CANOPY GROWTH CORPORATION

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

FOR THE THREE MONTHS ENDED JUNE 30, 2024

AUGUST 9, 2024

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, 2024 (the "Annual Report"), Part I, Item 1A, Risk Factors, of the Annual Report and Part II, Item 1A, Risk Factors, of this Quarterly Report. This MD&A provides additional information on our business, recent developments, financial condition, cash flows and results of operations, and is organized as follows:

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

- *Part 2 - Results of Operations.* This section provides an analysis of our results of operations for the first quarter of fiscal 2025 in comparison to the first quarter of fiscal 2024.

- *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 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 and any state equivalent regulatory agencies over hemp (including CBD) products;
- expectations regarding the amount or frequency of impairment losses, including as a result of the write-down of intangible assets, including goodwill;
- our ability to refinance debt as and when required on terms favorable to us and comply with covenants contained in our debt facilities and debt instruments;
- the impacts of the Company's strategy to accelerate entry into the U.S. cannabis market through the creation of Canopy USA, LLC ("Canopy USA"), including the costs and benefits associated with the Reorganization Amendments (as defined below) and the Additional Reorganization Amendments (as defined below);
- expectations for Canopy USA 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 and occurrence of closing the acquisition of the Fixed Shares (as defined below) of Acreage Holdings, Inc. ("Acreage") pursuant to the exercise of the Acreage Option (as defined below), the anticipated timing and occurrence of the acquisition the Floating Shares (as defined below) by Canopy USA, the satisfaction or waiver of the closing conditions set out in the Floating Share Arrangement Agreement (as defined below) and the Existing Acreage Arrangement Agreement (as defined below), including receipt of all regulatory approvals;

- the anticipated timing and occurrence of the acquisition of Mountain High Products, LLC pursuant to the exercise of the Wana Option (as defined below);
- the timing and occurrence of the final tranche closing in connection with the acquisition of Jetty (as defined below) pursuant to the exercise of the Jetty Option (as defined below);
- the issuance of additional common shares of the Company (each whole share, a "Canopy Share" or a "Share") to satisfy the payments to eligible participants to the existing tax receivable bonus plans of HSCP (as defined below), to satisfy any deferred and/or option exercise payments to the shareholders of Wana (as defined below) and Jetty and the issuance of additional Non-Voting Shares (as defined below) issuable to Canopy Growth from Canopy USA in consideration thereof;
- the acquisition of additional Canopy USA Common Shares (as defined below) in connection with the Trust Transaction (as defined below), including any warrants of Canopy USA issued to the Trust (as defined below) in accordance with the Trust SPA (as defined below);
- the anticipated extension to the maturity date of the Credit Facility (as defined below) and the timing and occurrence of any prepayments of the Credit Facility in connection with the Amending Agreement (as defined below);
- expectations regarding the potential success of, and the costs and benefits associated with, our acquisitions, strategic alliances, equity investments and dispositions;
- the grant, renewal and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof;
- our international activities, 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 hemp-derived consumer products in jurisdictions where such products are legal and that we currently operate in;
- the benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, including CBD and other cannabinoids;
- our ability to maintain effective internal control over financial reporting;
- our ability to continue as a going concern;
- expectations regarding the use of proceeds of equity financings;
- the legalization of the use of cannabis for medical or adult-use in jurisdictions outside of Canada, the related timing and impact thereof and our intentions to participate in such markets, if and when such use is legalized;
- our ability to execute on our strategy and the anticipated benefits of such strategy;
- the ongoing impact of the legalization of additional cannabis product types and forms for adult-use 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, state, 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;
- the expansion of our production and manufacturing, the costs and timing associated therewith and the receipt of applicable production and sale licenses;
- expectations with respect to 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;
- our ability to comply with the listing requirements of the Nasdaq Stock Market LLC ("Nasdaq") and the Toronto Stock Exchange ("TSX"); 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, 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, strategic alliances and equity investments; (v) consumer interest in our products; (vi) competition; (vii) anticipated and unanticipated costs; (viii) government regulation of our activities and products including but not limited to the areas of taxation and environmental protection; (ix) the timely receipt of any required regulatory authorizations, approvals, consents, permits and/or licenses; (x) our ability to obtain qualified staff, equipment and services in a timely and cost-efficient manner; (xi) our ability to conduct operations in a safe, efficient and effective manner; (xii) our ability to realize anticipated benefits, synergies or generate revenue, profits or value from our recent acquisitions into our existing operations; and (xiii) other considerations that management believes to be appropriate in the circumstances. While 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; our ability to continue as a going concern; risks that we may be required to write down intangible assets, including goodwill, due to impairment; 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); our ability to maintain an effective system of internal control; the diversion of management time on matters related to Canopy USA; the ability of parties to certain transactions to receive, in a timely manner and on satisfactory terms, the necessary regulatory approvals; the risks that the Trust's future ownership interest in Canopy USA is not quantifiable, and the Trust may have significant ownership and influence over Canopy USA; the risks relating to the conditions set forth in the Floating Share Arrangement Agreement and the Existing Acreage Arrangement Agreement not being satisfied or waived; the risks related to Acreage's financial statements expressing doubt about its ability to continue as a going concern; the risks in the event that Acreage cannot satisfy its debt obligations as they become due; volatility in and/or degradation of general economic, market, industry or business conditions; risks relating to our current and future operations in emerging markets; compliance with applicable environmental, economic, health and safety, energy and other policies and regulations and in particular health concerns with respect to vaping and the use of cannabis products in vaping devices; risks and uncertainty regarding future product development; changes in regulatory requirements in relation to our business and products; our reliance on licenses issued by and contractual arrangements with various federal, state and provincial governmental authorities; inherent uncertainty associated with projections; future levels of revenues and the impact of increasing levels of competition; third-party manufacturing risks; third-party transportation risks; inflation risks; our exposure to risks related to an agricultural business, including wholesale price volatility and variable product quality; changes in laws, regulations and guidelines and our compliance with such laws, regulations and guidelines; risks relating to inventory write downs; risks relating to our ability to refinance debt as and when required on terms favorable to us and to comply with covenants contained in our debt facilities and debt instruments; risks associated with jointly owned investments; our ability to manage disruptions in credit markets or changes to our credit ratings; the success or timing of completion of ongoing or anticipated capital or maintenance projects; risks related to the integration of acquired businesses; the timing and manner of the legalization of cannabis in the United States; business strategies, growth opportunities and expected investment; counterparty risks and liquidity risks that may impact our ability to obtain loans and other credit facilities on favorable terms; the potential effects of judicial, regulatory or other proceedings, litigation or threatened litigation or proceedings, or reviews or investigations, on our business, financial condition, results of operations and cash flows; risks associated with divestment and restructuring; the anticipated effects of actions of third parties such as competitors, activist investors or federal, state, provincial, territorial or local regulatory authorities, self-regulatory organizations, plaintiffs in litigation or persons threatening litigation; consumer demand for cannabis and hemp products; the implementation and effectiveness of key personnel changes; risks related to stock exchange restrictions; risks related to the protection and enforcement of our intellectual property rights; the risks related to our exchangeable shares (the "Exchangeable Shares") having different rights from our common shares and there may never be a trading market for the Exchangeable Shares; future levels of capital, environmental or maintenance expenditures, general and administrative and other expenses; 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 company which produces, distributes, and sells a diverse range of cannabis and cannabis related products. Cannabis products are principally sold for adult-use and medical purposes under a portfolio of distinct brands. Our core operations are in Canada, Europe and Australia and we hold a significant non-controlling, non-voting interest in an entity that participates in the sale of cannabis and hemp derived products in the United States.

Using a consumer-driven approach, our portfolio delivers diverse products that offer experiences for occasions our consumers seek. Our mainstream and premium branded product portfolio includes multiple cannabis formats, such as high-quality dried flower, oils, softgel capsules, infused beverages, edibles and topical formats, as well as vaporizer devices, in addition to cannabis accessories, designed to meet the needs of consumers worldwide.

Our cannabis cultivation operations are focused in two facilities, our greenhouse facility in Kincardine, Ontario and the DOJA facility in Kelowna, British Columbia. We believe that the cultivation capacity in the Kincardine facility and the DOJA facility, as well as externally sourced cannabis flower supply can meet the current demand for our premium dried flower. The receipt of our European Union Good Manufacturing Practices ("EU GMP") certification at the Kincardine facility enables us to continue exporting certified medical cannabis to medical markets in Europe as well as other medical cannabis markets around the world.

Our licensed operational capacity in Canada includes advanced manufacturing capability for oil and softgel encapsulation, pre-rolled joints ("PRJ") (infused and non-infused), and hash production, which is primarily completed at our Smiths Falls, Ontario facility. Through our in-house manufacturing capabilities of adult-use cannabis products, we can process and package bulk cannabis flower, PRJ and vape products, whether internally or externally sourced, into high quality cannabis products. Our remaining products are manufactured through an adaptive third-party sourcing model for all cannabis beverages, edibles, and extracts. We are confident that our production and manufacturing capabilities and know-how are sufficient to meet the diverse needs of our adult-use and medical cannabis consumers in Canada.

Today, we are a leader in the adult-use market in Canada where we offer a broad portfolio of brands and products and continue to expand our portfolio to include new innovative cannabis products and formats. We maintain agreements to supply all Canadian provinces and territories with our adult-use products for sale through their established retail distribution systems. Through the Spectrum Therapeutics website, patients who have registered with Spectrum Therapeutics are able to purchase products online and have them shipped directly to the address indicated on their registration document. We have developed several programs to improve access to medical cannabis for authorized patients through income-tested compassionate pricing program whereby eligible low-income patients may obtain a 20% discount on regular prices of medical cannabis. We also provide support through our customer care team to help patients identify if their medication is covered under the growing number of private health plans that have a medical cannabis component.

Our Canopy Medical and Spectrum Therapeutics brands continue to serve the medical market in Europe and Australia. Our European medical cannabis business operates in accordance with the specific regulatory framework in place in the relevant jurisdictions, including supplying EU GMP compliant pharmaceutical products. In Australia, Spectrum Therapeutics continues to support Australian medical patients through imported products.

