CANOPY GROWTH CORPORATION

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

FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2022

NOVEMBER 9, 2022

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

Introduction

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

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

- *Part 2 - Results of Operations.* This section provides an analysis of our results of operations for the second quarter of fiscal 2023 in comparison to the second quarter of fiscal 2022, and for the six months ended September 30, 2022 in comparison to the six months ended September 30, 2021.

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

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

Special Note Regarding Forward-Looking Statements

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

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

- laws and regulations and any amendments thereto applicable to our business and the impact thereof, including uncertainty regarding the application of U.S. state and federal law to U.S. hemp (including CBD) products and the scope of any regulations by the U.S. Food and Drug Administration, the U.S. Drug Enforcement Administration, the U.S. Federal Trade Commission, the U.S. Patent and Trademark Office, the U.S. Department of Agriculture (the "USDA") and any state equivalent regulatory agencies over U.S. hemp (including CBD) products;
- expectations regarding the amount or frequency of impairment losses, including as a result of the write-down of intangible assets, including goodwill;
- the Company's ability to execute on its strategy to accelerate the Company's entry into the U.S. cannabis market;
- expectations regarding the potential success of, and the costs and benefits associated with the Reorganization (as defined below);
- expectations to capitalize on the opportunity for growth in the United States cannabis sector and the anticipated benefits of such strategy;
- the timing and outcome of the Floating Share Arrangement (as defined below), the anticipated benefits of the Floating Share Arrangement, the anticipated timing of the Acreage (as defined below) special meeting of shareholders and the acquisition of the Fixed Shares (as defined below) and the Floating Shares (as defined below) by Canopy USA (as defined below), the satisfaction or waiver of the closing conditions set out in the Floating Share Arrangement Agreement (as defined below) and

the Acreage Arrangement Agreement (as defined below), including receipt of all regulatory approvals, and the anticipated timing and occurrence of the Company's exercise of the option to acquire the Fixed Shares and closing of such transaction;

- the issuance of additional common shares to satisfy the payments to the Holders (as defined below) and to satisfy any deferred and/or option exercise payments to the shareholders of Wana (as defined below) and Jetty (as defined below) and the Non-Voting Shares (as defined below) issuable to Canopy Growth from Canopy USA in consideration thereof;
- the potential conversion of common shares held by the CBI Group (as defined below) to Exchangeable Shares (as defined below), including the termination of the Second Amended and Restated Investor Rights Agreement (as defined below);
- the anticipated timing and occurrence of the Meeting (as defined below) to approve the Amendment Proposal (as defined below);
- the timing of the Paydown (as defined below) and the reduction in interest rates;
- the potential settlement of Notes (as defined below) following the Meeting;
- expectations related to our announcement of certain restructuring actions (the "Restructuring Actions"), the Reorganization, and any progress, challenges and effects related thereto as well as changes in strategy, metrics, investments, costs, operating expenses, employee turnover and other changes with respect thereto;
- expectations regarding the laws and regulations and any amendments thereto relating to the U.S. hemp industry in the U.S., including the promulgation of regulations for the U.S. hemp industry by the USDA and relevant state regulatory authorities;
- expectations regarding the potential success of, and the costs and benefits associated with the Reorganization, our acquisitions, joint ventures, strategic alliances, equity investments and dispositions;
- the Acreage Amended Arrangement (as defined below) and the Floating Share Arrangement, including the occurrence or waiver (at our discretion) of the Triggering Event (as defined below), the anticipated timing and occurrence of the Company's exercise of the option to acquire the Fixed Shares and the satisfaction or waiver of the conditions to closing the acquisition of Acreage;
- the Wana Agreements (as defined below), including the occurrence or waiver (at our discretion) of the Triggering Event;
- the grant, renewal and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof;
- the uncertainties associated with the COVID-19 pandemic, including our ability, and the ability of our suppliers and distributors, to effectively manage the restrictions, limitations and health issues presented by the COVID-19 pandemic, the ability to continue our production, distribution and sale of our products and the demand for and use of our products by consumers, disruptions to the global and local economies due to related stay-at-home orders, quarantine policies and restrictions on travel, trade and business operations and a reduction in discretionary consumer spending;
- our international activities and joint venture interests, including required regulatory approvals and licensing, anticipated costs and timing, and expected impact;
- our ability to successfully create and launch brands and further create, launch and scale cannabis-based products and U.S. hemp-derived consumer products in jurisdictions where such products are legal and that we currently operate in;
- the benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, including CBD and other cannabinoids;
- the anticipated benefits and impact of the investments in us (the "CBI Group Investments") from Constellation Brands, Inc. ("CBI") and its affiliates (together, the "CBI Group");
- the potential exercise of the warrants held by the CBI Group, pre-emptive rights and/or top-up rights held by the CBI Group;
- expectations regarding the use of proceeds of equity financings, including the proceeds from CBI;
- the legalization of the use of cannabis for medical or recreational in jurisdictions outside of Canada, the related timing and impact thereof and our intentions to participate in such markets, if and when such use is legalized;
- our ability to execute on our strategy and the anticipated benefits of such strategy;
- the ongoing impact of the legalization of additional cannabis product types and forms for recreational use in Canada, including federal, provincial, territorial and municipal regulations pertaining thereto, the related timing and impact thereof and our intentions to participate in such markets;
- the ongoing impact of developing provincial, territorial and municipal regulations pertaining to the sale and distribution of cannabis, the related timing and impact thereof, as well as the restrictions on federally regulated cannabis producers participating in certain retail markets and our intentions to participate in such markets to the extent permissible;
- the timing and nature of legislative changes in the U.S. regarding the regulation of cannabis including tetrahydrocannabinol ("THC");
- the future performance of our business and operations;
- our competitive advantages and business strategies;
- the competitive conditions of the industry;
- the expected growth in the number of customers using our products;
- our ability or plans to identify, develop, commercialize or expand our technology and research and development initiatives in cannabinoids, or the success thereof;
- expectations regarding revenues, expenses and anticipated cash needs;

- expectations regarding cash flow, liquidity and sources of funding;
- expectations regarding capital expenditures;
- our ability to refinance debt as and when required on terms favorable to us and comply with covenants contained in our debt facilities and debt instruments;
- the expansion of our production and manufacturing, the costs and timing associated therewith and the receipt of applicable production and sale licenses;
- the expected growth in our growing, production and supply chain capacities;
- expectations regarding the resolution of litigation and other legal and regulatory proceedings, reviews and investigations;
- expectations with respect to future production costs;
- expectations with respect to future sales and distribution channels and networks;
- the expected methods to be used to distribute and sell our products;
- our future product offerings;
- the anticipated future gross margins of our operations;
- accounting standards and estimates;
- expectations regarding our distribution network;
- expectations regarding the costs and benefits associated with our contracts and agreements with third parties, including under our third-party supply and manufacturing agreements; and
- expectations on price changes in cannabis markets.

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

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

By their nature, forward-looking statements are subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, including known and unknown risks, many of which are beyond our control, could cause actual results to differ materially from the forward-looking statements in this Quarterly Report and other reports we file with, or furnish to, the Securities and Exchange Commission (the "SEC") and other regulatory agencies and made by our directors, officers, other employees and other persons authorized to speak on our behalf. Such factors include, without limitation, our limited operating history; the risks that the stock exchanges on which we are listed may disagree with our interpretations of their policies, including that financial consolidation of Canopy USA may be permissible in the event that Canopy USA closes on the acquisition of Wana, Jetty or the Fixed Shares of Acreage; inherent uncertainty associated with projections; the diversion of management time on issues related to Canopy USA; the ability of parties to certain transactions to receive, in a timely manner and on satisfactory terms, the necessary regulatory, court and shareholder approvals; the risks that our Restructuring Actions will not result in the expected cost-savings, efficiencies and other benefits or will result in greater than anticipated turnover in personnel; risks that we may be required to write down intangible assets, including goodwill, due to impairment; changes in laws, regulations and guidelines and our compliance with such laws, regulations and guidelines; the risk that the COVID-19 pandemic may disrupt our operations and those of our suppliers and distribution channels and negatively impact the demand for and use of our products; consumer demand for cannabis and U.S. hemp products; inflation risks; the risks and uncertainty regarding future product development; our reliance on licenses issued by and contractual arrangements with various federal, state and provincial governmental authorities; the risk that cost savings and any other synergies from the CBI Group Investments may not be fully realized or may take longer to realize than expected; the implementation and effectiveness of key personnel changes; risks associated with jointly owned investments; risks relating to our current and future operations in emerging markets; risks relating to inventory write downs; future levels of revenues and the impact of increasing levels of competition; risks related to the protection and enforcement of our intellectual property rights; our ability to manage disruptions in credit markets or changes to our credit ratings; future levels of capital, environmental or maintenance expenditures, general and administrative and other expenses; the success or timing of completion of ongoing or anticipated capital or maintenance projects; risks related to the integration of acquired businesses; the timing and manner of the legalization of cannabis in the United States; business strategies, growth opportunities and expected investment; the adequacy of our capital resources and liquidity, including but not limited to, availability of sufficient cash flow to execute our business plan (either within the expected timeframe or at all); counterparty risks and liquidity risks that may impact our ability to obtain loans and other credit facilities on favorable terms; the potential effects of judicial, regulatory or other proceedings, or threatened litigation or proceedings, on our business, financial condition, results of operations and cash flows; risks related to stock exchange restrictions; risks associated with divestment and restructuring; volatility in and/or degradation of general economic, market, industry or business conditions; our exposure to risks related to an agricultural business, including wholesale price volatility and variable product quality; third-party manufacturing risks; third-party transportation risks; compliance with applicable environmental, economic, health and safety, energy and other policies and regulations and in particular health concerns with respect to vaping and the use of cannabis and U.S. hemp products in vaping devices; the anticipated effects of actions of third parties such as competitors, activist investors or federal, state, provincial, territorial or local regulatory authorities, self-regulatory organizations, plaintiffs in litigation or persons threatening litigation; changes in regulatory requirements in relation to our business and products; and the factors discussed under the heading “Risk Factors” in the Annual Report and in Item 1A of Part II of this Quarterly Report. Readers are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

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

Part 1 - Business Overview

We are a world-leading cannabis consumer packaged goods (“CPG”) company which produces, distributes, and sells a diverse range of cannabis, hemp, and CPG products. Cannabis products are principally sold for recreational and medical purposes under a portfolio of distinct brands in Canada pursuant to the *Cannabis Act*, and globally pursuant to applicable international legislation, regulations, and permits. Our other product offerings, which are sold by our subsidiaries in jurisdictions where it is permissible to do so, include (i) Storz & Bickel vaporizers; (ii) BioSteel Sports Nutrition Inc. ("BioSteel") sports nutrition beverages, mixes, protein, gum and mints, some of which have been infused with hemp-derived CBD isolate; and (iii) This Works beauty, skincare, wellness and sleep products, some of which have been blended with hemp-derived CBD isolate. Our core operations are in Canada, the United States, and Germany.

