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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to help the reader understand our operations and our present business environment from the perspective of management. You should read the following discussion and analysis of our financial condition and results of operations together with the "Cautionary Note Regarding Forward-Looking Statements"; the sections in Part I entitled "Item 1A. Risk Factors" and the financial information and the notes thereto included in Part II, Item 8 of this Form 10-K in this Annual Report for the fiscal year ended May 31, 2023 ("Annual Report"). We use certain non-GAAP measures that are more fully described below under the caption "—Use of Non-GAAP Measures," which we believe are appropriate supplemental non-GAAP measures to evaluate our business and operations, measure our performance, identify trends affecting our business, project our future performance, and make strategic decisions.

Amounts are presented in thousands of United States dollars, except for shares, warrants, per share data and per warrant data or as otherwise noted.

Company Overview

We are a leading global cannabis-lifestyle and consumer packaged goods company headquartered in Leamington and New York, with operations in Canada, the United States, Europe, Australia, and Latin America that is changing people's lives for the better – one person at a time – by inspiring and empowering a worldwide community to live their very best life, enhanced by moments of connection and wellbeing. Tilray's mission is to be the most responsible, trusted and market leading cannabis consumer products company in the world with a portfolio of innovative, high-quality and beloved brands that address the needs of the consumers, customers and patients we serve.

Our overall strategy is to leverage our brands, infrastructure, expertise and capabilities to drive market share in the industries in which we compete, achieve industry-leading, profitable growth and build sustainable, long-term shareholder value. In order to ensure the long-term sustainable growth of our Company, we continue to focus on developing strong capabilities in consumer insights, drive category management leadership and assess growth opportunities with the introduction of new products and entries into new geographies. In addition, we are relentlessly focused on managing our cost of goods and expenses in order to maintain our strong financial position.

Trends and Other Factors Affecting Our Business

Canadian cannabis market trends.

The cannabis industry in Canada continues to evolve at a rapid pace during the early periods following the federal legalization of adult-use cannabis. Through analysis of the current market conditions, the following key trends have emerged and are anticipated to influence the near-term future in the industry:

- *Price compression.* We have historically seen price compression in the market, when compared to the prior fiscal year, which was driven by intense competition from the approximately 1,000 Licensed Producers in Canada. The price compression year over year has reduced the Company's revenue by approximately $32.8 million for the year ended May 31, 2023.

- *Excise taxes.* Given the impacts of the above-referenced price compression, excise tax has grown to become a larger component of net revenue as it is predominantly computed as a fixed price on grams sold rather than as a percentage of the selling price. The Cannabis Council of Canada has formed an Excise Task Force to present these challenges to the Ministry of Finance in Canada and continues to pursue reform. Additionally, as many as two-thirds of Canadian licensed producers had excise tax deficits owed, which they were unable to pay on time. The Company believes this will be a key element of potential consolidation in the industry and we believe long term there is a possibility of some level of reform but it will likely not occur in the next 12 months;

- *Market share*. Tilray continues to maintain its market leadership position in Canada and we experienced an increase in share from 8.1% to an 8.3% market share, from the immediately preceding quarter, as reported by Hifyre data for all provinces excluding Quebec where Weedcrawler was deemed more accurate. This increase in the final quarter of the year, was attributed to our relentless dedication to our innovation pipeline which we anticipate to keep driving market share increases in the coming fiscal year. This increase was offset by challenges in the province of Quebec during the year, which had a negative impact on adult-use revenue during the year.

- *Change in potency preferences*. Evolving consumer demand for higher potency products has caused a substantial shift in consumer purchasing patterns. We revised our flower strategy to remain innovative and evolve with the industry, launching a large volume of new beta flower strains in the current year which continue to be newly listed in the provinces during the remainder of the fiscal year to contend with this change in demand.

These identified trends have had impacts on the current period results of operations and are discussed in greater detail in the respective section.

International cannabis market trends.

The cannabis industry in Europe is in its early stages of development whereby countries within Europe are at different stages of legalization of medical and adult-use cannabis as some countries have expressed a clear political ambition to legalize adult-use cannabis (Germany, Portugal, Luxembourg and Czech Republic), some are engaging in an experiment for adult-use (Netherlands, Switzerland) and some are debating regulations for cannabinoid-based medicine (France, Spain, Italy, and the United Kingdom). In Europe, we believe that, despite continuing recessionary economic conditions and the Russian conflict with Ukraine, cannabis legalization (both medicinal and adult-use) will continue to gain traction albeit more slowly than originally expected. We also continue to believe that Tilray remains uniquely positioned to maintain and gain significant market share in these markets with its infrastructure and its investments, which is comprised of two EU-GMP cultivation facilities within Europe located in Portugal and Germany, our distribution network and our demonstrated commitment to the availability, quality and safety of our cannabinoid-based medical products. Today, Germany remains the largest medical cannabis market in Europe.