We also offer a variety of health and wellness hemp-derived CBD products under our Martha Stewart CBD brand, in addition, to the premier herbal vaporizer product under the Storz & Bickel® ("Storz & Bickel") brand.

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

Segment Reporting

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

- **Canada cannabis -** includes the production, distribution and sale of a diverse range of cannabis, hemp and cannabis-related products in Canada pursuant to the *Cannabis Act* and cannabis-related areas such as merchandise and clinics;
- **International markets cannabis** - includes the production, distribution and sale of a diverse range of cannabis and hemp products internationally pursuant to applicable international legislation, regulations and permits. Priority markets include medical cannabis in Australia and Europe where the Company offers branded high-quality flower, oil and extract products under our recognized Spectrum Therapeutics, Canopy Medical and Tweed brands, as well as the Company's Storz & Bickel® ("Storz & Bickel") line of medically approved vaporizers in Australia;
- **Storz & Bickel** - includes the production, distribution and sale of vaporizers and accessories; and
- **This Works** - includes the production, distribution and sale of beauty, skincare, wellness and sleep products, some of which have been blended with hemp-derived CBD isolate. On December 18, 2023, the Company completed the sale of This Works and as of such date, the results of This Works are no longer included in the Company's financial results.

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

Canopy USA

On October 24, 2022, Canopy Growth completed a number of strategic transactions (the "Reorganization") in connection with the creation of Canopy USA, a U.S.-domiciled holding company wherein, as of October 24, 2022, Canopy USA, holds certain U.S. cannabis investments previously held by Canopy Growth.

Following the creation of Canopy USA, the Nasdaq communicated its position to the Company stating that companies that consolidate "the assets and revenues generated from activities in violation under federal law cannot continue to list on Nasdaq". Since the Company is committed to compliance with the listing requirements of the Nasdaq, the Company and Canopy USA effectuated certain changes to the initial structure of the Company's interest in Canopy USA that were intended to facilitate the deconsolidation of the financial results of Canopy USA within the Company's financial statements. These changes included, among other things, modifying the terms of the Protection Agreement (as defined below) between the Company, its wholly-owned subsidiary and Canopy USA as well as the terms of Canopy USA's limited liability company agreement and amending the terms of certain agreements with third-party investors in Canopy USA to eliminate any rights to guaranteed returns (collectively, the "Reorganization Amendments"). On May 19, 2023, the Company and Canopy USA implemented the Reorganization Amendments, which included, entering into the First A&R Protection Agreement (as defined below) and amending and restating Canopy USA's limited liability company agreement (the "A&R LLC Agreement") in order to: (i) eliminate certain negative covenants that were previously granted by Canopy USA in favor of the Company as well as delegating to the managers of the Canopy USA Board (as defined below) not appointed by Canopy Growth the authority to approve the following key decisions (collectively, the "Key Decisions"): (a) the annual business plan of Canopy USA; (b) decisions regarding the executive officers of Canopy USA and any of its subsidiaries; (c) increasing the compensation, bonus levels or other benefits payable to any current, former or future employees or managers of Canopy USA or any of its subsidiaries; (d) any other executive compensation plan matters of Canopy USA or any of its subsidiaries; and (e) the exercise of the Wana Options (as defined below) or the Jetty Options (as defined below), which for greater certainty means that the Company's nominee on the Canopy USA Board will not be permitted to vote on any Key Decisions while the Company owns Non-Voting Shares; (ii) reduce the number of managers on the Canopy USA Board from four to three, including, reducing the Company's nomination right to a single manager; (iii) amend the share capital of Canopy USA to, among other things, (a) create a new class of Canopy USA Class B Shares (as defined below), which may not be issued prior to the conversion of the Non-Voting Shares or the Class A shares of Canopy USA (the "Canopy USA Common Shares") into Canopy USA Class B Shares; (b) amend the terms of the Non-Voting Shares such that the Non-Voting Shares will be convertible into Canopy USA Class B Shares (as opposed to Canopy USA Common Shares); and (c) amend the terms of the Canopy USA Common Shares such that upon conversion of all of the Non-Voting Shares into Canopy

USA Class B Shares, the Canopy USA Common Shares will, subject to their terms, automatically convert into Canopy USA Class B Shares, provided that the number of Canopy USA Class B Shares to be issued to the former holders of the Canopy USA Common Shares will be equal to no less than 10% of the total issued and outstanding Canopy USA Class B Shares following such issuance. Accordingly, as a result of the Reorganization Amendments, in no circumstances will the Company, at the time of such conversions, own more than 90% of the Canopy USA Class B Shares.

In connection with the Reorganization Amendments, on May 19, 2023, Canopy USA and Huneeus 2017 Irrevocable Trust (the "Trust") entered into a share purchase agreement (the "Trust SPA"), which sets out the terms of the Trust's investment in Canopy USA in the aggregate amount of up to US$20 million (the "Trust Transaction"). Agustin Huneeus, Jr. is the trustee of the Trust and is an affiliate of a shareholder of Jetty. Pursuant to the terms of the Trust SPA, the Trust will, subject to certain terms and conditions contained in the Trust SPA be issued Canopy USA Common Shares in two tranches with an aggregate value of up to US$10 million along with warrants of Canopy USA to acquire additional Canopy USA Common Shares. In addition, subject to the terms of the Trust SPA, the Trust has also been granted options to acquire additional Voting Shares (as defined in the A&R LLC Agreement) with a value of up to an additional US$10 million and one such additional option includes the issuance of additional warrants of Canopy USA. On April 26, 2024, Canopy USA completed the first tranche closing of the Trust Transaction in accordance with the Trust SPA, whereby the Trust acquired an aggregate 28,571,429 Canopy USA Common Shares at US$0.175 per Canopy USA Common Share and warrants to acquire up to 42,857,142 Voting Shares expiring on April 26, 2031.

In addition, subject to the terms and conditions of the A&R Protection Agreement (as defined below) 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.

On November 3, 2023, the Company received a letter from the staff of the SEC (the "Staff") in which the Staff indicated that, despite the Reorganization Amendments, it would object to the deconsolidation of the financial results of Canopy USA from the Company's financial statements in accordance with U.S. GAAP once Canopy USA acquires Wana, Jetty or the Fixed Shares of Acreage. The Company subsequently had discussions with the Office of Chief Accountant of the SEC (the "OCA") and determined to make certain additional amendments to the structure of Canopy USA (the "Additional Reorganization Amendments") to facilitate the deconsolidation of Canopy USA from the financial results of Canopy Growth in accordance with U.S. GAAP upon Canopy USA's acquisition of Wana, Jetty or Acreage. In connection with the Additional Reorganization Amendments, Canopy USA and its members entered into a second amended and restated limited liability company agreement (the "Second A&R LLC Agreement"). In accordance with the terms of the Second A&R LLC Agreement, the terms of the Non-Voting Shares have been amended such that the Non-Voting Shares are only convertible into Canopy USA Class B Shares following the date that the NASDAQ Stock Market or The New York Stock Exchange permit the listing of companies that consolidate the financial statements of companies that cultivate, distribute or possess marijuana (as defined in 21 U.S.C 802) in the United States (the "Stock Exchange Permissibility Date"). Based on the Company's discussions with the OCA, upon effectuating the Additional Reorganization Amendments, the Company believes that the Staff would not object to the deconsolidation of the financial results of Canopy USA from the Company's financial statements in accordance with U.S. GAAP.

Following the Reorganization, Reorganization Amendments and Additional Reorganization Amendments, on May 6, 2024, Canopy USA exercised the options (the "Wana Options") to acquire Mountain High Products, LLC, Wana Wellness, LLC and The Cima Group, LLC (collectively, "Wana") leading cannabis edibles brand in North America and subsequently closed the transactions to acquire Wana Wellness, LLC and The Cima Group, LLC. In addition, Canopy USA exercised the options (the "Jetty Options") to acquire Lemurian, Inc. ("Jetty") a California-based producer of high-quality cannabis extracts and pioneer of clean vape technology and subsequently completed the first tranche closing to acquire Jetty. On June 4, 2024, the option to acquire the issued and outstanding Class E subordinate voting shares (the "Fixed Shares") of Acreage (the "Acreage Option") was exercised. Canopy USA also holds direct and indirect interests in the capital of TerrAscend Corp. ("TerrAscend"), a leading North American cannabis operator with vertically integrated operations and a presence in Pennsylvania, New Jersey, Michigan and California as well as licensed cultivation and processing operations in Maryland.

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

- **Wana** – 100% of the membership interest of Wana Wellness, LLC and The Cima Group, LLC and has exercised the option to acquire 100% of the membership interests of Mountain High Products, LLC.
- **Jetty** – approximately 75% of the shares of Jetty.
- **Acreage** – On June 4, 2024, the Acreage Option was exercised, representing approximately 70% of the total shares of Acreage, at a fixed share exchange ratio of 0.03048 of a common share of Canopy Growth per Fixed Share, as adjusted in accordance with the terms of the Existing Acreage Arrangement Agreement. Concurrently with the closing of the acquisition of the Fixed Shares pursuant to the exercise of the Acreage Option, the Fixed Shares will be issued to Canopy USA. In addition, Canopy USA has agreed to acquire all of the issued and outstanding Class D subordinate voting shares of Acreage (the "Floating

Shares") by way of a court-approved plan of arrangement (the "Floating Share Arrangement") in exchange for 0.045 of a common share of Canopy Growth for each Floating Share held. Accordingly, we will not hold any Fixed Shares or Floating Shares. 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.