On October 17, 2018, the *Cannabis Act* came into effect in Canada, regulating both the medical and recreational cannabis markets in Canada and providing provincial, territorial and municipal governments the authority to prescribe regulations regarding the distribution and sale of recreational cannabis. On October 17, 2019, the second phase of recreational cannabis products was legalized pursuant to certain amendments to the regulations under the *Cannabis Act*. We currently offer product varieties in dried flower, oil, softgels, vape pen power sources, pod-based vape devices, vape cartridges, cannabis-infused beverages and cannabis-infused edibles, with product availability varying based on provincial and territorial regulations. Our recreational cannabis products are predominantly sold to provincial and territorial agencies under a “business-to-business” wholesale model, with those provincial and territorial agencies then being responsible for the distribution of our products to brick-and-mortar stores and for online retail sales. As described under "Recent Developments" below, on September 27, 2022, we announced that we have entered into agreements to divest our retail business across Canada, which includes the retail stores operating under the Tweed and Tokyo Smoke banners under a “business-to-consumer” model. In the first quarter of fiscal 2022, we completed the acquisitions of (i) The Supreme Cannabis Company, Inc. (“Supreme Cannabis”), a producer of recreational, wholesale and medical cannabis products with a diversified portfolio of distinct cannabis products and brands; and (ii) AV Cannabis Inc. ("Ace Valley"), an Ontario-based cannabis brand focused on premium, ready-to-enjoy products including vapes, pre-roll joints and gummies.

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

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

In June 2019, we implemented a plan of arrangement pursuant to an arrangement agreement (the "Acreage Arrangement Agreement") with Acreage Holdings, Inc. ("Acreage"), a U.S. multi-state cannabis operator. In September 2020, we entered into a second amendment to the Acreage Arrangement Agreement (the "Acreage Amending Agreement") and implemented an amended and restated plan of arrangement (the "Acreage Amended Arrangement"). Pursuant to the Acreage Amended Arrangement, following the occurrence or waiver (at our discretion) of changes in U.S. federal law to permit the general cultivation, distribution, and possession of marijuana or to remove the regulation of such activities from the federal laws of the United States (the "Triggering Event") and subject to the satisfaction or waiver of the conditions set out in the Acreage Arrangement Agreement (as modified by the Acreage Amending Agreement), we (i) agreed to acquire approximately 70% of the issued and outstanding shares of Acreage, and (ii) obtained the right (the "Acreage Floating Option") to acquire the other approximately 30% of the issued and outstanding shares of Acreage. In connection with the Floating Share Arrangement Agreement, Canopy Growth has irrevocably waived the Acreage Floating Option existing under the Acreage Arrangement Agreement. The acquisition of Acreage, if completed, will provide a pathway into cannabis markets in the United States; however, we and Acreage will continue to operate as independent companies until the acquisition of Acreage is completed.

On October 14, 2021, we entered into definitive option agreements (the "Wana Agreements") with Mountain High Products, LLC, Wana Wellness, LLC and The Cima Group, LLC (collectively, "Wana") providing us with the right, upon the occurrence or waiver (at our discretion) of the Triggering Event, to acquire 100% of the outstanding membership interests of Wana. Wana manufactures and sells gummies in the state of Colorado and licenses its intellectual property to partners, who manufacture, distribute, and sell Wana-branded gummies across the United States, including in California, Arizona, Illinois, Michigan and Florida, and across Canada. Until such time as we exercise our right to acquire Wana, we will have no economic or voting interest in Wana, and we and Wana will continue to operate independently. Additionally, on May 17, 2022, we and Lemurian, Inc. ("Jetty") entered into definitive agreements (the "Jetty Agreements") providing us with the right to acquire up to 100% of the outstanding equity interests in Jetty upon the Triggering Event. Jetty is a California-based producer of high-quality cannabis extracts and pioneer of clean vape technology.

As described below under "Recent Developments", on October 25, 2022, we announced a strategy to accelerate our entry into the U.S. cannabis industry through the creation of a new U.S.-domiciled holding company, Canopy USA, LLC ("Canopy USA") (the "Reorganization"). Following the implementation of the Reorganization, Canopy USA, as of October 24, 2022, holds our U.S. cannabis investments, which is expected to enable Canopy USA, following, among other things, the Meeting, to exercise its rights to acquire Acreage, Wana, and Jetty.

Our products contain THC, CBD, or a combination of these two cannabinoids which are found in the cannabis sativa plant species. THC is the primary psychoactive or intoxicating cannabinoid found in cannabis. We also refer throughout this MD&A to "hemp", which is a term used to classify varieties of the cannabis sativa plant that contain CBD and 0.3% or less THC content (by dry weight). Conversely, references to the term "marijuana" refers to varieties of the cannabis sativa plant with more than 0.3% THC content and moderate levels of CBD.

Our licensed operational capacity in Canada includes indoor and greenhouse cultivation space; post-harvest processing and cannabinoid extraction capability; advanced manufacturing capability for softgel encapsulation and pre-rolled joints; a beverage production facility; and confectionary manufacturing. These capabilities allow us to supply the recreational and medical markets with a complimentary balance of flower products and extracted cannabinoid input for our oil, CBD, ingestible cannabis, cannabis extracts and cannabis topical products.

Segment Reporting

Prior to the second quarter of fiscal 2022, we had the following two reportable segments: (i) global cannabis; and (ii) other consumer products. Following the completion of certain restructuring actions which were initiated in the fourth quarter of fiscal 2022, and which were aligned with our strategic review of our business, we have changed the structure of our internal management financial reporting. Accordingly, in the second quarter of fiscal 2023 we are reporting our financial results for the following five reportable segments: (i) Canada cannabis; (ii) rest-of-world cannabis; (iii) Storz & Bickel; (iv) BioSteel; and (v) This Works, with the principal activities of each of these reportable segments described above under "Business Overview".

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

Update on the COVID-19 Pandemic

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

We believe we have sufficient liquidity available from cash and cash equivalents and short-term investments on hand of $746.7 million and $396.7 million, respectively, at September 30, 2022, to enable us to meet our working capital and other operating requirements, fund growth initiatives and capital expenditures, settle our liabilities, and repay scheduled principal and interest payments on debt for at least the next twelve months. Refer to "Part 3 – Financial Liquidity and Capital Resources" for further information.

Recent Developments

Reorganization - Creation of Canopy USA

On October 25, 2022, Canopy Growth completed the Reorganization, which included the creation of Canopy USA. Following the implementation of the Reorganization, Canopy USA, as of October 24, 2022, holds the U.S. cannabis investments previously held by Canopy Growth, which is expected to enable Canopy USA, following, among other things, the Meeting, to exercise its rights to acquire Acreage, Wana, and Jetty.

Canopy USA has an ownership interest in the following assets, among others:

- **Acreage** - The shares to be acquired upon the exercise of the option to acquire approximately 70% of the total shares of Acreage at a fixed share exchange ratio of 0.3048 of a common share of Canopy Growth. In addition, Canopy USA will acquire all of the issued and outstanding Class D subordinate voting shares of Acreage (the "Floating Shares") subject to, among other things, the terms and conditions of the Floating Share Arrangement Agreement (as defined below). 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.
- **Wana** - The option to acquire 100% of the membership interests of Wana, a leading cannabis edibles brand in North America.
- **Jetty** - The option to acquire 100% of the shares of Jetty, a California-based producer of high-quality cannabis extracts and pioneer of clean vape technology.

In addition, as of October 24, 2022, Canopy USA controls a conditional ownership position, assuming conversion of its exchangeable shares and the exercise of its option but excluding the exercise of its warrants, of approximately 13.7% in 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 includes control over all exchangeable shares, options and warrants previously held by Canopy Growth in TerrAscend as well as the debentures and loan agreement between Canopy Growth and certain TerrAscend subsidiaries.

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. 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, but are convertible into common shares of Canopy USA (the “Canopy USA Common Shares”). To facilitate the creation of the Non-Voting Shares, Canopy USA has raised funds from a third-party investor and has agreed to issue additional Canopy USA Common Shares to the shareholders of Wana as additional consideration in exchange for the option to acquire Wana and reduce the future payments owed in connection with the exercise of each of the options to acquire Wana to US$1.00, resulting in an aggregate exercise price of US$3.00 (the "Wana Amendments"). The value of the Canopy USA Common Shares to be issued to the shareholders of Wana will be equal to 7.5% of the fair market value of Wana as of no earlier than January 1, 2023 (the "Wana Value Payment"). In connection with the Wana Amendments, Canopy Growth has also agreed to issue common shares to the shareholders of Wana with a value equal to the Wana Value Payment as of no earlier than January 1, 2023, subject to certain limitations. Canopy Growth has also agreed to register the resale of the common shares issued in connection with the Wana Amendments.

Canopy Growth has the right to convert its Non-Voting Shares into Canopy USA Common Shares and Canopy USA retains a call right to repurchase all Canopy USA Common Shares that have been issued to third parties, subject to certain time limitations.

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 Canopy Growth controls Canopy USA. Canopy Growth also has two designees on the four-person board of managers of Canopy USA.

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 Company common shares 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.

In addition, subject to the terms and conditions of the 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.

Until such time as Canopy Growth converts the Non-Voting Shares into Canopy USA Common 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 (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 (the "Floating Share Arrangement") on the basis of 0.45 of a Company common share in exchange for each Floating Share held. In connection with the Floating Share Arrangement Agreement, Canopy Growth has irrevocably waived the Acreage Floating Option existing under the Acreage Arrangement Agreement.

It is expected that the Floating Share Arrangement will be effected by way of a court-approved plan of arrangement under the *Business Corporations Act (British Columbia)*. The Floating Share Arrangement requires the approval of: (i) at least two-thirds of the votes cast by the holders of the Floating Shares; and (ii) at least a majority of the votes cast by the holders of the Floating Shares, excluding the votes cast by "interested parties" and "related parties" (as such terms are defined in Multilateral Instrument 61-101 - *Protection Of Minority Security Holders In Special Transactions*), at a special meeting of Acreage shareholders expected to be held in January 2023.