The following is a summary of the state of cannabis legalization within Europe:

Germany. The new coalition government led by chancellor Olaf Schulz declared its intention to legalize adult-use cannabis use, which aims to regulate the controlled dispensing of cannabis for adult-use consumption. In late October 2022, the German government published key details of its plan to legalize and regulate adult-use cannabis, including what Health Minister Karl Lauterbach described as “complete” cultivation within the country. Subsequently, Lauterbach announced that a first draft of the proposed regulations shall be issued in the first quarter of calendar year 2023, which will be evaluated by the European Union Commission in a formal notification procedure.

Recently, Mr. Lauterbach advised that the proposal had been revised and that the new plan is a two-part model, which appears to be designed in order to legalize cannabis as broadly as possibly without running afoul of European Union rules. On July 6, 2023, it was announced that the draft regulations pertaining to decriminalization, home cultivation and non-commercial “cultivation associations” (i.e., social clubs) had been finalized by the health ministry and was ready to be delivered to the German parliament.

We continue to believe that Tilray is well-positioned in Germany to provide consistent and sustainable cannabis products for the adult-use market whether only in-country cultivation is permitted or whether imports are also allowed given our Aphria RX facility located in Germany and our EU-GMP-certified production facility in Portugal, as well as our distribution platform, which provides us with access to 13,000 pharmacies in Germany.

Switzerland. In October 2021, Switzerland announced its intention to legalize cannabis by allowing production, cultivation, trade, and consumption. In the meantime, a three-year pilot project commenced on January 30, 2023, which permits selected participants to purchase cannabis for adult-use in various pharmacies in Basel, and more recently in Zurich, to conduct studies on the cannabis market and its impact on Swiss society. It is the first trial for the legal distribution of adult-use cannabis containing THC in Europe.

Spain. The Spanish Congress' Health Committee has recently approved a Medical Cannabis Report that paves the way for a government-sponsored bill on medical cannabis. The Report explicitly opens the door to standardized preparations other than the drugs already approved, highlighting their advantages in relation to safety, security and stability; as well as the possibility to prescribe medical cannabis in community pharmacies and not only in hospitals, favoring the access to the patients that may need it.

France. France launched a two-year pilot experiment to supply approximately 3,000 patients with medical cannabis. To date, 2,300 patients are enrolled in the experiment, which has been extended for another year and is now ending March 2024 in order to collect more data and to adopt a legal framework. The first results of the experimentation are positive. Several independent agencies have produced reports that show the effectiveness of medical cannabis, especially in situations of chronic pain.

Czech Republic. The Czech Republic has discussed plans to launch a fully regulated adult-use cannabis market in first half of calendar year 2023.

Malta. In 2021, became the first country in the European Union to legalize personal possession of the drug and permit private “cannabis clubs,” where members can grow and share the drug.

Beverage alcohol market trends.

The beverage alcohol category, while more established, continues to shift with changes in consumer trends for the craft industry. Specifically, based on IRI data for the last 10 weeks ended May 31, 2023, the US beer industry declined 0.6%, with craft beer down 2.7% during the same period SweetWater however, outperformed both the US craft beer market and the US beer industry in the same period as the brand grew 7.7% on total sales for multi-outlet. The Company anticipates continuing to grow its beer sales by expanding distribution points of its SweetWater, Green Flash, Alpine and Montauk brands as well as launching innovative products such as hard seltzers, rose beer, lager, hazy IPAs and pale ales to continue to be a market leader in the craft beer industry.

Breckenridge Distillery is a leader in the Colorado bourbon industry and continues to gain market share in both the vodka and gin markets. A primary growth objective is to continue expansion of market share across the United States, as well as expanding the national chains footprint, to maintain a double-digit annual top-line growth. To ensure continued growth in the future, the company is focused on expanding the marketing strategy, highlighting its quality products. Breckenridge Distillery's commitment to quality has been recognized in recent awards by Whisky Magazine as the World's Best Blended, Best American Blended Malt, Best American Blended Limited Release, and Best American Blended. The overall bourbon market continues to grow, although competition from tequila and RTD's remains a challenge. The integration of the national distributer agreement signed with RNDC in Fall 2022 has been slow, but will also be a growth driver for the business.

Wellness market trends.

Manitoba Harvest's branded hemp business continued to expand its U.S. and Canadian leading market share position this year. These market share gains were offset by many customers reducing inventory levels amidst the current economic climate to conserve cash. During the year, the Company successfully expanded its Hemp Food portfolio into more accessible consumer formats and launched a breakthrough CBD wellness beverage, Happy Flower™. The Company will look to expand the Happy Flower™ brand with retail distribution into key markets, focusing on states with established CBD permissibility and sales momentum in future periods.