- **TerrAscend** – Canopy USA's direct and indirect interests in TerrAscend include: (i) 63,492,037 exchangeable shares in the capital of TerrAscend (the "TerrAscend Exchangeable Shares"), (ii) an option to purchase 1,072,450 TerrAscend common shares (the "TerrAscend Common Shares") for an aggregate purchase price of $1.00 (the "TerrAscend Option") and (iii) 22,474,130 TerrAscend Common Share purchase warrants with a weighted average exercise price of $6.07 per TerrAscend Common Share and expiring on December 31, 2032 (the "TerrAscend Warrants"). The TerrAscend Exchangeable Shares can be converted into TerrAscend Common Shares at Canopy USA's option, subject to the terms of the A&R Protection Agreement.

Following the implementation of the Reorganization, Canopy USA was determined to be a variable interest entity pursuant to ASC 810 - *Consolidations* ("ASC 810") and prior to the completion of the Reorganization Amendments and the Additional Reorganization Amendments, Canopy Growth was determined to be the primary beneficiary of Canopy USA. As a result of such determination and in accordance with ASC 810, Canopy Growth consolidated the financial results of Canopy USA up to April 30, 2024.

<u>Ownership of U.S. Cannabis Investments</u>

Following the implementation of the Reorganization, the shares and interests in Acreage, Wana, Jetty and TerrAscend are held, directly or indirectly, by Canopy USA, and Canopy Growth no longer holds a direct interest in any shares or interests in such entities, other than the Acreage Option, which was exercised on June 4, 2024. Canopy Growth holds non-voting and non-participating shares (the "Non-Voting Shares") in the capital of Canopy USA. The Non-Voting Shares do not carry voting rights, rights to receive dividends or other rights upon dissolution of Canopy USA. Following the Reorganization Amendments, the Non-Voting Shares are convertible into Class B shares of Canopy USA (the "Canopy USA Class B Shares"), provided that such conversion shall only be permitted following the Stock Exchange Permissibility Date. The Company also has the right (regardless of the fact that its Non-Voting Shares are non-voting and non-participating) to appoint one member to the Canopy USA board of managers (the "Canopy USA Board").

On October 24, 2022, Canopy USA and the Company also entered into an agreement with, among others, Nancy Whiteman, the controlling shareholder of Wana, which was amended and restated on May 19, 2023 and on April 30, 2024, whereby subsidiaries of Canopy USA agreed to pay additional consideration in order to acquire the Wana Options and the future payments owed in connection with the exercise of the Wana Options were reduced to US$3.00 in exchange for the issuance of Canopy USA Common Shares and Canopy Growth common shares (the "Wana Amending Agreement"). In accordance with the terms of the Wana Amending Agreement, on April 30, 2024, (i) Canopy USA issued 60,955,929 Canopy USA Common Shares and (ii) Canopy Growth issued 1,086,279 Canopy Growth common shares to the shareholders of Wana. The Canopy USA Common Shares issued to Ms. Whiteman, or entities controlled by Ms. Whiteman, are subject to a repurchase right exercisable at any time after April 30, 2027, being the 36 month anniversary of the closing of the transaction contemplated by the Wana Amending Agreement (the "Wana Repurchase Right") to repurchase all Canopy USA Common Shares that have been issued at a price per Canopy USA Common Share equal to the fair market value as determined by an appraiser. As part of this agreement, Canopy USA has granted Ms. Whiteman the right to appoint one member to the Canopy USA Board and a put right on the same terms and conditions as the Wana Repurchase Right.

As of August 8, 2024, the Trust holds 28,571,429 Canopy USA Common Shares, the shareholders of Wana collectively hold 60,955,929 Canopy USA Common Shares and a wholly-owned subsidiary of the Company holds all of the issued and outstanding Non-Voting Shares in the capital of Canopy USA, representing approximately 72.3% of the issued and outstanding shares in Canopy USA on an as-converted basis.

Canopy Growth and Canopy USA are also parties to a protection agreement (the "Protection Agreement") to provide for certain covenants in order to preserve the value of the Non-Voting Shares held by Canopy Growth until such time as the Non-Voting Shares are converted in accordance with their terms, provided that, such conversion shall only be permitted following the Stock Exchange Permissibility Date, but does not provide Canopy Growth with the ability to direct the business, operations or activities of Canopy USA. The Protection Agreement was amended and restated in connection with: (a) the Reorganization Amendments (the "First A&R Protection Agreement"); and (b) the Additional Reorganization Amendments (the "Second A&R Protection Agreement" and together with the First A&R Protection Agreement, the "A&R Protection Agreement").

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

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

Acreage Agreements

On October 24, 2022, Canopy Growth entered into an arrangement agreement with Canopy USA and Acreage, as amended (the "Floating Share Arrangement Agreement"), pursuant to which, subject to approval of the holders of the Floating Shares and the terms and conditions of the Floating Share Arrangement Agreement, Canopy USA will acquire all of the issued and outstanding Floating Shares by way of a court-approved plan on arrangement under the Business Corporations Act (British Columbia) (the "Floating Share Arrangement") in exchange for 0.045 of a Company common share for each Floating Share held. In connection with the Floating Share Arrangement Agreement, Canopy Growth has irrevocably waived the right to acquire all of the issued and outstanding Floating Shares (the "Acreage Floating Option") existing under the Existing Acreage Arrangement Agreement.

On October 24, 2022, the Company and Canopy USA entered into a third amendment to tax receivable agreement (the "Amended TRA") with, among others, certain current or former unitholders (the "Holders") of High Street Capital Partners, LLC, a subsidiary of Acreage ("HSCP"), pursuant to HSCP's amended tax receivable agreement (the "TRA") and related tax receivable bonus plans with Acreage. Pursuant to the Amended TRA, the Company, on behalf of Canopy USA, agreed to issue common shares of the Company with a value of US$30.4 million to certain Holders as consideration for the assignment of such Holder's rights under the TRA to Canopy USA. As a result of the Amended TRA, Canopy USA is the sole member and beneficiary under the TRA. In connection with the foregoing, the Company issued: (i) 564,893 common shares with a value of $20.6 million (US$15.2 million) to certain Holders on November 4, 2022 as the first installment under the Amended TRA; and (ii) 710,208 common shares with a value of $20.6 million (US$15.2 million) to certain Holders on March 17, 2023, as the second installment under the Amended TRA. The Company, on behalf of Canopy USA, also agreed to issue common shares of the Company with a value of approximately US$19.6 million to certain eligible participants pursuant to HSCP's existing tax receivable bonus plans to be issued immediately prior to completion of the Floating Share Arrangement.

In addition to shareholder and court approvals, the Floating Share Arrangement is subject to applicable regulatory approvals including, but not limited to, TSX approval and the satisfaction of certain other closing conditions, including the conditions set forth in the amended and restated plan of arrangement (the "Acreage Amended Arrangement") implemented by Canopy Growth and Acreage on September 23, 2020 in connection with the Existing Acreage Arrangement Agreement. The Floating Share Arrangement received the requisite approval from the holders of Floating Shares at the special meeting of Acreage shareholders held on March 15, 2023 and on March 20, 2023 Acreage obtained a final order from the Supreme Court of British Columbia approving the Floating Share Arrangement.

On June 4, 2024, the Acreage Option was exercised 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"), with such exercise being completed in advance of the Exercise Outside Date (as defined in the Floating Share Arrangement Agreement). Concurrently with the closing of the acquisition of the Fixed Shares pursuant to the exercise of the Acreage Option, the Fixed Shares will be issued to Canopy USA. Accordingly, Canopy Growth will not hold any Fixed Shares or Floating Shares. Completion of the acquisition of the Fixed Shares is subject to the satisfaction of certain conditions set forth in the Existing Acreage Arrangement Agreement. The acquisition of the Floating Shares pursuant to the Floating Share Arrangement is anticipated to occur immediately prior to the acquisition of the Fixed Shares pursuant to the Existing Acreage Arrangement Agreement such that 100% of the issued and outstanding shares of Acreage will be owned by Canopy USA on closing of the acquisition of both the Fixed Shares and the Floating Shares.

On June 3, 2024, the Company exercised its option to acquire certain outstanding debt of Acreage (the "Debt Acquisition") in connection with the option agreement dated November 15, 2022 (the "Option Agreement") among a wholly-owned subsidiary of Canopy Growth (the "Optionor") and the lenders (the "Lenders") party to Acreage's credit agreement dated as of December 16, 2021, as amended by the first amendment to credit agreement dated as of October 24, 2022 and the second amendment to credit agreement dated as of April 28, 2023.

The Optionor entered into various agreements in connection with the Debt Acquisition in order to acquire approximately US$99.8 million of Acreage's outstanding debt (the "Acquired Debt") from certain Lenders in exchange for US$69.8 million in cash and the release of approximately US$30.1 million (the "Option Premium") that was held in escrow pursuant to the Option Agreement. As reported in the Annual Report, the Option Premium was not included in Canopy Growth's cash and cash equivalents as of March 31, 2024.

The Optionor subsequently transferred approximately US$2.2 million of the Acquired Debt to the other Lender (the "Rolling Lender") and entered into a series of agreements with the Rolling Lender whereby the Optionor acquired a call right (the "Call Right") over the Rolling Lender's approximately US$45.6 million remaining interest in Acreage's debt (the "Rolling Interest"). If the Optionor exercises the Call Right before September 15, 2024, the purchase price for the Rolling Interest will be equal to the amount of the Rolling Interest being acquired; however if the Optionor exercises the Call Right on or after September 15, 2024 and on or prior to

January 14, 2025, the purchase price for the Rolling Interest will be 107.125% of the amount of the Rolling Interest being acquired; and if the Optionor exercises the Call Right on or after January 15, 2025, the purchase price for the Rolling Interest will be 114.25% of the amount of the Rolling Interest being acquired. The Optionor has also granted the Rolling Lender a put right in respect of the Rolling Interest exercisable on or after January 15, 2025 with a purchase price of 114.25% of the amount of the Rolling Interest subject to the put right.

The Optionor, the Rolling Lender and Acreage also entered into an amended and restated credit agreement in respect of the Acquired Debt, which provides for, among other things, certain interest payments to be paid-in-kind, revisions to certain financial covenants and, following certain events, a maturity date extension.