On October 24, 2022, Canopy Growth also agreed to issue common shares with a value of US$50.0 million to, among others, certain unitholders (the "Holders") of High Street Capital Partners, LLC, a subsidiary of Acreage ("HSCP"), in order to reduce a potential liability of approximately US$121.0 million pursuant to HSCP's amended tax receivable agreement and the related tax receivable bonus plans. In connection with the foregoing, 5,648,927 common shares with a value of approximately US$15.0 million were issued to certain Holders on November 4, 2022 as the first installment under this agreement with a second payment of approximately US$15.0 million in common shares to occur on the earlier of (a) the second business day following the date on which the shareholders of Acreage approve the Floating Share Arrangement; or (b) April 24, 2023. The final payment with a value of approximately US$20.0 million will be issued immediately prior to completion of the Floating Share Arrangement. Canopy Growth has also agreed to register the resale of such common shares under the Securities Act of 1933, as amended. In addition, on October 24, 2022, a wholly-owned subsidiary of Canopy Growth ("Acreage Debt Optionholder") agreed, subject to certain conditions precedent, to acquire an option 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 Acreage's existing lenders (the "Lenders") in exchange for an option premium payment of US$28.5 million (the "Option Premium"). The Acreage Debt Optionholder will have the right to exercise its option at its discretion, and the Option Premium will be used towards settlement of the 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.

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. Assuming timely receipt of all necessary court, shareholder, regulatory and other third-party approvals and the satisfaction of all other conditions, closing of the acquisition of Acreage is expected to occur in late 2023.

It is intended that Canopy Growth's existing option to acquire the Class E subordinate voting shares of Acreage (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 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 concurrently with 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.

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, Greenstar Canada Investment Limited Partnership ("Greenstar") and CBG Holdings LLC ("CBG"), indirect, wholly-owned subsidiaries of CBI, entered into a voting support agreement with Canopy Growth pursuant to which they have agreed, subject to the terms and conditions thereof, among other things, to vote all of the common shares beneficially owned, directed or controlled, directly or indirectly, by them for the Amendment Proposal.

In the event that the Amendment Proposal is approved and subject to the conversion by CBI of their common shares into Exchangeable Shares, Canopy USA is expected to exercise the options to acquire Wana and Jetty. If the Amendment Proposal is not approved, Canopy USA will not be permitted to exercise the rights to acquire the Fixed Shares, Wana or Jetty and the Floating Share Arrangement Agreement will be terminated. In such circumstances, Canopy Growth will retain its option to acquire the Fixed Shares under the Existing Acreage Arrangement Agreement and Canopy USA will continue to hold an option to acquire Wana and Jetty as well as exchangeable shares in the capital of TerrAscend.

Balance Sheet Actions

On October 24, 2022, Canopy Growth entered into agreements with certain of its lenders under its term loan credit agreement dated March 18, 2021 (the "Credit Agreement") pursuant to which Canopy Growth will tender US$187.5 million of the principal amount outstanding thereunder at a discounted price of US$930 per US$1,000 or US$174.4 million in the aggregate (the "Paydown"). The Paydown will be made in two equal payments: the first payment by no later than November 10, 2022, and the second payment by no later than April 17, 2023.

Canopy Growth also agreed with its lenders to amend certain terms of the Credit Agreement (collectively, the "Amendments"). The Amendments include, among other things, reductions to the minimum Liquidity (as defined in the Credit Agreement) covenant to US$100.0 million, which is to be reduced as payments are made in accordance with the Paydown, certain changes to the application of net proceeds from asset sales and the establishment of a new committed delayed draw term credit facility in an aggregate principal amount of US$100.0 million. In addition, the Amendments include the elimination of the additional US$500.0 million incremental term loan facility.

Relationship with CBI

In connection with the Reorganization and assuming approval and adoption of the Amendment Proposal, CBI has expressed its current intention to convert all of its common shares of the Company into Exchangeable Shares. 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 (the "Consent Agreement") among Canopy Growth, CBG and Greenstar, pursuant to which the parties agreed, among other things, that following the conversion by CBG and Greenstar of their respective common shares into Exchangeable Shares, other than the Notes held by CBI, 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 Consent Agreement, CBG and Greenstar also agreed, among other things, that at the time of the conversion by CBG and Greenstar of their 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 Consent Agreement, Canopy Growth is contractually required to convert its Non-Voting Shares into Canopy USA Common 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 Consent Agreement will automatically terminate on the Termination Date.

In the event that CBI does not convert its common shares into Exchangeable Shares, Canopy USA will not be permitted to exercise the rights to acquire the Fixed Shares, Wana or Jetty and the Floating Share Arrangement Agreement will be terminated. In such circumstances, Canopy Growth will retain its option to acquire the Fixed Shares under the Existing Acreage Arrangement Agreement and Canopy USA will continue to hold an option to acquire Wana and Jetty as well as exchangeable shares and other securities in the capital of TerrAscend. In addition, Canopy USA will exercise its repurchase rights to acquire the Canopy USA Common Shares held by the third party investors.

Divestiture of Canadian Retail Operations

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

We have reached an agreement (the "OEGRC Transaction") with OEG Retail Cannabis ("OEGRC"), an existing Canopy Growth licensee partner that currently owns and operates our franchised Tokyo Smoke stores in Ontario. As part of this agreement, OEGRC will acquire ownership of 23 of our corporate-owned retail stores in Manitoba, Saskatchewan, and Newfoundland and Labrador, as well as all Tokyo Smoke-related intellectual property. Any acquired retail stores branded as Tweed will be rebranded by OEGRC, and the master franchise agreement between us and OEGRC pursuant to which OEGRC licenses the Tokyo Smoke brand in Ontario will be terminated on the closing of the OEGRC Transaction.

We also reached an agreement (the "FOUR20 Transaction") with 420 Investments Ltd. ("FOUR20"), a licensed cannabis retailer, pursuant to which FOUR20 will acquire the ownership of five of our corporate-owned retail stores in Alberta. Following the close of the FOUR20 Transaction, these stores will be rebranded under FOUR20's retail banner.

Closing of the OEGRC Transaction remains subject to regulatory approvals and other customary closing conditions. The FOUR20 Transaction closed on October 26, 2022.

Exchanges of Unsecured Senior Notes

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

We satisfied the Purchase Price as follows:

- On the initial closings, 35,662,420 common shares were issued to the Noteholders, other than Greenstar, based on a price equal to US$3.50 per common share, which was the closing price of the common shares on the Nasdaq on June 29, 2022. Of this amount, 14,069,353 common shares were issued to Noteholders on June 30, 2022, representing our acquisition and cancellation of an aggregate principal amount of Notes of $63.1 million.
- On the final closing on July 18, 2022 (the "Final Closing"), 11,896,536 common shares were issued to Noteholders, other than Greenstar, based on the volume-weighted average trading price of the common shares on the Nasdaq for the 10 consecutive trading days beginning on, and including, June 30, 2022, being US$2.6245 (the "Averaging Price").
- In addition, on the Final Closing on July 18, 2022, 29,245,456 common shares were issued to Greenstar based on a price per common share equal to the Averaging Price. Prior to the Exchange Transaction, Greenstar held $200.0 million aggregate principal amount of Notes. Pursuant to the Exchange Transaction, we acquired and cancelled $100.0 million aggregate principal amount of such Notes held by Greenstar.
- In total, 62,735,059 common shares were issued in July 2022, representing our acquisition and cancellation of an aggregate principal amount of Notes of $199.5 million, and a total of 76,804,412 common shares were issued in June and July 2022, representing our acquisition and cancellation of an aggregate principal amount of Notes of $262.6 million.

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

Purchase of Manufacturing Facility

On November 8, 2022, we completed the purchase of a manufacturing facility from one of BioSteel's contract manufacturers.

Part 2 - Results of Operations

Discussion of Second Quarter of Fiscal 2023 Results of Operations

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Three months ended September 30, 2022	Three months ended September 30, 2021	$ Change	% Change
Selected consolidated financial information:				
Net revenue	$ 117,863	$ 131,374	$ (13,511)	(10%)
Gross margin percentage	3%	(54%)	-	5,700 bps
Net loss	$ (231,911)	$ (16,331)	$ (215,580)	(1,320%)
Net loss attributable to Canopy Growth Corporation	$ (221,806)	$ (11,058)	$ (210,748)	(1,906%)
Basic and diluted loss per share[1]	$ (0.47)	$ (0.03)	$ (0.44)	(1,467%)

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

Revenue

We report net revenue in five segments: (i) Canada cannabis; (ii) rest-of-world cannabis; (iii) Storz & Bickel; (iv) BioSteel; and (v) This Works. Revenue derived from the remainder of our operations are included within "other". The following tables present segmented net revenue, by channel and by form, for the three months ended September 30, 2022 and 2021:

Revenue by Channel	Three months ended September 30,			
(in thousands of Canadian dollars)	2022	2021	$ Change	% Change
Canada cannabis				
Canadian recreational cannabis				
Business-to-business[1]	$ 25,317	$ 41,927	$ (16,610)	(40%)
Business-to-consumer	12,772	16,652	(3,880)	(23%)
	38,089	58,579	(20,490)	(35%)
Canadian medical cannabis[2]	14,215	13,093	1,122	9%
	$ 52,304	$ 71,672	$ (19,368)	(27%)
Rest-of-world cannabis				
C[3]	-	11,887	(11,887)	(100%)
Other rest-of-world cannabis[3]	10,552	11,766	(1,214)	(10%)
	$ 10,552	$ 23,653	$ (13,101)	(55%)
Storz & Bickel	$ 13,494	$ 14,511	$ (1,017)	(7%)
BioSteel[4]	$ 29,922	$ 7,512	$ 22,410	298%
This Works	$ 6,868	$ 9,027	$ (2,159)	(24%)
Other	4,723	4,999	(276)	(6%)
Net revenue	$ 117,863	$ 131,374	$ (13,511)	(10%)

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

Revenue by Form	Three months ended September 30,			
(in thousands of Canadian dollars)	2022	2021	$ Change	% Change
Canada cannabis				
Dry bud[1]	$ 43,211	$ 61,934	$ (18,723)	(30%)
Oils and softgels[1]	11,861	13,448	(1,587)	(12%)
Beverages, edibles, topicals and vapes[1]	10,081	10,564	(483)	(5%)
Other revenue adjustments	(353)	-	(353)	(100%)
Excise taxes	(12,496)	(14,274)	1,778	12%
	$ 52,304	$ 71,672	$ (19,368)	(27%)
Rest-of-world cannabis[2]				
Dry bud	6,674	4,027	2,647	66%
Oils and softgels	2,375	12,820	(10,445)	(81%)
Beverages, edibles, topicals and vapes	1,503	6,806	(5,303)	(78%)
	$ 10,552	$ 23,653	$ (13,101)	(55%)
Storz & Bickel	$ 13,494	$ 14,511	$ (1,017)	(7%)
BioSteel[2]	$ 29,922	$ 7,512	$ 22,410	298%
This Works	$ 6,868	$ 9,027	$ (2,159)	(24%)
Other	4,723	4,999	(276)	(6%)
Net revenue	$ 117,863	$ 131,374	$ (13,511)	(10%)

[1] Excludes the impact of other revenue adjustments.
[2] Includes the impact of other revenue adjustments.

