenture Shares in excess of 19.99% and 25%, as applicable, of the issued and outstanding Canopy Growth common shares in accordance with the applicable rules and regulations of the Nasdaq and the TSX (the "Shareholder Approval"), at a conversion price equal to $0.55, subject to adjustment in certain events.

Assuming Shareholder Approval is obtained, the Company will, at its sole option, elect to settle the Debentures in cash or Debenture Shares on the Debenture Maturity Date; provided that the Company has agreed with its lenders under the Amended Credit Agreement that it will settle the Debentures in Debenture Shares on the Maturity Date if the Shareholder Approval has been obtained. In the event Shareholder Approval is not obtained, the Debentures will be settled in cash.

Following the Redemption, the Company settled the remaining aggregate principal amount owing under the outstanding Canopy Notes and, as of the maturity date, there are no Canopy Notes outstanding.

As described in Note 15, on July 13, 2023, the Company and certain of its lenders entered into the Amended Credit Agreement, pursuant to which: (i) the Company and its lenders agreed to the July 2023 Paydown; and (ii) the Company agreed to direct certain proceeds from completed and or contemplated asset sales to reduce indebtedness under the Credit Facility and receive principal reductions at, in certain circumstances, $0.95 on the dollar toward such repayments. In addition, the Amended Credit Agreement, among other things, contemplates: (i) that the US$100,000 minimum liquidity covenant will cease to be operative concurrently with the July 2023 Paydown; and (ii) the removal of the prepayment premium. The Company paid the July 2023 Paydown on July 21, 2023.

Annual General and Special Meeting Update

On August 9, 2023, Canopy Growth filed its definitive proxy statement in connection with the Company's Annual General and Special Meeting to be held on September 25, 2023 (the "Annual Meeting"). In addition to the normal course business brought before the Annual Meeting, the Company intends to seek shareholder approval for, among other things, the following:

- The Shareholder Approval in connection with the Redemption and in furtherance thereof, the Company entered into a voting support agreement with Greenstar and CBG (together with Greenstar, the "CBG Group"), pursuant to which the CBG Group agreed to vote their Canopy Growth common shares in favor of the Shareholder Approval;
- The adoption of a new simplified equity plan; and
- A proposal to amend the Company's articles of incorporation, as amended, to effect a share consolidation (commonly known as a reverse stock split) on the basis of a ratio to be determined by the Board, in its sole discretion, within a range of one post-consolidation common share for every 5 to 15 outstanding pre-consolidation common shares at any time prior to September 25, 2024.