Recent Developments

Canopy USA

As described above, Canopy Growth has implemented the Reorganization Amendments and the Additional Reorganization Amendments and Canopy USA subsequently completed the first tranche closing of the Trust Transaction and exercised the Wana Options and the Jetty Options, such that we will not consolidate the financial results of Canopy USA as of April 30, 2024. Following the implementation of the Reorganization, Canopy USA was determined to be a variable interest entity pursuant to ASC 810 and prior to the completion of the Reorganization Amendments and the Additional Reorganization Amendments, Canopy Growth was determined to be the primary beneficiary of Canopy USA. As a result of such determination and in accordance with ASC 810, Canopy Growth consolidated the financial results of Canopy USA up to April 30, 2024.

Deconsolidation of Canopy USA

As of April 30, 2024, as a result of the series of transactions related to the Additional Reorganization Amendments described above (the “Canopy USA Transactions”), Canopy Growth has deconsolidated the financial results of Canopy USA and has a non-controlling interest in Canopy USA as of such date. The deconsolidation of Canopy USA occurred after completion of the following structural amendments: (i) execution of the Second A&R LLC Agreement, (ii) execution of the Second A&R Protection Agreement and (iii) completion of the initial tranche closing of the Trust Transaction, which included the election of a third member to the Canopy USA Board such that the Canopy USA Board is comprised of an appointee from the Trust, Ms. Whiteman, and the Company.

Canopy Growth's deconsolidation of Canopy USA resulted in recognition of an equity method investment and a loan receivable recorded at fair value.

Balance Sheet Deleveraging Initiatives

On April 18, 2024, the Company entered into an exchange agreement (the “April 2024 Exchange Agreement”) with Greenstar Canada Investment Limited Partnership (“Greenstar”), an affiliate of Constellation Brands, Inc., pursuant to which Greenstar converted approximately $81.2 million of the principal amount of the $100 million principal amount of a promissory note (the “CBI Note”) into 9,111,549 Exchangeable Shares (the “Note Exchange”), calculated based on a price per Exchangeable Share equal to $8.91. Pursuant to the terms of the April 2024 Exchange Agreement, all accrued but unpaid interest on the CBI Note together with the remaining principal amount of the CBI Note was cancelled and forgiven for no additional consideration by Greenstar. Following the closing of the Note Exchange, there is no outstanding balance owing under the CBI Note and the CBI Note has been cancelled.

On April 29, 2024 and June 28, 2024, the Company repurchased additional outstanding principal amounts under the Credit Facility (the "First Quarter 2025 Paydowns"). The First Quarter 2025 Paydowns resulted in an aggregate principal reduction of $11.2 million (US$8.2 million) for a cash payment of $11.2 million (US$8.2 million).

May 2024 Convertible Debenture

On May 2, 2024, the Company entered into an exchange and subscription agreement (the “Exchange and Subscription Agreement”) with a single institutional investor (the “May 2024 Investor”) pursuant to which, among other things, the May 2024 Investor delivered to the Company approximately $27.5 million aggregate principal amount of outstanding Supreme Debentures (as defined below) and Accretion Debentures (as defined below) held by the May 2024 Investor and paid the Company approximately US$50 million in exchange for the Company issuing to the May 2024 Investor (i) a new senior unsecured convertible debenture of the Company (the “May 2024 Convertible Debenture”) with an aggregate principal amount of approximately $96.4 million maturing five years from the closing date (the “Closing Date”) of the transaction (the “Transaction”) and (ii) 3,350,430 common share purchase warrants (the “May 2024 Investor Warrants”) of the Company. Each May 2024 Investor Warrant entitles the holder to acquire one Canopy Share at an exercise price equal to $16.18 per Canopy Share for a period of five years from the Closing Date. The May 2024 Convertible Debenture bears interest at a rate of 7.50% per annum, payable in semi-annual payments in cash or, at the option of the Company, in Canopy Shares for the first four semi-annual interest payments after the Closing Date, subject to satisfaction of certain conditions, including the prior approval of the TSX.

The Exchange and Subscription Agreement granted the May 2024 Investor, for a period of four months from the Closing Date (the “Agreement ROFR Term”), a right of first refusal to subscribe for, and to be issued, as the sole investor in any proposed nonbrokered private placement that the Company wishes to complete during the Agreement ROFR Term (the "Proposed Private Placement"); provided, however, that the May 2024 Investor shall subscribe for 100% of the Proposed Private Placement on the same terms and conditions contemplated in the Proposed Private Placement.

The May 2024 Convertible Debenture is convertible into Canopy Shares at the option of the May 2024 Investor at a conversion price equal to $14.38 per share. The May 2024 Convertible Debenture is subject to a forced conversion feature upon notice from the Company in the event that the average closing trading price of the Canopy Shares on the TSX exceeds $21.57 for a period of 10 consecutive trading days. In addition, pursuant to the terms of the May 2024 Convertible Debenture, for so long as the principal amount under the May 2024 Convertible Debenture remains outstanding (the "Debenture ROFR Term"), the Company granted the May 2024 Investor a right of first refusal to subscribe for, and to be issued, as an investor in any debt or equity financing that the Company wishes to complete during the Debenture ROFR Term (the "Proposed Financing"); provided, however, that the May 2024 Investor shall subscribe for 25% of the Proposed Financing on the same terms and conditions contemplated in the Proposed Financing.

Canadian Federal Budget Proposals

For capital gains realized on or after June 25, 2024, proposals in the Federal Budget released on April 16, 2024, and draft legislation released on June 10, 2024 (collectively the "2024 Budget Proposals"), would generally increase the capital gains inclusion rate from one-half to two-thirds for corporations and trusts, and from one-half to two-thirds for individuals on the portion of capital gains realized, including capital gains realized indirectly through a trust or partnership, in a taxation year (or in each case the portion of the year beginning on June 25, 2024, in the case of the 2024 taxation year) that exceed $250,000. Under the 2024 Budget Proposals, two-thirds of capital losses realized prior to 2024 will be deductible against capital gains included in income at the two-thirds inclusion rate such that a capital loss will offset an equivalent capital gain regardless of the inclusion rate. Revised alternative minimum tax rules were enacted on June 20, 2024, which may increase a shareholder's liability for such tax.

Part 2 - Results of Operations

The results of operations presented below reports the financial performance of the continuing operations of Canopy Growth for the three months ended June 30, 2024. Further to Note 4 in the Company's accompanying financial statements, the BioSteel segment results for all periods prior to the September 14, 2023 and November 16, 2023, being the effective dates of deconsolidation as a result of the CCAA Proceedings (as defined below), are classified as discontinued operations and therefore are excluded from continuing operations.

On September 14, 2023 Canopy Growth ceased funding the operations of BioSteel Canada and commenced proceedings (the "CCAA Proceedings") under the *Companies' Creditors Arrangement Act* (the "CCAA") in the Ontario Superior Court of Justice (Commercial List) (the "CCAA Court") and sought and obtained recognition of that proceeding under Chapter 15 of the United States Bankruptcy Code.

Discussion of First Quarter of Fiscal 2025 Results of Operations

(in thousands of Canadian dollars, except share amounts and where otherwise indicated)	Three months ended June 30, 2024	Three months ended June 30, 2023	$ Change	% Change
Selected consolidated financial information:				
Net revenue	$ 66,212	$ 76,258	$ (10,046)	(13%)
Gross margin percentage	35%	18%	-	1,700 bps
Net loss from continuing operations	$ (129,191)	$ (10,569)	$ (118,622)	(1,122%)
Net loss from continuing operations attributable to Canopy Growth Corporation	$ (129,191)	$ (10,569)	$ (118,622)	(1,122%)
Basic and diluted loss per share from continuing operations[1,2]	$ (1.63)	$ (0.19)	$ (1.44)	(758%)

[1] For the three months ended June 30, 2024, the weighted average number of outstanding common shares, basic and diluted, totaled 79,243,020 (three months ended June 30, 2023 - 55,045,936).

[2] Prior year share and per share amounts have been retrospectively adjusted to reflect the Share Consolidation, which became effective on December 15, 2023.

Revenue

We report net revenue in four segments: (i) Canada cannabis; (ii) international markets cannabis; (iii) Storz & Bickel; and (iv) This Works. Revenue derived from the remainder of our operations are included within "other". The following table presents segmented net revenue for the three months ended June 30, 2024 and 2023:

Net Revenue	Three months ended June 30,			
(in thousands of Canadian dollars)	2024	2023	$ Change	% Change
Canada cannabis				
Canadian adult-use cannabis[1]	$ 18,883	$ 24,271	$ (5,388)	(22%)
Canadian medical cannabis[2]	18,795	15,622	3,173	20%
	$ 37,678	$ 39,893	$ (2,215)	(6%)
International markets cannabis[3]	$ 10,082	$ 10,162	$ (80)	(1%)
Storz & Bickel	$ 18,452	$ 18,073	$ 379	2%
This Works	$ -	$ 6,017	$ (6,017)	(100%)
Other	-	2,113	(2,113)	(100%)
Net revenue	$ 66,212	$ 76,258	$ (10,046)	(13%)

[1] Reflects excise taxes of $7,517 and other revenue adjustments, representing our determination of returns and pricing adjustments, of $1,200 for the three months ended June 30, 2024 (three months ended June 30, 2023 - excise taxes of $11,026 and other revenue adjustments of $870).
[2] Reflects excise taxes of $2,054 for the three months ended June 30, 2024 (three months ended June 30, 2023 - $1,360).
[3] Reflects other revenue adjustments of $nil for the three months ended June 30, 2024 (three months ended June 30, 2023 - $67).

Net revenue was $66.2 million in the first quarter of fiscal 2025, a decrease of $10.0 million as compared to $76.3 million in the first quarter of fiscal 2024.

Canada cannabis

Net revenue from our Canada cannabis segment was $37.7 million in the first quarter of fiscal 2025, as compared to $39.9 million in the first quarter of fiscal 2024.