Net revenue was $117.9 million in the second quarter of fiscal 2023, as compared to $131.4 million in the second quarter of fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the continuing decrease in net revenue from our Canada cannabis segment, as increased competition in the Canadian recreational market has resulted in lower sales velocities, continued price compression and reduced traffic at our corporate-owned retail stores; (ii) the divestiture of all of our interest in C^3 Cannabinoid Compound Company GmbH ("C^3") in the fourth quarter of fiscal 2022; and (iii) softer performance in our This Works business. These declines were partially offset by continued growth in our BioSteel business resulting from the continued expansion of our distribution and retail channels, and strong international sales growth.

Canada cannabis

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

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

- Net revenue from the business-to-business channel was $25.3 million in the second quarter of fiscal 2023, as compared to $41.9 million in the second quarter of fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the continuing impacts of price compression across all categories of the Canadian recreational market, predominantly resulting from increased competition; and (ii) lower sales volumes, particularly in the value-priced dried flower category of the Canadian recreational market, resulting from both the strategic shift in our product portfolio and increased competition.
- Revenue from the business-to-consumer channel was $12.8 million in the second quarter of fiscal 2023, as compared to $16.7 million in the second quarter of fiscal 2022. The year-over-year decrease is primarily attributable to: (i) the continuing rapid increase in the number of third-party owned retail stores across Canada, which has resulted in increased competition for traffic at our corporate-owned stores which we operate in certain provinces; and (ii) price compression resulting from the increased competition.

Canadian medical cannabis net revenue was $14.2 million in the second quarter of fiscal 2023, as compared to $13.1 million in the second quarter of fiscal 2022. The year-over-year increase is primarily attributable to an increase in the average size of medical orders placed by our customers due largely to a shift in our customer mix, partially offset by a year-over-year decrease in the total number of medical orders which was primarily related to the increasing number of recreational cannabis retail stores across Canada.

Rest-of-world cannabis

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

Storz & Bickel

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

BioSteel

Revenue from BioSteel was $29.9 million in the second quarter of fiscal 2023, as compared to $7.5 million in the second quarter of fiscal 2022. The year-over-year increase is primarily attributable to: (i) continued growth in our distribution and retail channels, which resulted in increased sales velocities across North America; and (ii) strong international sales growth. All of BioSteel's major product lines contributed to the year-over-year revenue growth.

This Works

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

Cost of Goods Sold and Gross Margin

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

	Three months ended September 30,			
(in thousands of Canadian dollars except where indicated)	2022	2021	$ Change	% Change
Net revenue	$ 117,863	$ 131,374	$ (13,511)	(10%)
Cost of goods sold	$ 114,042	$ 202,514	$ (88,472)	(44%)
Gross margin	3,821	(71,140)	74,961	(105%)
Gross margin percentage	3%	(54%)	-	5,700 bps

Cost of goods sold was $114.0 million in the second quarter of fiscal 2023, as compared to $202.5 million in the second quarter of fiscal 2022. Our gross margin was $3.8 million in the second quarter of fiscal 2023, or 3% of net revenue, as compared to a gross margin of $(71.1) million and gross margin percentage of (54%) of net revenue in the second quarter of fiscal 2022. The year-over-year increase in the gross margin percentage was primarily attributable to the inventory write-downs we recorded in the second quarter of fiscal 2022, primarily related to excess Canadian cannabis inventory resulting from underperformance relative to forecast as well as declines in expected near-term demand. Our gross margin in the second quarter of fiscal 2022 was also impacted by charges totaling $3.1 million relating to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

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

- Restructuring charges of $8.0 million relating to inventory write-downs and other associated charges resulting primarily from: (i) the strategic changes to our business that were initiated in the fourth quarter of fiscal 2022, including the shift to a contract manufacturing model for certain product formats; (ii) amounts deemed excess based on current and projected demand; and (iii) charges related to certain contract manufacturing agreements that are not expected to occur past fiscal 2023;
- In our Canadian recreation cannabis business, the impacts on our gross margin percentage from the year-over-year decrease in net revenue and continued price compression were partially offset by the realized benefit of our cost savings program that we announced in April 2022;
- A shift in the business mix relative to the second quarter of fiscal 2022 resulting from a decrease in the proportionate revenue contribution from the higher-margin C^3 business relative to the second quarter of fiscal 2022, as a result of the completion of the divestiture of C^3 on January 31, 2022; and
- A decrease in the amount of payroll subsidies received from the Canadian government pursuant to a COVID-19 relief program, from $6.9 million in the second quarter of fiscal 2022 to $nil in the second quarter of fiscal 2023.

We report gross margin and gross margin percentage in five segments: (i) Canada cannabis; (ii) rest-of-world cannabis; (iii) Storz & Bickel; (iv) BioSteel; and (v) This Works. Cost of sales associated with the remainder of our operations are included within "other". The following table presents segmented gross margin and gross margin percentage for the three months ended September 30, 2022 and 2021:

	Three months ended September 30,			
(in thousands of Canadian dollars except where indicated)	2022	2021	$ Change	% Change
Canada cannabis segment				
Net revenue	$ 52,304	$ 71,672	$ (19,368)	(27%)
Cost of goods sold	59,956	163,652	(103,696)	(63%)
Gross margin	(7,652)	(91,980)	84,328	(92%)
Gross margin percentage	(15%)	(128%)		11,300 bps
Rest-of-world cannabis segment				
Revenue	$ 10,552	$ 23,653	$ (13,101)	(55%)
Cost of goods sold	11,884	12,675	(791)	(6%)
Gross margin	(1,332)	10,978	(12,310)	(112%)
Gross margin percentage	(13%)	46%		(5,900) bps
Storz & Bickel segment				
Revenue	$ 13,494	$ 14,511	$ (1,017)	(7%)
Cost of goods sold	7,492	9,160	(1,668)	(18%)
Gross margin	6,002	5,351	651	12%
Gross margin percentage	44%	37%		700 bps
BioSteel segment				
Revenue	$ 29,922	$ 7,512	$ 22,410	298%
Cost of goods sold	25,490	7,916	17,574	222%
Gross margin	4,432	(404)	4,836	(1,197%)
Gross margin percentage	15%	(5%)		2,000 bps
This Works segment				
Revenue	$ 6,868	$ 9,027	$ (2,159)	(24%)
Cost of goods sold	4,565	5,469	(904)	(17%)
Gross margin	2,303	3,558	(1,255)	(35%)
Gross margin percentage	34%	39%		(500) bps
Other				
Cost of goods sold	$ 4,655	$ 3,642	$ 1,013	28%

Canada cannabis

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

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

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

Rest-of-world cannabis

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

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

Storz & Bickel

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

BioSteel

Gross margin for our BioSteel segment was $4.4 million in the second quarter of fiscal 2023, or 15% of net revenue, as compared to $(0.4) million in the second quarter of fiscal 2022, or (5%) of net revenue. The year-over-year increase in the gross margin percentage is primarily attributable to the increase in revenue, as described above, which drove improved leverage on third-party shipping, distribution and warehousing costs across North America relative to the second quarter of fiscal 2022. These factors were partially offset by restructuring charges of $3.2 million, relating to charges associated with certain contract manufacturing agreements that are not expected to occur past fiscal 2023.

This Works

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

Operating Expenses

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

	Three months ended September 30,			
(in thousands of Canadian dollars)	2022	2021	$ Change	% Change
Operating expenses				
General and administrative	$ 30,402	$ 35,545	$ (5,143)	(14%)
Sales and marketing	65,436	64,534	902	1%
Research and development	5,489	8,764	(3,275)	(37%)
Acquisition-related costs	14,606	2,391	12,215	511%
Depreciation and amortization	9,909	14,522	(4,613)	(32%)
Selling, general and administrative expenses	125,842	125,756	86	-%
Share-based compensation	9,858	14,247	(4,389)	(31%)
Share-based compensation related to acquisition milestones	-	1,706	(1,706)	(100%)
Share-based compensation expense	9,858	15,953	(6,095)	(38%)
Asset impairment and restructuring costs	43,968	2,510	41,458	1,652%
Total operating expenses	$ 179,668	$ 144,219	$ 35,449	25%

Selling, general and administrative expenses

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

General and administrative expense was $30.4 million in the second quarter of fiscal 2023, as compared to $35.5 million in the second quarter of fiscal 2022. The year-over-year decrease is primarily attributable to:

- The restructuring actions initiated in the fourth quarter of fiscal 2022, which included operational changes designed to align general and administrative costs with business objectives, and further streamline the organization to drive process-related efficiencies. We realized reductions relative to the second quarter of fiscal 2022 primarily in relation to: (i) compensation costs for finance, information technology, legal and other administrative functions; (ii) third-party costs associated with administrative functions; (iii) professional consulting fees; and (iv) facilities and insurance costs.
- The above cost reductions were partially offset by a year-over-year decrease in the amount of payroll subsidies received from the Canadian government pursuant to a COVID-19 relief program. We received $0.1 million in the second quarter of fiscal 2023, as compared to $10.6 million received in the second quarter of fiscal 2022.

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

Research and development expense was $5.5 million in the second quarter of fiscal 2023, as compared to $8.8 million in the second quarter of fiscal 2022. The year-over-year decrease is primarily attributable to cost reductions attributable to the previously-noted restructuring actions that were initiated in the fourth quarter of fiscal 2022, as we continued to realize reductions in compensation costs and concluded or curtailed certain research and development projects. We also realized a reduction in research and development costs associated with the completion of the divestiture of C^3 on January 31, 2022, which resulted in no costs being recorded in relation to C^3 in the second quarter of fiscal 2023.

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

Depreciation and amortization expense was $9.9 million in the second quarter of fiscal 2023, as compared to $14.5 million in the second quarter of fiscal 2022. The year-over-year decrease is primarily attributable to the previously-noted restructuring actions that were initiated in fiscal 2022, including the closure of certain of our Canadian production facilities, and other operational changes to implement cultivation-related efficiencies and improvements in the Canadian recreational cannabis business. Additionally, depreciation and amortization expense decreased due to the impairment of certain of our intellectual property intangible assets in the fourth quarter of fiscal 2022, and the completion of the divestiture of C^3 on January 31, 2022, which resulted in no depreciation and amortization expense being recorded in relation to C^3 in the second quarter of fiscal 2023.

Share-based compensation expense

Share-based compensation expense was $9.9 million in the second quarter of fiscal 2023, as compared to $14.2 million in the second quarter of fiscal 2022. The year-over-year decrease is primarily attributable to the impact of our previously-noted restructuring actions, which resulted in 1.8 million stock option forfeitures in the third and fourth quarters of fiscal 2022, and a further 3.7 million stock option forfeitures in the six months ended September 30, 2022, including 2.3 million stock option forfeitures in the second quarter of fiscal 2023. The decrease attributable to these forfeitures was partially offset by stock option grants totaling 3.4 million in the six months ended September 30, 2022.