Acquisitions, Strategic Transactions and Synergies

We strive to continue to expand our business on a consolidated basis, through a combination of organic growth and acquisition. While we continue to execute against our strategic initiatives that we believe will result in the long-term, sustainable growth and value to our stockholders, we continue to evaluate potential acquisitions and other strategic transactions of businesses that we believe complement our existing portfolio, infrastructure and capabilities or provide us with the opportunity to enter attractive new geographic markets and product categories as well as expand our existing capabilities. In addition, we have exited certain businesses and continue to evaluate certain businesses within our portfolio that are dilutive to profitability and cash flow. As a result, we incur transaction costs in connection with identifying and completing acquisitions and strategic transactions, as well as ongoing integration costs as we combine acquired companies and continue to achieve synergies, which is offset by income generated in connection with the execution of these transactions. For the year ended May 31, 2023, we incurred $1.6 million of transaction costs, net of recoveries.

Our acquisition and wind down strategy has had a material impact on the Company's results in the current quarter and we expect will continue to persist into future periods generating accretive impacts for our stockholders. There are currently three primary cost saving initiatives as follows:

- ***Tilray and HEXO strategic alliance and Arrangement Agreement:***

On July 12, 2022, Tilray acquired the HEXO Convertible Note from HTI and entered into a strategic alliance with HEXO Corp. ("HEXO") as discussed in Note 11 (Convertible notes receivable) and Note 17 (Convertible debentures payable). In addition, Tilray and HEXO entered into various commercial transaction agreements, including (i) an advisory services agreement regarding Tilray's provision of advisory services to HEXO in exchange for an $18 million annual advisory fee payable to Tilray; (ii) a co-manufacturing agreement providing for third-party manufacturing services between the parties and setting forth the terms of Tilray's international bulk supply to HEXO; and (iii) a procurement and cost savings agreement for shared savings related to specified optimization activities, procurement, and other similar cost savings realized by the parties as a result of the foregoing commercial arrangements.

Through this strategic alliance, Tilray achieved substantial cash savings and production efficiencies. In the year ended May 31, 2023, the Company recognized $40.4 million of advisory services revenue included in Canadian adult-use cannabis revenue. Included in interest expense, net is $7.7 million of interest income for the year ended May 31, 2023. The Company earned $47.9 from this transaction during the year, which exceeded the initial target of $40 million to be earned during the first 12 month period in connection with the HEXO Convertible Note transaction.

On April 10, 2023, Tilray entered into an Arrangement Agreement to purchase 100% of the outstanding shares of HEXO to be satisfied through the issuance of 0.4352 of Tilray Common Stock for each outstanding HEXO share, see Note 30 (Subsequent events). The acquisition of HEXO builds on the successful strategic alliance between the two companies and positions Tilray for continued strong growth and market leadership in Canada, the largest federally legal cannabis market in the world. The company expects to realize $25 million of additional synergies over the first two years from the transaction close date.

- ***Canadian Cannabis business cost reduction plan:***

During our fourth quarter of our fiscal year ended May 31, 2022, the Company launched a $30 million cost optimization plan of our existing cannabis business to solidify our position as an industry leading low-cost producer. The Company took decisive action to manage cash flow amid an evolving retail environment by identifying opportunities to leverage technology, supply chain, procurement, and packaging efficiencies while driving labor savings. During the year ended May 31, 2023, we have achieved $22 million of our cost optimization plan on an annualized run-rate basis of which $18.5 million represented actual cost savings during the period. The amount achieved is comprised of the following items:

- *Optimizing cultivation*. We made impactful strides to right-size our cultivation footprint by maximizing our yield per plant and by honing the ability to flex production during optimal growing seasons to manage our cost to grow.

- *Refining selling fees.* We assessed our current product-to-market strategy to optimize our direct and controllable selling fees as a percentage of revenue without compromising our sales strategy on a go-forward basis.

- *Reducing general and administrative costs*. We remain focused on reducing operating expenses by leveraging innovative solutions to maintain a lean organization. We plan to further automate processes, reducing outside spend where efficient, and ensuring we are obtaining competitive pricing on our administrative services.

- ***International Cannabis business cost reduction plan:***

During our fiscal year ended May 31 2023, the Company launched an $8.0 million cost optimization plan for our international cannabis business to adapt to changing market dynamics and slower than anticipated legalization in Europe. During the year, the Company achieved an annualized run-rate basis of $6.2 million of cost savings. This was driven by the integration of our Distribution and European cannabis business for redundant costs including headcount consolidation in addition to optimization of our facility utilization.

- ***Tilray-Aphria Arrangement Agreement:***

In connection with the Tilray-Aphria Arrangement Agreement, we committed to achieving $80 million, subsequently increased to $100 million, of synergies in connection with the integration of Tilray and Aphria and developed a robust plan and timeline to achieve such synergies. In executing our integration plan, we evaluated and optimized the organizational structure, evaluated and retained the talent and capabilities we identified as necessary to achieve our longer-term growth plan and vision, reviewed contracts and arrangements, and analyzed our supply chain and our strategic partnerships. Due to the Company’s actions in connection with the integration of Tilray and Aphria, during the prior fiscal year ended May 31, 2022, we exceeded the identified $80 million of cost synergies by $5 million and achieved such synergies ahead of our plan.