Canadian adult-use cannabis net revenue was $18.9 million in the first quarter of fiscal 2025, as compared to $24.3 million in the first quarter of fiscal 2024. The year-over-year decrease is primarily attributable to lower sales volumes, which were partially affected by supply constraints for certain products as a result of financial difficulties with our contract manufacturers and lower sales velocity due to increased price competition.

Canadian medical cannabis net revenue was $18.8 million in the first quarter of fiscal 2025, as compared to $15.6 million in the first quarter of fiscal 2024. 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 an increase in the percentage of insured customers, and a larger assortment of cannabis product choices offered to our customers. These factors were partially offset by a year-over-year decrease in the total number of medical orders, which was primarily related to the increasing number of adult-use cannabis retail stores across Canada.

International markets cannabis

International markets cannabis revenue was $10.1 million in the first quarter of fiscal 2025, as compared to $10.2 million in the first quarter of fiscal 2024. Revenues are flat year-over-year as the increased shipments of high quality flower products in Europe, driven by Poland, was offset by a decline in our Australian medical business.

Storz & Bickel

Revenue from Storz & Bickel was $18.5 million in the first quarter of fiscal 2025, as compared to $18.1 million in the first quarter of fiscal 2024. Revenues are up 2% year-over-year due to strong growth of our Mighty vaporizer and contribution from our newly launched portable vaporizer in the third quarter of fiscal 2024.

This Works

Revenue from This Works was $nil in the first quarter of fiscal 2025, as compared to $6.0 million in the first quarter of fiscal 2024. The year-over-year decrease is due to the completion of the divestiture of This Works on December 18, 2023.

Cost of Goods Sold and Gross Margin

The following table presents cost of goods sold, gross margin and gross margin percentage on a consolidated basis for the three months ended June 30, 2024 and 2023:

(in thousands of Canadian dollars except where indicated)	Three months ended June 30, 2024	Three months ended June 30, 2023	$ Change	% Change
Net revenue	$ 66,212	$ 76,258	$ (10,046)	(13%)
Cost of goods sold	$ 43,181	$ 62,496	$ (19,315)	(31%)
Gross margin	23,031	13,762	9,269	67%
Gross margin percentage	35%	18%	-	1,700 bps

Cost of goods sold was $43.2 million in the first quarter of fiscal 2025, as compared to $62.5 million in the first quarter of fiscal 2024. Our gross margin was $23.0 million in the first quarter of fiscal 2025, or 35% of net revenue, as compared to a gross margin of $13.8 million and gross margin percentage of 18% of net revenue in the first quarter of fiscal 2024. The year-over-year increase in the gross margin percentage is primarily attributable to:

- Improvement in our Canada cannabis segment, primarily attributable to: (i) the realized benefit of our cost savings program and strategic changes to our business that were initiated in the fourth quarter of fiscal 2023; (ii) a year-over-year decrease in write-downs of excess inventory; and (iii) a shift in channel mix to higher margin medical sales; and
- Improvement in our international markets cannabis segment, primarily due to an increase in sales mix to higher-margin Poland as well as a lower overall cost structure.

We report gross margin and gross margin percentage in four segments: (i) Canada cannabis; (ii) international markets cannabis; (iii) Storz & Bickel; and (iv) 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 June 30, 2024 and 2023:

(in thousands of Canadian dollars except where indicated)	Three months ended June 30, 2024	Three months ended June 30, 2023	$ Change	% Change
Canada cannabis segment				
Net revenue	$ 37,678	$ 39,893	$ (2,215)	(6%)
Cost of goods sold	25,584	40,161	(14,577)	(36%)
Gross margin	12,094	(268)	12,362	(4,613%)
Gross margin percentage	32%	(1%)		3,300 bps
International markets cannabis segment				
Revenue	$ 10,082	$ 10,162	$ (80)	(1%)
Cost of goods sold	6,457	6,681	(224)	(3%)
Gross margin	3,625	3,481	144	4%
Gross margin percentage	36%	34%		200 bps
Storz & Bickel segment				
Revenue	$ 18,452	$ 18,073	$ 379	2%
Cost of goods sold	11,140	10,366	774	7%
Gross margin	7,312	7,707	(395)	(5%)
Gross margin percentage	40%	43%		(300) bps
This Works segment				
Revenue	$ -	$ 6,017	$ (6,017)	(100%)
Cost of goods sold	-	3,122	(3,122)	(100%)
Gross margin	-	2,895	(2,895)	(100%)
Gross margin percentage	-%	48%		(4,800) bps
Other				
Revenue	$ -	$ 2,113	$ (2,113)	(100%)
Cost of goods sold	-	2,166	(2,166)	(100%)
Gross margin	-	(53)	53	100%
Gross margin percentage	-%	(3%)		300 bps

Canada cannabis

Gross margin for our Canada cannabis segment was $12.1 million in the first quarter of fiscal 2025, or 32% of net revenue, as compared to $(0.3) million in the first quarter of fiscal 2024, or (1%) of net revenue. The year-over-year increase in the gross margin percentage was primarily attributable to: (i) the realized benefit of our cost savings program and strategic changes to our business that were initiated in the fourth quarter of fiscal 2023; (ii) a year-over-year decrease in write-downs of excess inventory; and (iii) strong Canadian medical cannabis sales.

International markets cannabis

Gross margin for our international markets cannabis segment was $3.6 million in the first quarter of fiscal 2025, or 36% of net revenue, as compared to $3.5 million in the first quarter of fiscal 2024, or 34% of net revenue. The year-over-year increase in the gross margin percentage is primarily attributable to the shift in sales mix to higher-margin Poland as well as a lower cost structure relating to our overall international cannabis operations.

Storz & Bickel

Gross margin for our Storz & Bickel segment was $7.3 million in the first quarter of fiscal 2025, or 40% of net revenue, as compared to $7.7 million in the first quarter of fiscal 2024, or 43% of net revenue. The year-over-year decrease in the gross margin percentage is driven primarily by a shift in product mix as additional rebates were provided to clear out remaining stock of a previously planned discontinued product.

This Works

Gross margin for our This Works segment was $nil in the first quarter of fiscal 2025, or 0% of net revenue, as compared to $2.9 million in the first quarter of fiscal 2024, or 48% of net revenue. The year-over-year decrease in the gross margin percentage is due to the completion of the divestiture of This Works on December 18, 2023.

Operating Expenses

The following table presents operating expenses for the three months ended June 30, 2024 and 2023:

	Three months ended June 30,			
(in thousands of Canadian dollars)	2024	2023	$ Change	% Change
Operating expenses				
General and administrative	$ 18,907	$ 25,492	$ (6,585)	(26%)
Sales and marketing	15,248	20,751	(5,503)	(27%)
Acquisition, divestiture, and other costs	7,775	8,904	(1,129)	(13%)
Depreciation and amortization	6,038	7,616	(1,578)	(21%)
Selling, general and administrative expenses	47,968	62,763	(14,795)	(24%)
Share-based compensation expense	4,151	3,717	434	12%
Loss on asset impairment and restructuring	20	1,934	(1,914)	(99%)
Total operating expenses	$ 52,139	$ 68,414	$ (16,275)	(24%)

Selling, general and administrative expenses

Selling, general and administrative expenses were $48.0 million in the first quarter of fiscal 2025, as compared to $62.8 million in the first quarter of fiscal 2024.

General and administrative expense was $18.9 million in the first quarter of fiscal 2025, as compared to $25.5 million in the first quarter of fiscal 2024. The year-over-year decrease is primarily attributable to: (i) the divestiture of This Works on December 18, 2023 and (ii) the impact of the restructuring actions and cost savings program initiated in the fourth quarter of fiscal 2023.

Sales and marketing expense was $15.2 million in the first quarter of fiscal 2025, as compared to $20.8 million in the first quarter of fiscal 2024. The year-over-year decrease is primarily attributable to: (i) the divestiture of This Works on December 18, 2023 and (ii) the impact of the restructuring actions and cost savings program initiated in the fourth quarter of fiscal 2023.

Acquisition, divestiture, and other costs were $7.8 million in the first quarter of fiscal 2025, as compared to $8.9 million in the first quarter of fiscal 2024. In the first quarter of fiscal 2025, costs were incurred primarily in relation to:

- The Reorganization of Canopy USA;
- Costs associated with the Debt Acquisition of Acreage; and
- Continued legal costs arising from the restatement of our consolidated financial statements in connection with the review of the financial reporting matters related to the BioSteel business unit.

Comparatively, in the first quarter of fiscal 2024, costs were incurred primarily in relation to the legal and audit costs related to the restatement of our consolidated financial statements, the Reorganization of Canopy USA, and evaluating other potential strategic opportunities.

Depreciation and amortization expense was $6.0 million in the first quarter of fiscal 2025, as compared to $7.6 million in the first quarter of fiscal 2024. The year-over-year decrease is primarily attributable to the previously-noted restructuring actions and cost savings programs, including the closure of certain of our Canadian facilities and other operational changes to implement cultivation-related efficiencies and improvements in the Canadian adult-use cannabis business.

Share-based compensation expense

Share-based compensation expense was $4.2 million in the first quarter of fiscal 2025, as compared to $3.7 million in the first quarter of fiscal 2024. The year-over-year increase is primarily attributable to the second quarter of fiscal 2024 grant of 1.5 million restricted share units and the first quarter of fiscal 2025 grant of 0.8 million options and 0.7 million restricted share units.

Loss on asset impairment and restructuring

Loss on asset impairment and restructuring recorded in operating expenses were $0.02 million in the first quarter of fiscal 2025, as compared to $1.9 million in the first quarter of fiscal 2024.

Loss on asset impairment and restructuring recorded in the first quarter of fiscal 2025 related primarily to employee restructuring costs and ongoing holding costs to maintain previously restructured sites. These amounts were offset by a gain related to remeasurement of a lease liability upon execution of the surrender agreement.

Comparatively, in the first quarter of fiscal 2024, the loss on asset impairment and restructuring were primarily related to incremental impairment losses and other costs associated with the restructuring of our Canadian cannabis operations that were initiated in the fourth quarter of fiscal 2023, including the closure of our production facility at 1 Hershey Drive in Smiths Falls, Ontario.