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

Asset impairment and restructuring costs

Asset impairment and restructuring costs recorded in operating expenses were $44.0 million in the second quarter of fiscal 2023, as compared to $2.5 million in the second quarter of fiscal 2022.

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

- Impairment losses associated with the planned divestiture of our Canadian retail operations, as described above under "Recent Developments", as we recorded write-downs of property, plant and equipment, operating licenses and brand intangible assets, right-of-use assets, and certain other assets due to the excess of their carrying values over their estimated fair values;
- Incremental costs primarily associated with the restructuring actions completed in fiscal 2022, including the closure of certain of our Canadian production facilities; and
- Goodwill impairment losses of $2.3 million associated with one of our reporting units (refer to "Impairment of Goodwill" in "Critical Accounting Policies and Estimates" section below) and asset impairment charges relating to certain acquired brand intangible assets.

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

Other

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

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

Other income (expense), net

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

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

- Decrease in non-cash income of $193.7 million related to fair value changes on the warrant derivative liability associated with the Tranche B Warrants held by CBI (as defined in Note 26 of the Interim Financial Statements). The decrease of $0.9 million in the fair value of the warrant derivative liability (resulting in non-cash income) in the second quarter of fiscal 2023 is primarily attributable to a shorter expected time to maturity of the Tranche B Warrants, and an increase in the risk-free interest rate. Comparatively, the income amount recognized in the second quarter of fiscal 2022 of $194.5 million, associated with a decrease in the fair value of the warrant derivative liability, was primarily attributable to a decrease of approximately 41% in our share price during the second quarter of fiscal 2022, further impacted by a shorter expected time to maturity of the Tranche B Warrants.

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

- Increase in non-cash expense of $16.3 million related to non-cash fair value changes on acquisition related contingent consideration and other. In the second quarter of fiscal 2023, we recorded fair value changes related to the estimated deferred payments associated with our investment in Wana. These fair value changes were primarily attributable to changes in expectations of future cash flows to be generated by Wana.

- Decrease in non-cash expense of $279.3 million related to fair value changes on our other financial assets, from $279.4 million in the second quarter of fiscal 2022 to $0.1 million in the second quarter of fiscal 2023. The expense amount in the second quarter of fiscal 2023 is primarily attributable to fair value decreases relating to our investments in: (i) the exchangeable shares in the capital of TerrAscend ($37.5 million); (ii) the secured debentures issued by TerrAscend Canada Inc. ("TerrAscend Canada") and Arise Bioscience, Inc. ("Arise Bioscience") and associated warrants issued by TerrAscend (the "TerrAscend Warrants") (totaling $6.6 million); and (iii) our option to acquire 1,072,450 common shares of TerrAscend (the "TerrAscend Option") ($1.1 million), which were all driven largely by a decrease of approximately 40% in TerrAscend's share price in the second quarter of fiscal 2023. These fair value decreases were offset by: (i) a fair value increase associated with our investment in the Wana financial instrument of $34.8 million, primarily attributable to changes in expectations of the future cash flows to be generated by Wana; and (ii) a fair value increase related to the Acreage call option in the amount of $12.0 million, primarily attributable to: (i) a re-assessment of certain of the assumptions made and scenario outcomes contemplated in the probability-weighted expected return model used to determine the value of the Acreage call option; and (ii) the strengthening of the U.S. dollar relative to the Canadian dollar during the second quarter of fiscal 2023. Comparatively, in the second quarter of fiscal 2022 the expense amount was primarily attributable to fair value increases relating to our investments in the TerrAscend exchangeable shares ($166.0 million), and the secured debentures issued by TerrAscend Canada and Arise Bioscience and associated TerrAscend Warrants (totaling $109.0 million), driven largely by: (i) a decrease of approximately 38% in TerrAscend's share price in the second quarter of fiscal 2022; and (ii) re-assessments of the probability and timing of changes in federal laws in the United States regarding the permissibility of the cultivation, distribution or possession of marijuana.

- In the second quarter of fiscal 2023, we recognized income in the amount of $14.5 million in connection with the Exchange Transaction described above under "Recent Developments", in which we agreed to acquire and cancel approximately $262.6 million of aggregate principal amount of Notes from the Noteholders for an aggregate purchase price of $260.0 million, which was paid in our common shares. The income amount recognized in the second quarter of fiscal 2023 primarily includes the release of amounts recorded in accumulated other comprehensive income in relation to the credit risk fair value adjustment associated with the portion of the Notes that were acquired and cancelled in July 2022, partially offset by: (i) fair value changes, up through the Final Closing, on the derivative liability recognized in connection with the incremental common shares that were potentially issuable as at June 30, 2022 at the Averaging Price on the Final Closing, pursuant to the Exchange Agreements; and (ii) professional fees associated with the Exchange Transaction.

Income tax (expense) recovery

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

The change of $7.8 million, from a deferred income tax recovery to deferred income tax expense, is primarily a result of changes in the second quarter of fiscal 2023 in respect of the unsecured senior notes and deferred tax liabilities that arose in connection with the required revaluation of the accounting carrying value, but not the tax basis, of property, plant and equipment, intangible assets, and other financial assets. In connection with certain deferred tax assets, mainly in respect of losses for tax purposes, where the accounting criteria for recognition of an asset has yet to be satisfied and it is not probable that they will be used, the deferred tax asset has not been recognized.

The change of $3.6 million, from a current income tax recovery to current income tax expense arose primarily in connection with legal entities that generated income for tax purposes that could not be reduced by the group's tax attributes.

Net Loss

The net loss in the second quarter of fiscal 2023 was $231.9 million, as compared to a net loss of $16.3 million in the second quarter of fiscal 2022. The year-over-year increase in the net loss is primarily attributable to: (i) the year-over-year change in other income (expense), net, of $243.7 million, from an income amount to an expense amount; and (ii) the year-over-year increase in asset impairment and restructuring costs. These factors were only partially offset by the year-over-year increase in our gross margin. These variances are described above.

Adjusted EBITDA (Non-GAAP Measure)

Our "Adjusted EBITDA" is a non-GAAP measure used by management that is not defined by U.S. GAAP and may not be comparable to similar measures presented by other companies. Management calculates Adjusted EBITDA as the reported net income (loss), adjusted to exclude income tax expense; other income (expense), net; loss on equity method investments; share-based compensation expense; depreciation and amortization expense; asset impairments and restructuring costs; restructuring costs recorded in cost of goods sold; and charges related to the flow-through of inventory step-up on business combinations, and further adjusted to remove acquisition-related costs. Asset impairments related to periodic changes to our supply chain processes are not excluded from Adjusted EBITDA given their occurrence through the normal course of core operational activities. Accordingly, management believes that Adjusted EBITDA provides meaningful and useful financial information, as this measure demonstrates the operating performance of businesses.

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

	Three months ended September 30,			
(in thousands of Canadian dollars)	2022	2021	$ Change	% Change
Net loss	$ (231,911)	$ (16,331)	$ (215,580)	(1,320%)
Income tax expense (recovery)	8,220	(3,207)	11,427	356%
Other (income) expense, net	47,844	(195,821)	243,665	124%
Share-based compensation[1]	9,858	15,953	(6,095)	(38%)
Acquisition-related costs	14,606	2,391	12,215	511%
Depreciation and amortization[1]	21,293	28,780	(7,487)	(26%)
Asset impairment and restructuring costs	43,968	2,510	41,458	1,652%
Restructuring costs recorded in cost of goods sold	8,023	-	8,023	100%
Charges related to the flow-through of inventory step-up on business combinations	-	3,123	(3,123)	(100%)
Adjusted EBITDA	$ (78,099)	$ (162,602)	$ 84,503	52%

[1] From Consolidated Statements of Cash Flows.

The Adjusted EBITDA loss in the second quarter of fiscal 2023 was $78.1 million, as compared to an Adjusted EBITDA loss of $162.6 million in the second quarter of fiscal 2022. The year-over-year decrease in the Adjusted EBITDA loss is primarily attributable to: (i) the year-over-year improvement in our gross margin; and (ii) the year-over-year reduction in our general and administrative, sales and marketing, and research and development expenses. These variances are described above.

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

	Six months ended September 30,			
(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	2022	2021	$ Change	% Change
Selected consolidated financial information:				
Net revenue	$ 227,978	$ 267,583	$ (39,605)	(15%)
Gross margin percentage	1%	(16%)	-	1,700 bps
Net (loss) income	$ (2,319,467)	$ 373,624	$ (2,693,091)	(721%)
Net (loss) income attributable to Canopy Growth Corporation	$ (2,304,954)	$ 381,360	$ (2,686,314)	(704%)
Basic (loss) earnings per share[1]	$ (5.30)	$ 0.98	$ (6.28)	(641%)
Diluted (loss) earnings per share[1]	$ (5.30)	$ 0.72	$ (6.02)	(836%)

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

Revenue

We report net revenue in five segments: (i) Canada cannabis; (ii) rest-of-world cannabis; (iii) Storz & Bickel; (iv) BioSteel; and (v) This Works. Revenue derived from the remainder of our operations are included within "other". The following tables present segmented net revenue, by channel and by form, for the six months ended September 30, 2022 and 2021:

Revenue by Channel *(in thousands of Canadian dollars)*	Six months ended September 30, 2022	Six months ended September 30, 2021	$ Change	% Change
Canada cannabis				
Canadian recreational cannabis				
Business-to-business[1]	$ 51,857	$ 84,620	$ (32,763)	(39%)
Business-to-consumer	25,207	33,996	(8,789)	(26%)
	77,064	118,616	(41,552)	(35%)
Canadian medical cannabis net revenue[2]	27,655	26,585	1,070	4%
	$ 104,719	$ 145,201	$ (40,482)	(28%)
Rest-of-world cannabis				
C[3]	-	23,330	(23,330)	(100%)
Other rest-of-world cannabis[3]	24,333	19,733	4,600	23%
	$ 24,333	$ 43,063	$ (18,730)	(43%)
Storz & Bickel	$ 29,137	$ 38,581	$ (9,444)	(24%)
BioSteel[4]	$ 47,810	$ 14,173	$ 33,637	237%
This Works	$ 12,388	$ 15,578	$ (3,190)	(20%)
Other	9,591	10,987	(1,396)	(13%)
Net revenue	$ 227,978	$ 267,583	$ (39,605)	(15%)

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

Revenue by Form *(in thousands of Canadian dollars)*	Six months ended September 30, 2022	Six months ended September 30, 2021	$ Change	% Change
Canada cannabis				
Dry bud[1]	$ 87,329	$ 132,993	$ (45,664)	(34%)
Oils and softgels[1]	24,706	27,583	(2,877)	(10%)
Beverages, edibles, topicals and vapes[1]	18,830	21,113	(2,283)	(11%)
Other revenue adjustments	(903)	(3,000)	2,097	70%
Excise taxes	(25,243)	(33,488)	8,245	25%
	$ 104,719	$ 145,201	$ (40,482)	(28%)
Rest-of-world cannabis [2]				
Dry bud	15,360	8,550	6,810	80%
Oils and softgels	3,854	24,941	(21,087)	(85%)
Beverages, edibles, topicals and vapes	5,119	9,572	(4,453)	(47%)
	$ 24,333	$ 43,063	$ (18,730)	(43%)
Storz & Bickel	$ 29,137	$ 38,581	$ (9,444)	(24%)
This Works	$ 47,810	$ 14,173	$ 33,637	237%
BioSteel[2]	$ 12,388	$ 15,578	$ (3,190)	(20%)
Other	9,591	10,987	(1,396)	(13%)
Net revenue	$ 227,978	$ 267,583	$ (39,605)	(15%)

[1] Excludes the impact of other revenue adjustments.
[2] Includes the impact of other revenue adjustments.