During the year ended May 31, 2023, the Company achieved the remaining $15 million of the targeted $100 million in cost-saving synergies on an annualized run-rate basis. While this milestone marks the completion of the Tilray and Aphria Arrangement Agreement synergy plan, the Company intends to continue to prioritize cost saving initiatives in the future while remaining committed to our growth plan and vision.

- ***Strategic transactions related to facility closures and exits:***

In connection with evaluating the profitability of our CC Pharma distribution business, Tilray decided to discontinue its partnership in a medical device reprocessing business given it was not core to CC Pharma's business and was both dilutive from a profitability and cash flow perspective. In connection with evaluating the profitability of our international cannabis business, Tilray also discontinued transactions with one of its customers in Israel to focus on markets which we believe are more accretive to our profitability and cash flow. In addition, Tilray terminated its relationship with a supplier in Uruguay due to a breach of the underlying contract. During the year ended May 31, 2023 the Company sold its interest in ASG Pharma Ltd., a wholly-owned subsidiary incorporated in Malta.

As a result of these strategic business decisions, there were the following impacts on the results for the year ended May 31, 2023 aggregating $9.3 million which increased our net loss, summarized as follows:

- we recognized a one-time return adjustment of $3.1 million in our international cannabis revenue from a customer in Israel;
- we recognized a decrease in gross profit of $1.4 million which related to the above mentioned return from a customer in Israel;
- We recognized restructuring charges of $1.6 million of exit costs and $2.8 million for inventory adjustments from the termination of our producer partnership in Uruguay due to a breach of the underlying contract;
- there was an increase to office and general expenses of $1.6 million for a bad debt expense related to the aforementioned customer in Israel; and
- the Company recognized a $2.2 million of restructuring costs as a result of CC pharma discontinuing its partnership in the medical reprocessing business.
- the Company recognized a $0.3 million gain on the disposal of our investment in ASG Malta in other non-operating (loss) gain, net.

The impacts of the items discussed in this section are assessed further in our analysis of the results of operations below.

Business Acquisitions

Acquisition of Montauk Brewing Company, Inc.

On November 7, 2022, Tilray acquired Montauk Brewing Company, Inc. (“Montauk”), a leading craft brewer company based in Montauk, New York. As consideration for the acquisition of Montauk, the Company paid after post closing adjustments of $35.1 million, which was paid with $28.7 million in cash and $6.4 million from the issuance of 1,708,521 shares of Tilray's common stock. In the event that Montauk achieves certain volume and/or EBITDA targets on or before December 31, 2025, the stockholders of Montauk shall be eligible to receive as additional contingent cash consideration of up to $18 million. The Company, determined that the closing date fair value of this contingent consideration was $10.2 million. In connection with this transaction, the Company is leveraging SweetWater’s existing nationwide infrastructure and Montauk’s northeast influence to significantly expand our distribution network and drive profitable growth in our beverage-alcohol segment. This distribution network is part of Tilray’s strategy to leverage our growing portfolio of CPG brands and ultimately to launch THC-based product adjacencies upon federal legalization in the U.S.

Results of Operations

Our consolidated results, in millions except for per share data, are as follows:

(in thousands of U.S. dollars)	For the year ended May 31, 2023	2022	2021	Change 2023 vs. 2022		Change 2022 vs. 2021	
Net revenue	$ 627,124	$ 628,372	$ 513,085	(1,248)	(0)%	115,287	22%
Cost of goods sold	480,164	511,555	389,903	(31,391)	(6)%	121,652	31%
Gross profit	146,960	116,817	123,182	30,143	26%	(6,365)	(5)%
Operating expenses:							
General and administrative	165,159	162,801	111,575	2,358	1%	51,226	46%
Selling	34,840	34,926	26,576	(86)	(0)%	8,350	31%
Amortization	93,489	115,191	35,221	(21,702)	(19)%	79,970	227%
Marketing and promotion	30,937	30,934	17,539	3	0%	13,395	76%
Research and development	682	1,518	830	(836)	(55)%	688	83%
Change in fair value of contingent consideration	855	(44,650)	—	45,505	(102)%	(44,650)	0%
Impairments	934,000	378,241	—	555,759	147%	378,241	0%
Other than temporary change in fair value of convertible notes receivable	246,330	—	—	246,330	0%	-	0%
Litigation (recovery) costs	(505)	16,518	3,251	(17,023)	(103)%	13,267	408%
Restructuring costs	9,245	795	—	8,450	1,063%	795	0%
Transaction costs	1,613	30,944	60,361	(29,331)	(95)%	(29,417)	(49)%
Total operating expenses	1,516,645	727,218	255,353	789,427	109%	471,865	185%
Operating loss	(1,369,685)	(610,401)	(132,171)	(759,284)	124%	(478,230)	362%
Interest expense, net	(13,587)	(27,944)	(27,977)	14,357	(51)%	33	(0)%
Non-operating (expense) income, net	(66,909)	197,671	(184,838)	(264,580)	(134)%	382,509	(207)%
Loss before income taxes	(1,450,181)	(440,674)	(344,986)	(1,009,507)	229%	(95,688)	28%
Income tax benefits, net	(7,181)	(6,542)	(8,972)	(639)	10%	2,430	(27)%
Net loss	$ (1,443,000)	$ (434,132)	$ (336,014)	(1,008,868)	232%	(98,118)	29%