Other

The following table presents other income (expense), net, and income tax expense for the three months ended June 30, 2024 and 2023:

	Three months ended June 30,			
(in thousands of Canadian dollars)	2024	2023	$ Change	% Change
Other income (expense), net	(93,889)	46,101	(139,990)	(304%)
Income tax expense	(6,194)	(2,018)	(4,176)	(207%)

Other income (expense), net

Other income (expense), net was an expense amount of $93.9 million in the first quarter of fiscal 2025, as compared to an income amount of $46.1 million in the first quarter of fiscal 2024. The year-over-year change of $140.0 million is primarily attributable to:

- Change of $64.3 million related to non-cash fair value changes on our other financial assets, from an income amount of $65.1 million in the first quarter of fiscal 2024 to an income amount of $0.8 million in the first quarter of fiscal 2025. The income amount recognized in the first quarter of fiscal 2025 is primarily attributable to fair value increases relating to our investments in:
    - The TerrAscend Exchangeable Shares, in the amount of $17.3 million, which was primarily attributable to an increase of approximately 16% in TerrAscend's share price up to April 30, 2024, being the date that Canopy Growth deconsolidated the financial results of Canopy USA as part of the Canopy USA Transaction (the "Deconsolidation Date");
    - The TerrAscend Warrants, in the amount of $7.9 million, which was primarily attributable to an increase of approximately 16% in TerrAscend's share price up to the Deconsolidation Date;
    - The Elevate loan receivable, in the amount of $7.3 million relating to fair value movements in consideration of the debtor's net assets; and
    - The Acreage debt Option Premium, in the amount of $3.1 million related to closing of the Acreage Debt Acquisition and release of the amount that was previously held in escrow pursuant to the Option Agreement.

  These fair value increases were partially offset by fair value decreases related to our investments in:

    - The Acreage financial instrument, in the amount of $31.8 million. On a quarterly basis, we determine the fair value of the Acreage financial instrument using a probability-weighted expected return model, incorporating several potential scenarios and outcomes associated with the Acreage Amended Arrangement. The fair value decrease in the first quarter of fiscal 2025 is primarily attributable to an increase of approximately 75% in our share price up to the

Deconsolidation Date, relative to an increase of approximately 46% in Acreage's share price during that same period. As a result, the model at the Deconsolidation Date reflects both a higher estimated value of the Canopy Growth common shares expected to be issued upon Canopy USA's acquisition of Acreage, and a higher estimated value of the Acreage shares expected to be acquired at that time. In the period up to the Deconsolidation Date, the relative share price movements resulted in a decrease in the value of the Acreage financial instrument; and

- Indiva Limited ("Indiva") shares, in the amount of $2.8 million due a decrease in their share price as a result of their CCAA proceedings.

Comparatively, the income amount in the first quarter of fiscal 2024 was primarily attributable to fair value increases relating to our investments in: (i) the Acreage financial instrument ($44.7 million); (ii) the TerrAscend Exchangeable Shares ($19.9 million); and (iii) the TerrAscend Warrants ($6.0 million). The fair value increases were partially offset by fair value decreases associated with the Wana financial instrument ($5.5 million).

- Decrease in income of $76.0 million related to non-cash fair value changes on our equity method investments, from $nil in the first quarter of fiscal 2024 to an expense amount of $76.0 million in the first quarter of fiscal 2025. The year-over-year change is driven by the fair value change of our Canopy USA equity method investment in the first quarter of fiscal 2025.

- Decrease in income of $1.9 million related to non-cash fair value changes on our debt, from $1.9 million in the first quarter of fiscal 2024 to $nil in the first quarter of fiscal 2025. The year-over-year change is driven primarily by the fair value change of the CBI Note in the first quarter of fiscal 2024.

- Decrease in non-cash income of $33.5 million related to fair value changes on acquisition related contingent consideration and other, from and income amount of $6.8 million in the first quarter of fiscal 2024 to an expense amount of $26.8 million in the first quarter of fiscal 2025. The fair value change in the first quarter of fiscal 2025 relate primarily to various acquisition related contingent consideration. Comparatively, the fair value change in the first quarter of fiscal 2024, related primarily to the estimated deferred payments associated with our investment in Wana.

- Change of $27.4 million related to charges associated with the settlement of our debt, from an expense amount of $5.3 million in the first quarter of fiscal 2024 to an income amount of $22.1 million in the first quarter of fiscal 2025. In the first quarter of fiscal 2025 we recognized a gain of $22.1 million, primarily in connection with the exchange of the CBI Note. Comparatively, in the first quarter of fiscal 2024, we recognized a charge in the amount of $5.3 million which is primarily due to the settlement of our unsecured senior notes, offset by a gain on repayment of the Credit Facility.

- Decrease in interest income of $5.8 million, from $7.8 million in the first quarter of fiscal 2024 to $2.1 million in the first quarter of fiscal 2025. The year-over-year decrease is attributable to lower cash and cash equivalents and short-term investment balances.

- Decrease in interest expense of $11.0 million, from $32.2 million in the first quarter of fiscal 2024 to $21.1 million in the first quarter of fiscal 2025. The year-over-year decrease is primarily attributable to the reduction of our debt balances.

Income tax expense

Income tax expense in the first quarter of fiscal 2025 was $6.2 million, compared to income tax expense of $2.0 million in the first quarter of fiscal 2024. In the first quarter of fiscal 2025, income tax expense consisted of deferred income tax expense of $6.0 million (compared to an expense of $1.5 million in the first quarter of fiscal 2024) and current income tax expense of $0.2 million (compared to an expense of $0.5 million in the first quarter of fiscal 2024).

The increase of $4.5 million in the deferred income tax expense is primarily a result of the settlements of the CBI Note in the first quarter of fiscal 2025 and utilization of losses for tax purposes, where the accounting criteria for recognition of an asset has been met.

The decrease of $0.3 million in current income tax expense arose primarily as a result of the utilization of group's tax attributes to shelter tax on income for tax purposes.

Net Loss from Continuing Operations

The net loss from continuing operations in the first quarter of fiscal 2025 was $129.2 million, as compared to a net loss of $10.6 million in the first quarter of fiscal 2024. 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 $140.0 million; and (ii) offset by the decrease in selling, general and administrative expenses. These variances are described above.

Adjusted EBITDA (Non-GAAP Measure)

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

The following table presents Adjusted EBITDA for the three months ended June 30, 2024 and 2023:

(in thousands of Canadian dollars)	Three months ended June 30, 2024	Three months ended June 30, 2023	$ Change	% Change
Net loss from continuing operations	$ (129,191)	$ (10,569)	$ (118,622)	(1,122%)
Income tax expense	6,194	2,018	4,176	207%
Other (income) expense, net	93,889	(46,101)	139,990	304%
Share-based compensation	4,151	3,717	434	12%
Acquisition, divestiture, and other costs	8,627	8,904	(277)	(3%)
Depreciation and amortization[1]	11,030	17,111	(6,081)	(36%)
Loss on asset impairment and restructuring	20	1,934	(1,914)	(99%)
Adjusted EBITDA	$ (5,280)	$ (22,986)	$ 17,706	77%

[1] From Consolidated Statements of Cash Flows.

The Adjusted EBITDA loss in the first quarter of fiscal 2025 was $5.3 million, as compared to an Adjusted EBITDA loss of $23.0 million in the first quarter of fiscal 2024. The year-over-year decrease in Adjusted EBITDA loss is primarily attributable to the year-over-year increase in our gross margin and the year-over-year decrease in our selling, general and administrative expenses.

Part 3 – Financial Liquidity and Capital Resources

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

In our condensed interim consolidated financial statements for the quarterly period ended December 31, 2023, we raised substantial doubt about our ability to continue as a going concern for at least twelve months from the issuance of those condensed interim consolidated financial statements, due to certain material debt obligations coming due in the short-term, recurring losses from operations and additional required financing to fund our business and operations.

As of the filing of the Annual Report, we were able to successfully mitigate the substantial doubt by completing several actions including: (i) the completion of a US$35 million private placement unit offering in January 2024; (ii) the receipt of $25 million of proceeds in March 2024 from the BioSteel Canada asset sale; (iii) the exchange of the $100 million promissory note held by a subsidiary of Constellation Brands, Inc. ("CBI") into Exchangeable Shares; (iv) receipt of gross proceeds of approximately US$50 million and the exchange of approximately $27.5 million of existing debt maturing in September 2025 in exchange for a new senior unsecured convertible debenture of Canopy Growth, maturing May 2029, and the issuance of warrants of Canopy Growth. Following the completion of the above actions, we did not have any material debt obligation coming due until March 2026.

During the three months ended June 30, 2024, we completed additional actions and established our at-the-market equity program (the "ATM Program"), received additional proceeds from the BioSteel Canada asset sale, and paid down certain debt balances. We continue to evaluate different strategies and may pursue additional actions that are expected to further increase our liquidity position, including, but not limited to, pursuing additional actions under our cost-savings plan and seeking additional financing from both the public and private markets through the issuance of equity and/or debt securities.

We have access to further liquidity through public offerings of equity and debt securities. To facilitate such offerings, in June 2024, we filed (a) a shelf registration statement with the SEC that is effective for a term of three years and expires in June 2027 (the "Shelf Registration Statement"); and (b) a short form base shelf prospectus dated June 5, 2024 that is effective for a 25 month period (the "Canadian Shelf Prospectus"). The amount of securities to be issued pursuant to the Shelf Registration Statement was not specified when it was filed and there is no specific dollar limit on the amount of securities we may issue. Pursuant to the Canadian Shelf Prospectus we may sell securities up to an aggregate total offering price of US$500 million (or the equivalent thereof in other currencies). The securities covered by the Shelf Registration Statement and the Canadian Shelf Prospectus include: (i) common shares; (ii) exchangeable shares; (iii) debt securities; (iv) subscription receipts; (v) warrants; and (viii) units consisting of one or more of such securities or any combination of these securities. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering.