Net revenue was $228.0 million in the six months ended September 30, 2022, as compared to $267.6 million in the six months ended September 30, 2021. The year-over-year decrease is primarily attributable to: (i) the continuing decrease in net revenue from our Canada cannabis segment, as increased competition in the Canadian recreational market has resulted in lower sales velocities, continued price compression, and reduced traffic at our corporate-owned retail stores; (ii) the divestiture of all of our interest C^3 in the fourth quarter of fiscal 2022; and (iii) lower revenues from our Storz & Bickel and This Works businesses. These declines were partially offset by continued growth in our BioSteel business, resulting from the continued expansion of our distribution and retail channels, and strong international sales growth.

Canada cannabis

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

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

- Net revenue from the business-to-business channel was $51.9 million in the six months ended September 30, 2022, as compared to $84.6 million in the six months ended September 30, 2021. The year-over-year decrease is primarily attributable to: (i) the continuing impacts of price compression across all categories of the Canadian recreational market, predominantly resulting from increased competition; and (ii) lower sales volumes, particularly in the value-priced dried flower category of the Canadian recreational market, resulting from both the strategic shift in our product portfolio and increased competition. These factors were partially offset by a more favorable product mix due primarily to a decrease in the volume of value-priced dried product sold compared to the prior year.
- Revenue from the business-to-consumer channel was $25.2 million in the six months ended September 30, 2022, as compared to $34.0 million in the six months ended September 30, 2021. The year-over-year decrease is primarily attributable to: (i) the continuing rapid increase in the number of third-party owned retail stores across Canada, which has resulted in increased competition for traffic at our corporate-owned stores which we operate in certain provinces; and (ii) price compression resulting from the increased competition.

Canadian medical cannabis net revenue was $27.7 million in the six months ended September 30, 2022, as compared to $26.6 million in the six months ended September 30, 2021. The year-over-year increase is primarily attributable to an increase in the average size of medical orders placed by our customers due largely to a shift in our customer mix, partially offset by a year-over-year decrease in the total number of medical orders which was primarily related to the increasing number of recreational cannabis retail stores across Canada.

Rest-of-world cannabis

Rest-of-world cannabis revenue was $24.3 million in the six months ended September 30, 2022, as compared to $43.1 million in the six months ended September 30, 2021. The year-over-year decrease is attributable to: the divestiture of C^3, resulting in a decrease in revenue of $23.3 million as compared to the six months ended September 30, 2021, and a year-over-year increase of $4.6 million in other rest-of-world cannabis revenue, primarily attributable to: (i) bulk cannabis sales, predominantly to Israel, in the amount of $4.2 million, which did not occur in the six months ended September 30, 2021; (ii) growth in our global medical cannabis business, particularly in Australia; and (iii) an opportunistic sale of bulk crude CBD resin in the first quarter of fiscal 2023; these increases were partially offset by a year-over-year decline in revenue in our U.S. CBD business, as we focused and refined our portfolio and brand offerings.

Storz & Bickel

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

BioSteel

Revenue from BioSteel was $47.8 million in the six months ended September 30, 2022, as compared to $14.2 million in the six months ended September 30, 2021. The year-over-year increase is primarily attributable to: (i) continued growth in our distribution and retail channels, which resulted in increased sales velocities across North America; and (ii) strong international sales growth of ready-to-drink products and beverage mixes.

This Works

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

Cost of Goods Sold and Gross Margin

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

	Six months ended September 30,			
(in thousands of Canadian dollars except where indicated)	2022	2021	$ Change	% Change
Net revenue	$ 227,978	$ 267,583	$ (39,605)	(15%)
Cost of goods sold	$ 225,549	$ 311,485	$ (85,936)	(28%)
Gross margin	2,429	(43,902)	46,331	(106%)
Gross margin percentage	1%	(16%)	-	1,700 bps

Cost of goods sold was $225.5 million in the six months ended September 30, 2022, as compared to $311.5 million in the six months ended September 30, 2021. Our gross margin was $2.4 million in the six months ended September 30, 2022, or 1% of net revenue, as compared to a gross margin of $(43.9) million and gross margin percentage of (16%) of net revenue in the six months ended September 30, 2021. The year-over-year increase in the gross margin percentage was primarily attributable to: (i) the previously-described inventory write-downs we recorded in the second quarter of fiscal 2022; and (ii) charges totaling $4.5 million recognized in the six months ended September 30, 2021 relating to the flow-through of inventory step-up associated with the acquisition of Supreme Cannabis in the first quarter of fiscal 2022.

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

- Restructuring charges totaling $12.0 million relating to inventory write-downs and other associated charges resulting primarily from: (i) the strategic changes to our business that were initiated in the fourth quarter of fiscal 2022, including the shift to a contract manufacturing model for certain product formats; (ii) amounts deemed excess based on current and projected demand; and (iii) charges relating to certain contract manufacturing agreements that are not expected to occur past fiscal 2023.
- In our Canadian recreational cannabis business, the impacts on our gross margin percentage from the year-over-year decrease in net revenue and continued price compression were partially offset by the realized benefit of our cost savings program that we announced in April 2022;
- A shift in the business mix relative to the six months ended September 30, 2021 resulting from: (i) a decrease in the proportionate revenue contribution from the higher-margin C^3 business relative to the six months ended September 30, 2021, as a result of the completion of the divestiture of C^3 on January 31, 2022; and (ii) a decrease in revenue from the higher-margin Storz & Bickel and This Works businesses; and
- A decrease in the amount of payroll subsidies received from the Canadian government, pursuant to a COVID-19 relief program, from $14.2 million in the six months ended September 30, 2021 to $1.6 million in the six months ended September 30, 2022.

We report gross margin and gross margin percentage in five segments: (i) Canada cannabis; (ii) rest-of-world cannabis; (iii) Storz & Bickel; (iv) BioSteel; and (v) This Works. Cost of sales associated with the remainder of our operations are included within "other". The following table presents segmented gross margin and gross margin percentage for the six months ended September 30, 2022 and 2021:

	Six months ended September 30,			
(in thousands of Canadian dollars except where indicated)	2022	2021	$ Change	% Change
Canada cannabis segment				
Net revenue	$ 104,719	$ 145,201	$ (40,482)	(28%)
Cost of goods sold	124,904	230,005	(105,101)	(46%)
Gross margin	(20,185)	(84,804)	64,619	(76%)
Gross margin percentage	(19%)	(58%)		3,900 bps
Rest-of-world cannabis segment				
Revenue	$ 24,333	$ 43,063	$ (18,730)	(43%)
Cost of goods sold	25,825	23,478	2,347	10%
Gross margin	(1,492)	19,585	(21,077)	(108%)
Gross margin percentage	(6%)	45%		(5,100) bps
Storz & Bickel segment				
Revenue	$ 29,137	$ 38,581	$ (9,444)	(24%)
Cost of goods sold	17,514	22,130	(4,616)	(21%)
Gross margin	11,623	16,451	(4,828)	(29%)
Gross margin percentage	40%	43%		(300) bps
BioSteel segment				
Revenue	$ 47,810	$ 14,173	$ 33,637	237%
Cost of goods sold	40,945	17,886	23,059	129%
Gross margin	6,865	(3,713)	10,578	(285%)
Gross margin percentage	14%	(26%)		4,000 bps
This Works segment				
Revenue	$ 12,388	$ 15,578	$ (3,190)	(20%)
Cost of goods sold	7,438	8,624	(1,186)	(14%)
Gross margin	4,950	6,954	(2,004)	(29%)
Gross margin percentage	40%	45%		(500) bps
Other				
Cost of goods sold	$ 8,923	$ 9,362	$ (439)	(5%)

Canada cannabis

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

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

- The year-over-year decrease in net revenue, continued price compression, and the impact of the under-absorption of costs attributable to lower production volumes. These impacts were partially offset by the realized benefit of our cost savings program that we announced in April 2022; and
- A decrease in the amount of payroll subsidies received from the Canadian government pursuant to a COVID-19 relief program, from $14.2 million in the six months ended September 30, 2021 to $1.6 million in the six months ended September 30, 2022.

Rest-of-world cannabis

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

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

Storz & Bickel

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

BioSteel

Gross margin for our BioSteel segment was $6.9 million in the six months ended September 30, 2022, or 14% of net revenue, as compared to $(3.7) million in the six months ended September 30, 2021, or (26%) of net revenue. The year-over-year increase in our gross margin percentage is primarily attributable to the increase in revenue, as described above, which drove improved leverage on third-party shipping, distribution and warehousing costs across North America relative to the six months ended September 30, 2022. These factors were partially offset by restructuring charges of $3.9 million relating to charges related to certain contract manufacturing agreements that are not expected to occur past fiscal 2023.

This Works

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

Operating Expenses

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

	Six months ended September 30,			
(in thousands of Canadian dollars)	2022	2021	$ Change	% Change
Operating expenses				
General and administrative	$ 58,773	$ 69,222	$ (10,449)	(15%)
Sales and marketing	118,618	115,066	3,552	3%
Research and development	12,442	17,106	(4,664)	(27%)
Acquisition-related costs	18,799	8,171	10,628	130%
Depreciation and amortization	20,623	28,765	(8,142)	(28%)
Selling, general and administrative expenses	229,255	238,330	(9,075)	(4%)
Share-based compensation	15,297	25,674	(10,377)	(40%)
Share-based compensation related to acquisition milestones	-	3,405	(3,405)	(100%)
Share-based compensation expense	15,297	29,079	(13,782)	(47%)
Asset impairment and restructuring costs	1,771,953	91,759	1,680,194	1,831%
Total operating expenses	$ 2,016,505	$ 359,168	$ 1,657,337	461%

Selling, general and administrative expenses

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

General and administrative expense was $58.8 million in the six months ended September 30, 2022, as compared to $69.2 million in the six months ended September 30, 2021. The year-over-year decrease is primarily attributable to:

- The restructuring actions initiated in the fourth quarter of fiscal 2022, which included operational changes designed to align general and administrative costs with business objectives, and further streamline the organization to drive process-related efficiencies. We realized reductions relative to the six months ended September 30, 2021 primarily in relation to: (i) compensation costs for finance, information technology, legal and other administrative functions; (ii) third-party costs associated with administrative functions; (iii) professional consulting fees; and (iv) facilities and insurance costs.
- The above cost reductions were partially offset by a year-over-year decrease in the amount of payroll subsidies received from the Canadian government pursuant to a COVID-19 relief program. We received $2.9 million in the six months ended September 30, 2022, as compared to $23.3 million received in the six months ended September 30, 2021.