Use of Non-GAAP Measures

The Company reports its financial results in accordance with U.S. GAAP. However, throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K, we discuss non-GAAP financial measures, including reference to:

- adjusted gross profit (excluding purchase price allocation ("PPA") step up and inventory valuation allowance) for each reporting segment (Cannabis, Beverage alcohol, Distribution and Wellness),
- adjusted gross margin (excluding purchase price allocation ("PPA") step up and inventory valuation allowance) for each reporting segment (Cannabis, Beverage alcohol, Distribution and Wellness),
- adjusted EBITDA,
- cash and marketable securities, and
- constant currency presentation of net revenue.

All these non-GAAP financial measures should be considered in addition to, and not in lieu of, the financial measures calculated and presented in accordance with accounting principles generally accepted in the United States of America, ("GAAP"). These measures are presented to help investors' overall understanding of our financial performance and should not be considered in isolated or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names. These non-GAAP financial measures reflect an additional way of viewing aspects of operations that, when viewed with U.S. GAAP results, provide a more complete understanding of the business. The Company strongly encourages investors and shareholders to review Company financial statements and publicly filed reports in their entirety and not to rely on any single financial measure. Please see "Reconciliation of Non-GAAP Financial Measures to GAAP Measures" below for a reconciliation of such non-GAAP Measures to the most directly comparable GAAP financial measures, as well as a discussion of our adjusted gross margin, adjusted gross profit and adjusted EBITDA measures and the calculation of such measures.

Constant Currency Presentation

We believe that this measure provides useful information to investors because it provides transparency to underlying performance in our consolidated net sales by excluding the effect that foreign currency exchange rate fluctuations have on period-to-period comparability given the volatility in foreign currency exchange markets. To present this information for historical periods, current period net sales for entities reporting in currencies other than the U.S. Dollar are translated into U.S. Dollars at the average monthly exchange rates in effect during the corresponding period of the prior fiscal year rather than at the actual average monthly exchange rate in effect during the current period of the current fiscal year. As a result, the foreign currency impact is equal to the current year results in local currencies multiplied by the change in average foreign currency exchange rate between the current fiscal period and the corresponding period of the prior fiscal year.

Cash and Marketable Securities

The Company combines the Cash and cash equivalent financial statement line item with the Marketable securities financial statement line item as an aggregate total as reconciled in the liquidity and capital resource section below. The Company's management believes that this presentation provides useful information to management, analysts and investors regarding certain additional financial and business trends relating to its short-term liquidity position by combing these two GAAP metrics.

Operating Metrics and Non-GAAP Measures

We use the following operating metrics and non-GAAP measures to evaluate our business and operations, measure our performance, identify trends affecting our business, project our future performance, and make strategic decisions. Other companies, including companies in our industry, may calculate non-GAAP measures and operating metrics with similar names differently which may reduce their usefulness as comparative measures.

	For the years ended May 31,		
(in thousands of U.S. dollars)	**2023**	**2022**	**2021**
Net cannabis revenue	$ 220,430	$ 237,522	$ 201,392
Net beverage alcohol revenue	95,093	71,492	28,599
Distribution Revenue	258,770	259,747	277,300
Wellness revenue	52,831	59,611	5,794
Cannabis costs	162,755	194,834	130,511
Beverage alcohol costs	48,770	32,033	12,687
Distribution costs	231,309	243,231	242,472
Wellness costs	37,330	41,457	4,233
Total adjusted gross profit (excluding PPA step-up and inventory valuation adjustments)	206,442	186,031	143,936
Cannabis adjusted gross margin (excluding inventory valuation adjustments)	51%	43%	45%
Beverage alcohol adjusted gross margin (excluding PPA step-up)	53%	58%	59%
Distribution gross margin (excluding inventory valuation adjustments)	11%	9%	13%
Wellness gross margin	29%	30%	27%
Adjusted EBITDA	$ 61,479	$ 48,047	$ 40,771
Cash and marketable securities	448,529	415,909	488,466
Working capital	$ 340,050	$ 523,161	$ 482,368

(1)Adjusted EBITDA, adjusted gross profit and adjusted gross margin for each of our segments are non-GAAP financial measures. See "Reconciliation of Non-GAAP Financial Measures to GAAP Measures" below for a reconciliation of these Non-GAAP Measures to our most comparable GAAP measure.