We may also access liquidity through the ATM Program, pursuant to which we may sell, from time to time, up to US$192.3 million of additional common shares as of the date hereof. Refer to Notes 19 and 30 to the Interim Financial Statements.

As a result of our plans above and the financial results at June 30, 2024, we conclude that the substantial doubt about our ability to continue as a going concern continues to be alleviated.

As of June 30, 2024, we had cash and cash equivalents of $192.2 million and short-term investments of $2.8 million.

We have recently completed the following debt and equity financings and repayments:

- On April 18, 2024, we entered into the April 2024 Exchange Agreement with Greenstar, pursuant to which Greenstar completed the Note Exchange, calculated based on a price per Exchangeable Share equal to $8.91. Pursuant to the terms of the April 2024 Exchange Agreement, all accrued but unpaid interest on the CBI Note together with the remaining principal amount of the CBI Note was cancelled and forgiven for no additional consideration by Greenstar. Following the closing of the Note Exchange, there is no outstanding balance owing under the CBI Note and the CBI Note has been cancelled.
- On May 2, 2024, we entered into the Exchange and Subscription Agreement with the May 2024 Investor pursuant to which, among other things, the May 2024 Investor delivered to us approximately $27.5 million aggregate principal amount of outstanding Supreme Debentures and Accretion Debentures held by the May 2024 Investor and paid us approximately $68.3 million (US$50.0 million) in exchange for us issuing to the May 2024 Investor (i) the May 2024 Convertible Debenture with an aggregate principal amount of approximately $96.4 million maturing five years from the Closing Date and (ii) 3,350,430 May 2024 Investor Warrants. Each May 2024 Investor Warrant entitles the holder to acquire one Canopy Share at an exercise price equal to $16.18 per Canopy Share for a period of five years from the Closing Date. The May 2024 Convertible Debenture bears interest at a rate of 7.50% per annum, payable in semi-annual payments in cash or, at our option, in Canopy Shares for the first four semi-annual interest payments after the Closing Date, subject to satisfaction of certain conditions, including the prior approval of the TSX.

  The Exchange and Subscription Agreement granted the May 2024 Investor, during the Agreement ROFR Term, a right of first refusal to subscribe for, and to be issued, as the sole investor in a Proposed Private Placement; provided, however, that the May 2024 Investor shall subscribe for 100% of the Proposed Private Placement on the same terms and conditions contemplated in the Proposed Private Placement.

  The May 2024 Convertible Debenture is convertible into Canopy Shares at the option of the May 2024 Investor at a conversion price equal to $14.38 per share. The May 2024 Convertible Debenture is subject to a forced conversion feature upon notice from us in the event that the average closing trading price of the Canopy Shares on the TSX exceeds $21.57 for a period of 10 consecutive trading days. In addition, pursuant to the terms of the May 2024 Convertible Debenture, during Debenture ROFR Term, we granted the May 2024 Investor a right of first refusal to subscribe for, and to be issued, as an investor in a Proposed Financing; provided, however, that the May 2024 Investor shall subscribe for 25% of the Proposed Financing on the same terms and conditions contemplated in the Proposed Financing.
- On June 6, 2024, we established the ATM Program that allows us to sell up to US$250 million of common shares of the Company from treasury to the public from time to time at the Company's discretion. As part of the ATM Program, during the three months ended June 30, 2024, we sold 4,747,064 common shares for gross proceeds of $46.3 million.

In addition to the above, we continue to review and pursue selected external financing sources to ensure adequate financial resources. These potential sources include, but are not limited to: (i) obtaining financing from traditional or non-traditional investment capital organizations; (ii) obtaining funding from the sale of our common shares or other equity or debt instruments; and (iii) obtaining debt financing with lending terms that more closely match our business model and capital needs. We may from time to time seek to retire our outstanding debt through cash purchases and/or exchanges for equity securities, and open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Cash Flows

The following table presents cash flows for the three months ended June 30, 2024 and 2023:

(in thousands of Canadian dollars)	Three months ended June 30, 2024	Three months ended June 30, 2023
Net cash (used in) provided by:		
Operating activities[1]	$ (51,780)	$ (148,671)
Investing activities[2]	$ (33,029)	142,574
Financing activities	$ 105,775	(133,110)
Effect of exchange rate changes on cash and cash equivalents	$ 890	(4,534)
Net increase (decrease) in cash and cash equivalents	$ 21,856	(143,741)
Cash and cash equivalents, beginning of period[3]	$ 170,300	677,007
Cash and cash equivalents, end of period[4]	$ 192,156	$ 533,266

[1] Includes net cash used in operating activities from discontinued operations of $nil and $(42,452) for the three months ended June 30, 2024 and 2023, respectively.
[2] Includes net cash provided by investing activities from discontinued operations of $10,157 and $189 for the three months ended June 30, 2024 and 2023, respectively.
[3] Includes cash of our discontinued operations of $nil and $9,314 for March 31, 2024 and 2023, respectively.
[4] Includes cash of our discontinued operations of $nil and $9,816 for June 30, 2024 and 2023, respectively.

Operating activities

Cash used in operating activities totaled $51.8 million in the three months ended June 30, 2024, as compared to cash used of $148.7 million in the three months ended June 30, 2023. The decrease in the cash used in operating activities is primarily due to: (i) the year-over-year decrease in our working capital spending, resulting from our previously-noted restructuring actions and cost savings programs, including the closure of certain of our Canadian facilities and other operational changes to implement cultivation-related efficiencies and improvements in the Canadian adult-use cannabis business; and (ii) a reduction in the cash interest paid resulting from a reduction in our debt balances.

Investing activities

The cash used in investing activities totaled $33.0 million in the three months ended June 30, 2024, as compared to cash provided of $142.6 million in the three months ended June 30, 2023.

In the three months ended June 30, 2024, purchases of property, plant and equipment were $3.9 million, primarily related to building improvements and production equipment enhancements made at certain of our Canadian cultivation and production facilities. Comparatively, in the three months ended June 30, 2023, we invested $1.9 million in production equipment enhancements made at certain of our Canadian cultivation and production facilities, and at our Storz & Bickel facilities.

In the three months ended June 30, 2024, our strategic investments in other financial assets were $95.3 million and related primarily to the cash payment to acquire 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""). Comparatively, in the three months ended June 30, 2023, our strategic investments in other financial assets were $0.5 million and related primarily to our investment in Indiva.

Net redemptions of short-term investments in the three months ended June 30, 2024 were $30.0 million, as compared to net redemptions of $72.2 million in the three months ended June 30, 2023. The year-over-year decrease in the net redemptions reflects the continued redemption of our short-term investments, largely to fund operations and investing activities as described above. As at June 30, 2024, we had short-term investments remaining of $2.8 million.

Net cash flow on sale or deconsolidation of subsidiaries in the three months ended June 30, 2024 was an outflow of $7.0 million and related to the deconsolidation of Canopy USA, refer to Note 3 in the Company's accompanying financial statements for details. Comparatively, there were no sale or deconsolidation of subsidiaries in the three months ended June 30, 2023.

Additional cash inflows during the three months ended June 30, 2024 include proceeds of $4.9 million from the sale of property, plant and equipment, primarily in relation to previous restructuring actions. Comparatively, additional cash inflows during the three months ended June 30, 2023 include proceeds of $83.1 million from the sale of property, plant and equipment, primarily relating to facilities sold in connection with the restructuring actions associated with our Canadian cannabis operations and transition to an asset-light model.

Finally, other investing activities resulted in a cash inflow of $28.1 million in the three months ended June 30, 2024, primarily related to cash receipts from various loan repayments. Comparatively, other investing activities in the three months ended June 30, 2023 of $10.2 million primarily related to completing the purchase of the remaining 45% of the common shares of Les Serres Vert Cannabis Inc., in connection with the restructuring actions related to our Canadian cannabis operations initiated in the fourth quarter of fiscal 2023.

Financing activities

The cash provided by financing activities in the three months ended June 30, 2024 was $105.8 million, as compared to cash used of $133.1 million in the three months ended June 30, 2023. In the three months ended June 30, 2024, $46.3 million in gross proceeds were received from the sale of common shares as part of the ATM Program and $7.6 million in gross proceeds were received from the exercise of warrants, these amounts were offset by share issuance costs of $3.2 million.

In addition, $68.3 million was received relating to the Exchange and Subscription Agreement, offset by long-term debt repayments of $11.8 million which related primarily to the First Quarter 2025 Paydowns.

Other financing activities resulted in a cash outflow of $4.5 million, which related to: (i) share issuance costs, as noted above and (ii) finance lease payments.

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.

The following table presents free cash flows for the three months ended June 30, 2024, and 2023:

	Three months ended June 30,	
(in thousands of Canadian dollars)	2024	2023
Net cash used in operating activities - continuing operations	$ (51,780)	$ (106,219)
Purchases of and deposits on property, plant and equipment - continuing operations	(3,920)	(1,946)
Free cash flow[1] - continuing operations	$ (55,700)	$ (108,165)

[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 three months ended June 30, 2024 was an outflow of $55.7 million, as compared to an outflow of $108.2 million in the three months ended June 30, 2023. The year-over-year decrease in the free cash outflow primarily reflects the decrease in cash used in operating activities, as described above.

Debt

Since our formation, we have financed our cash requirements primarily through the issuance of common shares of Canopy Growth, including the $5.1 billion investment by CBI in the third quarter of fiscal 2019, and debt. Total debt outstanding as of June 30, 2024 was $560.9 million, a decrease from $597.2 million as of March 31, 2024. The total principal amount owing was $584.5 million at June 30, 2024, a decrease from $622.0 million at March 31, 2024, which excludes fair value adjustments related to the CBI Note. The decreases were due to: (i) the April 2024 Exchange Agreement, which resulted in the settlement of all amounts owing under the CBI Note and (ii) the First Quarter 2025 Paydowns resulting in an aggregate principal reduction of $11.2 million and offset by the Exchange and Subscription Agreement where a cash payment of approximately US$50 million was received and approximately $27.5 million of aggregate principal amount outstanding Supreme Debentures and Accretion Debentures were settled in exchange for a new senior unsecured convertible debenture with an aggregate principal amount of $96.4 million.