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

Research and development expense was $12.4 million in the six months ended September 30, 2022, as compared to $17.1 million in the six months ended September 30, 2021. The year-over-year decrease is primarily attributable to cost reductions attributable to the previously-noted restructuring actions that were initiated in the fourth quarter of fiscal 2022. We continued to realize reductions in compensation costs and concluded or curtailed certain research and development projects in-line with the rationalization of our initiatives to focus on opportunities outside of pharmaceutical drug development. We also realized a reduction in research and development costs associated with the completion of the divestiture of C^3 on January 31, 2022, which resulted in no costs being recorded in relation to C^3 in the second quarter of fiscal 2023.

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

Depreciation and amortization expense was $20.6 million in the six months ended September 30, 2022, as compared to $28.8 million in the six months ended September 30, 2021. The year-over-year decrease is primarily attributable to: (i) the previously-noted restructuring actions that were initiated in fiscal 2022; (ii) the decrease in amortization expense associated with the impairment of certain of our intellectual property intangible assets; and (iii) the completion of the divestiture of C^3 on January 31, 2022, which resulted in no depreciation and amortization expense being recorded in relation to C^3 in the six months ended September 30, 2022.

Share-based compensation expense

Share-based compensation expense was $15.3 million in the six months ended September 30, 2022, as compared to $25.7 million in the six months ended September 30, 2021. The year-over-year decrease is primarily attributable to the impact of our previously-noted restructuring actions, which resulted in 1.8 million stock option forfeitures in the third and fourth quarters of fiscal 2022, and a further 3.7 million stock option forfeitures in the six months ended September 30, 2022. The decrease attributable to these forfeitures was partially offset by stock option grants totaling 3.4. million in the six months ended September 30, 2022.

Share-based compensation expense related to acquisition milestones was $nil in the six months ended September 30, 2022, as compared to $3.4 million in the six months ended September 30, 2021. The year-over-year decrease is primarily attributable to: (i) the completion of vesting, in prior quarters, of the share-based compensation associated with certain of our acquisitions; and (ii) as a result of the restructuring actions completed in the fourth quarter of fiscal 2022, the acceleration of share-based compensation expense related to unvested milestones associated with acquisitions completed in prior fiscal years.

Asset impairment and restructuring costs

Asset impairment and restructuring costs recorded in operating expenses were $1.8 billion in the six months ended September 30, 2022, as compared to $91.8 million in the six months ended September 30, 2021.

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

- Goodwill impairment losses of $1.7 billion, substantially of which was associated with our cannabis operations reporting unit in the global cannabis segment. Refer to "Impairment of Goodwill" in "Critical Accounting Policies and Estimates" section below;
- Impairment losses associated with the planned divestiture of our Canadian retail operations, as described above under "Recent Developments", as we recorded write-downs of property, plant and equipment, operating license and brand intangible assets, right-of-use assets, and certain other assets due to the excess of their carrying values over their estimated fair value; and
- Incremental costs primarily associated with the restructuring actions completed in fiscal 2022, including the closure of certain of our Canadian production facilities, and operational changes initiated in the fourth quarter of fiscal 2022 to: (i) implement cultivation-related efficiencies and improvements in the Canadian recreational cannabis business; and (ii) implement a flexible manufacturing platform, including contract manufacturing for certain product formats.

Comparatively, in the six months ended September 30, 2021, we recorded charges related to operational changes resulting from the continuing strategic review of our business as a result of fiscal 2022 acquisition activities, resulting in the closure of our Niagara-on-the-Lake, Ontario and Langley, British Columbia facilities. Additionally, we recognized incremental costs associated with the closure of previously-identified Canadian production facilities in December 2020.

Other

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

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

Loss from equity method investments

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

Other income (expense), net

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

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

- Decrease in non-cash income of $391.0 million related to the non-cash fair value changes on the liability arising from the Acreage Arrangement, from $438.0 million in the six months ended September 30, 2021 to $47.0 in the six months ended

September 30, 2022. The income amount recognized in the six months ended September 30, 2022, associated with a decrease in the liability arising from the Acreage Arrangement to $nil during the first quarter of fiscal 2023, is primarily attributable to a decrease of approximately 61% in our share price during the first quarter of fiscal 2023, relative to a decrease of approximately 27% in Acreage's share price during that same period. As a result, the model at September 30, 2022 reflects a lower estimated value of the Canopy Growth common shares expected to be issued at the exchange ratio of 0.3048 upon a Triggering Event, relative to the estimated value of the Acreage shares expected to be acquired at that time; in the first quarter of fiscal 2023, this resulted in a change from a liability amount to an asset amount of $60.0 million recorded in other financial assets. Fair value changes associated with the Acreage call option asset in the six months ended September 30, 2022 are described below. Comparatively, the income amount recognized in the six months ended September 30, 2021, associated with a decrease in the liability arising from the Acreage Arrangement, was primarily attributable to a decrease of approximately 57% in our share price in the six months ended September 30, 2021, relative to a decrease of approximately 32% in Acreage's share price during that same period.

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

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

- In the six months ended September 30, 2022, we recognized charges in the amount of $4.7 million in connection with the Exchange Transaction described above under "Recent Developments". These charges primarily include: (i) the recognition of, and fair value changes through to the Final Closing on, a derivative liability in connection with the incremental common shares that were potentially issuable as at June 30, 2022 at the Averaging Price on the Final Closing, pursuant to the Exchange Agreements; and (ii) professional fees associated with the Exchange Transaction. These charges were partially offset by the release of amounts recorded in accumulated other comprehensive income in relation to the credit risk fair value adjustment associated with the portion of the Notes that were acquired and cancelled in June and July 2022.

- Increase in non-cash income of $24.3 million related to fair value changes on acquisition related contingent consideration and other. In the six months ended September 30, 2022, we recorded fair value changes related to the estimated deferred payments associated with our investment in Wana. These fair value changes were primarily associated with changes in expectations of future cash flows to be generated by Wana.

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

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

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

The increase of $1.5 million in the current income tax expense arose primarily in connection with legal entities that generated income for tax purposes that could not be reduced by the group's tax attributes.

Net (Loss) Income

The net loss in the six months ended September 30, 2022 was $2.3 billion, as compared to net income of $373.6 million in the six months ended September 30, 2021. The year-over-year change from net income to a net loss is primarily attributable to: (i) the year-over-year increase in asset impairment and restructuring costs, which was largely related to the goodwill impairment losses of $1.7 billion recorded in the first quarter of fiscal 2023; and (ii) the year-over-year change in other income (expense), net, of $1.1 billion, from an income amount to an expense amount. These factors were only partially offset by the year-over-year increase in our gross margin. These variances are described above.

Adjusted EBITDA (Non-GAAP Measure)

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

	Six months ended September 30,			
(in thousands of Canadian dollars)	2022	2021	$ Change	% Change
Net (loss) income	$ (2,319,467)	$ 373,624	$ (2,693,091)	(721%)
Income tax expense (recovery)	11,969	(307)	12,276	3999%
Other (income) expense, net	293,422	(776,487)	1,069,909	138%
Loss on equity method investments	-	100	(100)	(100%)
Share-based compensation[1]	15,297	29,079	(13,782)	(47%)
Acquisition-related costs	18,799	8,171	10,628	130%
Depreciation and amortization[1]	43,144	53,912	(10,768)	(20%)
Asset impairment and restructuring costs	1,771,953	81,128	1,690,825	2084%
Restructuring costs recorded in cost of goods sold	11,984	-	11,984	100%
Charges related to the flow-through of inventory step-up on business combinations	-	4,537	(4,537)	(100%)
Adjusted EBITDA	$ (152,899)	$ (226,243)	$ 73,344	32%

[1] From Statements of Cash Flows.

The Adjusted EBITDA loss in the six months ended September 30, 2022 was $152.9 million, as compared to an Adjusted EBITDA loss of $226.2 million in the six months ended September 30, 2021. The year-over-year decrease in the Adjusted EBITDA loss is primarily attributable to the year-over-year improvement in our gross margin, and the year-over-year reduction in our total selling, general and administrative expense. These variances are described above.

Part 3 – Financial Liquidity and Capital Resources

We manage liquidity risk by reviewing, on an ongoing basis, our sources of liquidity and capital requirements. As of September 30, 2022, we had cash and cash equivalents of $746.7 million and short-term investments of $396.7 million, which are predominantly invested in liquid securities issued by the United States and Canadian governments. In evaluating our capital requirements, including the impact, if any, on our business from the COVID-19 pandemic, and our ability to fund the execution of our strategy, we believe we have adequate available liquidity to enable us to meet our working capital and other operating requirements, fund growth initiatives and capital expenditures, settle our liabilities, and repay scheduled principal and interest payments on debt for at least the next twelve months.

Our objective is to generate sufficient cash to fund our operating requirements and expansion plans. While we have incurred net losses on a U.S. GAAP basis and Adjusted EBITDA losses to date, and our cash and cash equivalents have decreased $29.3 million from March 31, 2022 (and, together with short-term investments, decreased $228.2 million from March 31, 2022), as discussed in the "Cash Flows" section below, management anticipates the success and eventual profitability of the business. We have also ensured that we have access to public capital markets through our U.S. and Canadian public stock exchange listings. In March 2021, we entered into the Credit Agreement with the lenders and Wilmington Trust, National Association, as administrative agent and collateral agent for the lenders. The Credit Agreement provides for a credit facility (the "Credit Facility") in the initial aggregate principal amount of US$750.0 million. As described under "Recent Developments" above, pursuant to the balance sheet actions completed in connection with the Reorganization, we have entered into agreements with certain of our lenders to complete the Paydown, which will result in us tendering US$187.5 million of the principal amount outstanding under the Credit Agreement. We continue to review and pursue selected external financing sources to ensure adequate financial resources. These potential sources include, but are not limited to: (i) obtaining financing from traditional or non-traditional investment capital organizations; (ii) obtaining funding from the sale of our common shares or other equity or debt instruments; and (iii) obtaining debt financing with lending terms that more closely match our business model and capital needs.