Segment Reporting

Our reportable segments revenue is primarily comprised of revenues from our cannabis, distribution, wellness and beverage alcohol operations, as follows:

	For the year ended May 31,			Change		Change	
(in thousands of U.S. dollars)	2023	2022	2021	2023 vs. 2022		2022 vs. 2021	
Cannabis business	$ 220,430	$ 237,522	$ 201,392	$ (17,092)	(7)%	$ 36,130	18%
Distribution business	258,770	259,747	277,300	(977)	0%	(17,553)	(6)%
Beverage alcohol business	95,093	71,492	28,599	23,601	33%	42,893	150%
Wellness business	52,831	59,611	5,794	(6,780)	(11)%	53,817	929%
Total net revenue	$ 627,124	$ 628,372	$ 513,085	$ (1,248)	0%	$ 115,287	22%

Our reportable segments revenue reported in constant currency(1) are as follows:

	For the year ended May 31, as reported in constant currency		Change	
			Change	% Change
(in thousands of U.S. dollars)	2023	2022	2023 vs. 2022	
Cannabis business	$ 233,227	$ 237,522	$ (4,295)	(2)%
Distribution business	285,115	259,747	25,368	10%
Beverage alcohol business	95,093	71,492	23,601	33%
Wellness business	54,429	59,611	(5,182)	(9)%
Total net revenue	$ 667,864	$ 628,372	$ 39,492	6%

Our geographic revenue is, as follows:

	For the year ended May 31,			Change		Change	
(in thousands of U.S. dollars)	2023	2022	2021	2023 vs. 2022		2022 vs. 2021	
North America	$ 324,645	$ 314,132	$ 229,120	$ 10,513	3%	$ 85,012	37%
EMEA	284,567	296,911	279,062	(12,344)	(4)%	17,849	6%
Rest of World	17,912	17,329	4,903	583	3%	12,426	253%
Total net revenue	$ 627,124	$ 628,372	$ 513,085	$ (1,248)	0%	$ 115,287	22%

Our geographic revenue in constant currency(1) is, as follows:

	For the year ended May 31, as reported in constant currency		Change	
			Change	% Change
(in thousands of U.S. dollars)	2023	2022	2023 vs. 2022	
North America	$ 335,243	$ 314,132	$ 21,111	7%
EMEA	309,152	296,911	12,241	4%
Rest of World	23,469	17,329	6,140	35%
Total net revenue	$ 667,864	$ 628,372	$ 39,492	6%

Our geographic capital assets are, as follows:

(in thousands of U.S. dollars)	For the year ended May 31, 2023	2022	Change 2023 vs. 2022	
North America	$ 319,173	$ 464,370	$ (145,197)	(31)%
EMEA	107,131	119,409	(12,278)	(10)%
Rest of World	3,363	3,720	(357)	(10)%
Total capital assets	$ 429,667	$ 587,499	$ (157,832)	(27)%

Cannabis revenue

Cannabis revenue based on market channel is, as follows:

(in thousands of US dollars)	For the year ended May 31, 2023	2022	2021	Change 2023 vs. 2022		Change 2022 vs. 2021	
Revenue from Canadian medical cannabis	$ 25,000	$ 30,599	$ 25,539	$ (5,599)	(18)%	$ 5,060	20%
Revenue from Canadian adult-use cannabis	214,319	209,501	222,930	4,818	2%	(13,429)	(6)%
Revenue from wholesale cannabis	1,436	6,904	6,615	(5,468)	(79)%	289	4%
Revenue from international cannabis	43,559	53,887	9,250	(10,328)	(19)%	44,637	483%
Total cannabis revenue	284,314	300,891	264,334	(16,577)	(6)%	36,557	14%
Excise taxes	(63,884)	(63,369)	(62,942)	(515)	1%	(427)	1%
Total cannabis net revenue	$ 220,430	$ 237,522	$ 201,392	$ (17,092)	(7)%	$ 36,130	18%

Cannabis revenue based on market channel in constant currency(1) is, as follows:

(in thousands of US dollars)	For the year ended May 31, as reported in constant currency 2023	2022	Change 2023 vs. 2022 Change	% Change
Revenue from Canadian medical cannabis	$ 26,612	$ 30,599	$ (3,987)	(13)%
Revenue from Canadian adult-use cannabis	225,694	209,501	16,193	8%
Revenue from wholesale cannabis	1,529	6,904	(5,375)	(78)%
Revenue from international cannabis	47,434	53,887	(6,453)	(12)%
Total cannabis revenue	301,269	300,891	378	0%
Excise taxes	(68,042)	(63,369)	(4,673)	7%
Total cannabis net revenue	$ 233,227	$ 237,522	$ (4,295)	(2)%

(1) The constant currency presentation of our Cannabis revenue based on market channel is a non-GAAP financial measure. See "Use of Non-GAAP Measures –Constant Currency Presentation" above for a discussion of these Non-GAAP Measures.