Credit Facility

On March 18, 2021, the Company entered into a term loan credit agreement (the "Credit Agreement") providing for a five-year, first lien senior secured term loan facility in an aggregate principal amount of US$750.0 million (the “Credit Facility”).

The Company had the ability to obtain up to an additional US$500.0 million of incremental senior secured debt pursuant to the Credit Agreement. Pursuant to the balance sheet actions completed in connection with the Reorganization, on October 24, 2022, we entered into agreements with certain of our lenders under the Credit Agreement pursuant to which we agreed to purchase in the aggregate US$187.5 million of the principal amount outstanding under the Credit Facility at a discounted price of US$930 per US$1,000 or US$174.4 million in the aggregate. The first payment, which was oversubscribed, in the amount of approximately $117.5 million (US$87.9 million) was made on November 10, 2022 to reduce the principal indebtedness under the Credit Facility by approximately $126.3 million (US$94.4 million). The second payment of approximately $116.8 million (US$87.2 million) was made on April 17, 2023 to reduce principal indebtedness under the Credit Facility by approximately $125.6 million (US$93.8 million). Additionally, on October 24, 2022, we and certain of our lenders agreed to make certain amendments to the Credit Agreement which, among other things, resulted in: (i) a reduction to the minimum liquidity covenant to no less than US$100.0 million following completion of the second principal repurchase on April 17, 2023; (ii) certain changes to the application of net proceeds from asset sales; (iii) the establishment of a new committed delayed draw term credit facility in an aggregate principal amount of US$100.0 million; and (iv) the elimination of the additional US$500.0 million incremental term loan facility.

On July 13, 2023, we entered into an amended Credit Agreement (the “Amended Credit Agreement”). The Amended Credit Agreement required the Company to prepay or repurchase principal indebtedness under the Credit Facility in an amount equal to the US dollar equivalent of $93,000 at a discounted price of US$930 per US$1,000 (the "July 2023 Paydown"). In addition, pursuant to the Amended Credit Agreement we agreed to apply certain net proceeds from asset sales to prepay or repurchase principal indebtedness under the Credit Facility and receive principal reductions at, in certain circumstances, a discounted price of US$950 per US$1,000. The Amended Credit Agreement also includes, among other things, amendments to the minimum liquidity covenant such that the US$100.0 million minimum ceased to apply concurrently with the July 2023 Paydown. The July 2023 Paydown was made on July 21, 2023.

On each of August 11, 2023 and September 14, 2023, pursuant to the terms of the Amended Credit Agreement, we repurchased additional outstanding principal amounts under the Credit Facility using certain net proceeds from completed asset sales (the “Second Quarter 2024 Paydowns”). The Second Quarter 2024 Paydowns resulted in an aggregate principal reduction of $73.3 million (US$54.5 million) for a cash payment of $69.6 million (US$51.8 million).

On each of November 28, 2023 and December 27, 2023, pursuant to the terms of the Amended Credit Agreement, we repurchased and repaid, as applicable, additional outstanding principal amounts under the Credit Facility using certain net proceeds from completed asset sales (the "Third Quarter 2024 Paydowns"). The Third Quarter 2024 Paydowns resulted in an aggregate principal reduction of $65.4 million (US$48.5 million) for a cash payment of $63.2 million (US$46.9 million).

On February 21, 2024, we repurchased and repaid, as applicable, additional outstanding principal amounts under the Credit Facility (the "Fourth Quarter 2024 Paydowns"). The Fourth Quarter 2024 Paydowns resulted in an aggregate principal reduction of $31.1 million (US$23.0 million) for a cash payment of $28.0 million (US$20.7 million).

On April 29, 2024 and June 28, 2024, we repurchased additional outstanding principal amounts under the Credit Facility (the "First Quarter 2025 Paydowns"). The First Quarter 2025 Paydowns resulted in an aggregate principal reduction of $11.2 million (US$8.2 million) for a cash payment of $11.2 million (US$8.2 million).

On August 8, 2024, we entered into an amendment (the “Amending Agreement”) with all of the lenders to our Credit Facility under the Amended Credit Agreement. Pursuant to the terms of the Amending Agreement, the, maturity date of the Credit Facility was extended to December 18, 2026 and a mandatory US$97.5 million prepayment of the Credit Facility at 97.5% of par thereby reducing the outstanding amount of the Credit Facility by US$100 million is required to be made by December 31, 2024. In addition, the Maturity Date of the Credit Facility will be further extended to September 18, 2027 if an optional prepayment on the same terms is made on or before March 31, 2025. Borrowings under the Credit Facility are available by either prime rate advances or SOFR advances. Prime rate advances bear interest at the applicable prime rate plus 7.50% per annum and are subject to a prime rate floor of 2.00%. SOFR advances bear interest at the adjusted term SOFR rate plus 8.50% per annum and are subject to an adjusted term SOFR rate floor of 1.00%. Our obligations under the Credit Facility are guaranteed by our material wholly-owned Canadian and U.S. subsidiaries. The Credit Facility is secured by substantially all of our assets and our material wholly-owned Canadian and U.S. subsidiaries, including material real property. The Amended Credit Agreement, as amended by the Amending Agreement contains representations and warranties, and affirmative and negative covenants.

Supreme Cannabis 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 $2.85.

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. As of September 9, 2023, the principal amount of the Accretion Debentures was finalized as $10.4 million. 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 $385.90 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 were 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.

May 2024 Convertible Debenture

On May 2, 2024, we entered into the Exchange and Subscription Agreement with the May 2024 Investor pursuant to which, among other things, the May 2024 Investor delivered to us approximately $27.5 million aggregate principal amount of outstanding Supreme Debentures and Accretion Debentures held by the May 2024 Investor and paid us approximately US$50 million in exchange for us issuing to the May 2024 Investor (i) the May 2024 Convertible Debenture with an aggregate principal amount of $96.4 million maturing five years from the Closing Date of the Transaction and (ii) 3,350,430 May 2024 Investor Warrants of Canopy Growth. Each May 2024 Investor Warrant entitles the holder to acquire one Canopy Share at an exercise price equal to $16.18 per Canopy Share for a period of five years from the Closing Date. The May 2024 Convertible Debenture bears interest at a rate of 7.50% per annum, payable in semi-annual payments in cash or, at our option, in Canopy Shares for the first four semi-annual interest payments after the Closing Date, subject to satisfaction of certain conditions, including the prior approval of the TSX.

The Exchange and Subscription Agreement granted the May 2024 Investor, during the Agreement ROFR Term, a right of first refusal to subscribe for, and to be issued, as the sole investor in a Proposed Private Placement; provided, however, that the May 2024 Investor shall subscribe for 100% of the Proposed Private Placement on the same terms and conditions contemplated in the Proposed Private Placement.

The May 2024 Convertible Debenture is convertible into Canopy Shares at the option of the May 2024 Investor at a conversion price equal to $14.38 per share. The May 2024 Convertible Debenture is subject to a forced conversion feature upon notice from us in the event that the average closing trading price of the Canopy Shares on the TSX exceeds $21.57 for a period of 10 consecutive trading days. In addition, pursuant to the terms of the May 2024 Convertible Debenture, during the Debenture ROFR Term, we granted the May 2024 Investor a right of first refusal to subscribe for, and to be issued, as an investor in a Proposed Financing; provided, however, that the May 2024 Investor shall subscribe for 25% of the Proposed Financing on the same terms and conditions contemplated in the Proposed Financing.

Contractual Obligations and Commitments

Other than changes to our Supreme Cannabis Convertible Debentures and Accretion Debentures, the May 2024 Convertible Debenture, the CBI Note, the First Quarter 2025 Paydowns and certain agreements entered into in connection with the Reorganization, the Reorganization Amendments and the Additional Reorganization Amendments, 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 the 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 the Annual Report.

Impairment of goodwill

We do not believe that an event occurred or circumstances changed during the first quarter of fiscal 2025 that would, more likely than not, reduce the fair value of the Storz & Bickel reporting unit below its carrying value. Therefore, we concluded that the quantitative goodwill impairment assessment was not required for the Storz & Bickel reporting unit at June 30, 2024. The carrying value of goodwill associated with the Storz & Bickel reporting unit was $43,368 at June 30, 2024.

We are required to perform our next annual goodwill impairment analysis on March 31, 2025, or earlier should there be an event that occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Foreign currency risk

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

A hypothetical 10% change in the U.S. dollar against the Canadian dollar compared to the exchange rate at June 30, 2024, would affect the carrying value of net assets by approximately $75.5 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 June 30, 2024, would affect the carrying value of net assets by approximately $20.1 million, with a corresponding impact to the foreign currency translation account within accumulated other comprehensive income (loss).

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

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

Interest rate risk

Our cash equivalents and short-term investments are held in both fixed-rate and adjustable-rate securities. Investments in fixed-rate instruments carry a degree of interest rate risk. The fair value of fixed-rate securities may be adversely impacted due to a rise in interest rates. Additionally, a falling-rate environment creates reinvestment risk because as securities mature, the proceeds are reinvested at a lower rate, generating less interest income. As at June 30, 2024, our cash and cash equivalents, and short-term investments consisted of $75.5 million in interest rate sensitive instruments (March 31, 2024 – $88.0 million).

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

	Aggregate Notional Value		Fair Value		Decrease in Fair Value - Hypothetical 1% Rate Increase	
	June 30, 2024	March 31, 2024	June 30, 2024	March 31, 2024	June 30, 2024	March 31, 2024
Promissory note	$ -	$ 100,000	$ -	$ 89,224	$ -	$ (523)
Fixed interest rate debt	103,691	38,186	N/A	N/A	N/A	N/A
Variable interest rate debt	480,797	469,819	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.

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 23 of the Interim Financial Statements.