There can be no assurance that we will gain adequate market acceptance for our products or be able to generate sufficient positive cash flow to achieve our business plans. In the six months ended September 30, 2022, our purchases of and deposits on property, plant and equipment totaled $4.3 million, which were funded out of available cash, cash equivalents and short-term investments. We expect to continue funding these purchases with our available cash, cash equivalents and short-term investments. Therefore, we are subject to risks including, but not limited to, our inability to raise additional funds through debt and/or equity financing to support our continued development, including capital expenditure requirements, operating requirements and to meet our liabilities and commitments as they come due.

Cash Flows

	Six months ended September 30,	
(in thousands of Canadian dollars)	2022	2021
Net cash (used in) provided by:		
Operating activities	$ (273,915)	$ (251,745)
Investing activities	207,000	(46,297)
Financing activities	(12,413)	(46,681)
Effect of exchange rate changes on cash and cash equivalents	50,042	(2,309)
Net decrease in cash and cash equivalents	(29,286)	(347,032)
Cash and cash equivalents, beginning of period	776,005	1,154,653
Cash and cash equivalents, end of period	$ 746,719	$ 807,621

<u>Operating activities</u>

Cash used in operating activities totaled $273.9 million in the six months ended September 30, 2022, as compared to cash used of $251.7 million in the six months ended September 30, 2021. The increase in the cash used in operating activities is primarily attributable to the year-over-year increase in working capital spending, partially offset by the improvement in our gross margin as described above.

<u>Investing activities</u>

The cash provided by investing activities totaled $207.0 million in the six months ended September 30, 2022, as compared to cash used of $46.3 million in the six months ended September 30, 2021.

In the six months ended September 30, 2022, purchases of property, plant and equipment were $4.3 million, primarily related to improvements made at certain of our Canadian cultivation and production facilities. Comparatively, in the six months ended September 30, 2021, we invested $35.7 million in our production infrastructure in the United States and an expansion of our Storz & Bickel facilities. The year-over-year decrease is primarily attributable to: (i) the substantial completion of the infrastructure projects that were in progress in fiscal 2022; and (ii) optimizing our capital expenditures as part of the previously-noted restructuring actions, particularly those actions that were initiated in the fourth quarter of fiscal 2022.

In the six months ended September 30, 2022, our strategic investments in other financial assets were $29.2 million and related primarily to the upfront payment made as consideration for entering the Jetty Agreements. Comparatively, in the six months ended

September 30, 2021, we completed the acquisitions of Ace Valley and Supreme Cannabis, with the net cash outflow totaling $9.1 million.

Net redemptions of short-term investments in the six months ended September 30, 2022 were $211.1 million, as compared to net purchases of $0.7 million in the six months ended September 30, 2021. The year-over-year change reflects the redemption of our short-term investments, largely to fund operations as described above.

Additional cash inflows during the six months ended September 30, 2022 include proceeds of $12.4 million from the sale of certain wholly-owned subsidiaries, and proceeds of $10.8 million from the sale of property, plant and equipment. Additional cash inflows during the six months ended September 30, 2021 related to proceeds of $10.3 million from the sale of certain wholly-owned subsidiaries.

Finally, other investing activities resulted in a cash flow of $7.1 million in the six months ended September 30, 2022, primarily related to the partial repayment of the principal on a loan associated with the sale of a wholly-owned subsidiary in fiscal 2022. Other investing activities resulted in a cash outflow of $10.9 million in the six months ended September 30, 2021, primarily related to the payment of acquisition-related liabilities as we continued to draw-down on the amounts owing in relation to acquisitions completed in prior years.

Financing activities

The cash used in financing activities in the six months ended September 30, 2022 was $12.4 million, as compared to cash used of $46.7 million in the six months ended September 30, 2021. In the six months ended September 30, 2021, we made repayments of long-term debt in the amount of $50.0 million, primarily related to the term loan assumed upon the completion of the acquisition of Supreme Cannabis on June 22, 2021.

Free Cash Flow (Non-GAAP Measure)

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

	Three months ended September 30,		Six months ended September 30,	
(in thousands of Canadian dollars)	2022	2021	2022	2021
Net cash used in operating activities	$ (133,400)	$ (85,965)	$ (273,915)	$ (251,745)
Purchases of and deposits on property, plant and equipment	(2,015)	(15,379)	(4,308)	(35,658)
Free cash flow[1]	$ (135,415)	$ (101,344)	$ (278,223)	$ (287,403)

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

Free cash flow in the second quarter of fiscal 2023 was an outflow of $135.4 million, as compared to an outflow of $101.3 million in the second quarter of fiscal 2022. The year-over-year increase in the free cash outflow reflects the increase in cash used in operating activities, as the year-over-year increase in working capital spending was only partially offset by the improvement in our gross margin. This increase in the free cash outflow was partially offset by the reduction in purchases of property, plant and equipment associated with: (i) the substantial completion of the infrastructure projects that were in progress in fiscal 2022; and (ii) optimizing our capital expenditures as part of the previously-noted restructuring actions, particularly those actions that were initiated in the fourth quarter of fiscal 2022.

Free cash flow in the six months ended September 30, 2022 was an outflow of $278.2 million, as compared with an outflow of $287.4 million in the six months ended September 30, 2021. The year-over-year decrease in the free cash outflow reflects the increase in cash used in operating activities, and decrease in purchases of property, plant and equipment. These variances are describe above.

Debt

Since our formation, we have financed our cash requirements primarily through the issuance of common shares, including the $5.1 billion investment by CBI in the third quarter of fiscal 2019, and debt. Total debt outstanding as of September 30, 2022 was $1.4 billion, a decrease from $1.5 billion as of March 31, 2022. The total principal amount owing, which excludes fair value adjustments related to the Notes, was $1.4 billion at September 30, 2022, a decrease from $1.5 billion at March 31, 2022. These decreases were due to the acquisition and cancellation of $262.6 million of aggregate principal amount of the Notes from the Noteholders, as described above under "Recent Developments", partially offset by the impact of the strengthening of the U.S. dollar against the Canadian dollar on amounts borrowed on the Credit Facility (see below).

Credit Facility

The Credit Agreement provides for the Credit Facility in the aggregate principal amount of US$750.0 million. The Credit Agreement also provided the ability to obtain up to an additional US$500.0 million of incremental senior secured debt pursuant to the Credit Agreement. As described under "Recent Developments" above, pursuant to the balance sheet actions completed in connection with the Reorganization, we have entered into agreements with certain of our lenders party to the Credit Agreement to complete the Paydown, which will result in us tendering US$187.5 million of the principal amount outstanding under the Credit Agreements. We also agreed to certain Amendments to the Credit Agreement with our lenders which, among other things, eliminated the additional US$500.0 million incremental term loan facility.

The Credit Facility has no amortization payments, matures on March 18, 2026, has a coupon of LIBOR plus 8.50% and is subject to a LIBOR floor of 1.00%. In the event that LIBOR can no longer be adequately ascertained or is no longer available, an alternative rate as permitted under the Credit Agreement will be used. Our obligations under the Credit Facility are guaranteed by material Canadian and U.S. subsidiaries of Canopy Growth. The Credit Facility is secured by substantially all of the assets, including material real property, of the borrowers and each of the guarantors thereunder. The Credit Agreement contains representations and warranties, and affirmative and negative covenants, including a financial covenant requiring minimum liquidity of US$200.0 million at the end of each fiscal quarter; however, as a result of the Amendments, such minimum liquidity covenant has been reduced to US$100.0 million, which is to be reduced as payments are made in accordance with the Paydown.

Unsecured Senior Notes

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

Convertible Debentures and Accretion Debentures

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

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

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

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

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

Contractual Obligations and Commitments

Other than the changes to our Notes pursuant to the Exchange Transactions, and certain agreements entered into in connection with the Reorganization, as described above under “Recent Developments”, there have been no material changes to our contractual obligations and commitments from the information provided in the MD&A section in our Annual Report.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

Impairment of goodwill

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

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

While we changed our reportable segments in the second quarter of fiscal 2023 (refer to "Segment Reporting" above), there were no changes to the composition of our reporting units to which goodwill remains assigned at September 30, 2022. In the second quarter of fiscal 2023, we determined there to be indicators of impairment for one of our other reporting units as slower growth rates resulted in updated long-term financial forecasts indicating lower forecasted revenue and cash flow generation. As a result, we performed a quantitative interim goodwill impairment test for the reporting unit as of September 30, 2022 and concluded that the carrying value of the reporting unit was higher than its estimated fair value, as determined using the income valuation method. We recognized a goodwill impairment loss totaling $2.3 million in the second quarter of fiscal 2023, representing the entirety of the goodwill assigned to the reporting unit.

For the remaining reporting units, we do not believe that an event occurred or circumstances changed during the second quarter of fiscal 2023 that would, more likely than not, reduce the fair value of these reporting units below their carrying value. Therefore, we concluded that the quantitative goodwill impairment assessment was not required for the remaining reporting units at September 30, 2022. The carrying value of goodwill associated with all other reporting units was $136.5 million at September 30, 2022.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Foreign currency risk

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

A hypothetical 10% change in the U.S. dollar against the Canadian dollar compared to the exchange rate at September 30, 2022, would affect the carrying value of net assets by approximately $0.5 million, with a corresponding impact to the foreign currency translation account within accumulated other comprehensive income (loss). A hypothetical 10% change in the euro against the Canadian dollar compared to the exchange rate at September 30, 2022, would affect the carrying value of net assets by approximately $24.3 million, with a corresponding impact to the foreign currency translation account within accumulated other comprehensive income (loss).

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

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

Interest rate risk

Our cash equivalents and short-term investments are held in both fixed-rate and adjustable-rate securities. Investments in fixed-rate instruments carry a degree of interest rate risk. The fair value of fixed-rate securities may be adversely impacted due to a rise in interest rates. Additionally, a falling-rate environment creates reinvestment risk because as securities mature, the proceeds are reinvested at a lower rate, generating less interest income. As at September 30, 2022, our cash and cash equivalents, and short-term investments consisted of $0.7 billion, in interest rate sensitive instruments (March 31, 2022 – $0.9 billion).

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

	Aggregate Notional Value		**Fair Value**		**Decrease in Fair Value - Hypothetical 1% Rate Increase**	
	September 30, 2022	**March 31, 2022**	**September 30, 2022**	**March 31, 2022**	**September 30, 2022**	**March 31, 2022**
Unsecured senior notes	$ 337,380	$ 600,000	$ 321,128	$ 563,958	$ (2,294)	$ (6,600)
Fixed interest rate debt	42,073	43,386	N/A	N/A	N/A	N/A
Variable interest rate debt	990,909	893,647	N/A	N/A	N/A	N/A

Equity price risk

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

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

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