Revenue from medical cannabis: Revenue from Canadian medical cannabis decreased 18% to $25.0 million for the year ended May 31, 2023**,** compared to revenue of $30.6 million for the year ended May 31, 2022. On a constant currency basis revenue from Canadian medical cannabis decreased to $26.6 million from $30.6 million for the year ended May 31, 2022. This decrease in revenue from medical cannabis is primarily driven by increased competition from the adult-use recreational market and its related price compression impacting the medical cannabis market.

Revenue from adult-use cannabis: During the year ended, May 31, 2023, our revenue from Canadian adult-use cannabis product increased 2% to $214.3 million compared to revenue of $209.5 million for the prior year. Due to the decline in the Canadian dollar, on a constant currency basis, our revenue from Canadian adult-use cannabis increased 8% to $225.7 million for the year ended May 31, 2023. Included in the current period results was the favorable impact of the HEXO arrangement which resulted in $40.4 million of advisory services revenue for the year ended May 31, 2023 that did not occur in the prior period comparative. This increase was offset by the negative impacts of price compression, challenges in the province of Quebec and change in potency preferences.

Wholesale cannabis revenue: Revenue from wholesale cannabis decreased to $1.4 million for the year ended May 31, 2023, compared to revenue of $6.9 million for the prior year same period which is consistent on a constant currency basis. The Company continues to believe that wholesale cannabis revenue will remain subject to quarter-to-quarter variability and is based on opportunistic sales.

International cannabis revenue: Revenue from international cannabis decreased to $43.6 million for the year ended May 31, 2023, compared to revenue of $53.9 million for the year ended May 31, 2022. Given the deterioration of the Euro against the U.S. Dollar in the quarter, on a constant currency basis, revenue from international cannabis decreased to $47.4 million from $53.9 million in the prior year same period. During the year, the Company recognized a one-time return adjustment of $3.1 million related to a customer in Israel. In addition, the Company had $9.8 million of revenue in the prior year to Israel, which did not repeat in the current period results given the challenging and severe deterioration of market conditions in Israel. These negative impacts were partially offset by expansion into other European countries that have legalized medical cannabis.

Distribution revenue

Revenue from Distribution operations decreased to $258.8 million for the year ended May 31, 2023 compared to revenue of $259.7 million for the prior year same period. Revenue was negatively impacted during year from the deterioration of the Euro against the U.S. Dollar, which when the impacts are eliminated on a constant currency basis, revenue increased to $285.1 million for the year ended May 31, 2023 when compared to prior year same period. However, this impact is offset by the impact of the flood that occurred in the comparative prior period and forced a business closure for approximately five days leading to a decrease in net revenue in the prior period of almost $5.0 million, which did not recur in the current year. Additionally, the Company is continuing to prioritize higher margin sales, and as a result of our focus on higher margin sales and capacity constraints, management believes in future periods we can continue to drive larger profit margins despite not increasing revenue in our distribution business as we approach full utilization of our facility.

Beverage alcohol revenue

Revenue from our Beverage operations increased to $95.1 million the year ended May 31, 2023, compared to revenue of $71.5 million for the prior year same period. The increase in the year relates primarily to our acquisition of Montauk on November 7, 2022.

Wellness revenue

Our Wellness revenue from Manitoba Harvest decreased to $52.8 million for the year ended May 31, 2023 compared to $59.6 million for the prior year same period. On a constant currency basis for the year ended May 31, 2023, Wellness revenue decreased to $54.4 million from $59.6 million. The decrease in revenue for the year related to continual changes of inventory management by one of our customers based on a warehousing strategy as well as a decline in sales velocity from a recent price increase required to protect our margin given the inflation on our ingredient costs.

Gross profit and gross margin

Our gross profit and gross margin for the years ended May 31, 2023, 2022 and 2021, is as follows, for our each of our operating segments:

(in thousands of U.S. dollars)	For the year ended May 31.			Change	Change
Cannabis	**2023**	**2022**	**2021**	**2023 vs. 2022**	**2022 vs. 2021**
Net revenue	$ 220,430	$ 237,522	$ 201,392	$ (17,092)	$ 36,130
Cost of goods sold	162,755	194,834	130,511	(32,079)	64,323
Gross profit (loss)	57,675	42,688	70,881	14,987	(28,193)
Gross margin	26%	18%	35%	8%	-17%
Inventory valuation adjustments	55,000	59,500	19,919	(4,500)	39,581
Adjusted gross profit (1)	112,675	102,188	90,800	10,487	11,388
Adjusted gross margin (1)	51%	43%	45%	8%	-2%
Distribution					
Net revenue	258,770	259,747	277,300	(977)	(17,553)
Cost of goods sold	231,309	243,231	242,472	(11,922)	759
Gross profit	27,461	16,516	34,828	10,945	(18,312)
Gross margin	11%	6%	13%	5%	(7%)
Inventory valuation adjustments	—	7,500	—	(7,500)	7,500
Adjusted gross profit (1)	27,461	24,016	34,828	3,445	(10,812)
Adjusted gross margin (1)	11%	9%	13%	2%	-4%
Beverage alcohol					
Net revenue	95,093	71,492	28,599	23,601	42,893
Cost of goods sold	48,770	32,033	12,687	16,737	19,346
Gross profit	46,323	39,459	15,912	6,864	23,547
Gross margin	49%	55%	56%	(6%)	(1%)
Purchase price accounting step-up	4,482	2,214	835	2,268	1,379
Adjusted gross profit (1)	50,805	41,673	16,747	9,132	24,926
Adjusted gross margin (1)	53%	58%	59%	-5%	-1%
Wellness					
Net revenue	52,831	59,611	5,794	(6,780)	53,817
Cost of goods sold	37,330	41,457	4,233	(4,127)	37,224
Gross profit	15,501	18,154	1,561	(2,653)	16,593
Gross margin	29%	30%	27%	(1%)	3%
Total					
Net revenue	627,124	628,372	513,085	(1,248)	115,287
Cost of goods sold	480,164	511,555	389,903	(31,391)	121,652
Gross profit (loss)	146,960	116,817	123,182	30,143	(6,365)
Gross margin	23%	19%	24%	4%	-5%
Inventory valuation adjustments	55,000	67,000	19,919	(12,000)	47,081
Purchase price accounting step-up	4,482	2,214	835	2,268	1,379
Adjusted gross profit (1)	$ 206,442	$ 186,031	$ 143,936	$ 20,411	$ 42,095
Adjusted gross margin (1)	33%	30%	28%	3%	2%

(1) *Adjusted gross profit is our Gross profit (adjusted to exclude inventory valuation adjustment and purchase price accounting valuation step-up) and adjusted gross margin is our Gross margin (adjusted to exclude inventory valuation adjustment and purchase price accounting valuation step-up) and are non-GAAP financial measures. See "Reconciliation of Non-GAAP Financial Measures to GAAP Measures" for additional discussion regarding these non-GAAP measures. The Company's management believes that adjusted gross profit and adjusted gross margin are useful to our management to evaluate our business and operations, measure our performance, identify trends affecting our business, project our future performance, and make strategic decisions. We do not consider adjusted gross profit and adjusted gross margin in isolation or as an alternative to financial measures determined in accordance with GAAP.*

Adjusted Gross Profit and Adjusted Gross Margin

Adjusted gross profit and adjusted gross margin are non-GAAP financial measures and may not be comparable to similar measures presented by other companies. Adjusted gross profit is our Gross profit (adjusted to exclude inventory valuation adjustment and purchase price accounting valuation step-up) and adjusted gross margin is our Gross margin (adjusted to exclude inventory valuation adjustment and purchase price accounting valuation step-up) and are non-GAAP financial measures. The Company's management believes that adjusted gross profit and adjusted gross margin are useful to our management to evaluate our business and operations, measure our performance, identify trends affecting our business, project our future performance, and make strategic decisions. We do not consider adjusted gross profit and adjusted gross margin percentage in isolation or as an alternative to financial measures determined in accordance with GAAP.

Cannabis gross margin: Gross margin increased during the year ended May 31, 2023, to 26% from 18% for the prior year same periods. The largest impact in the change in cannabis gross margin was related to the non-cash inventory valuation adjustments that occurred in the current year which was higher in the prior year. Excluding these valuation adjustments, adjusted gross margin during the year ended May 31, 2023, increased to 51% from 43% when comparing the same prior year period. The largest impact on the current period adjusted gross margin is the inclusion of the $40.4 million of HEXO advisory fee revenue included in cannabis revenue. When this revenue is excluded from this computation, our adjusted cannabis gross margin would have been 40%. The reason for the decline in the year when excluding the impacts from HEXO is attributed to the impacts of price compression as well as a decrease in utilization of our cannabis facilities to manage demand requirements. Additionally, the Company recognized a one-time return as discussed in the international cannabis revenue section that reduced our top line revenue as well as a one-time inventory disposals incurred as exit costs from Israel for a combined impact of reducing gross profit by $1.4 million. Further impacting the decrease in the adjusted gross cannabis margin is a shift in strategic priorities to focus on pursuing cash flow generating activities. The Company has made the business decision to lower production in our cannabis facilities as a result of slower than anticipated legalization globally. We will continue to prioritize reductions in operational costs as we continue to assess additional potential cost saving initiatives.

Distribution gross margin: Gross margin of 11% for the year ended May 31, 2023, increased from 6% the year ended May 31, 2022. The distribution gross margin for the year ended May 31, 2023, increased to 11% from the prior year's adjusted gross margin of 9%, which included a write-off of $7.5 million from excess inventory related to medicines purchased during the peak of the pandemic that occurred in prior period comparative figure and did not recur. The adjusted year over year increase relates to a change in product mix as the Company continues to focus on higher margin sales in the current year.

Beverage alcohol gross margin: Gross margin of 49% for the year ended May 31, 2023, decreased from 55% the prior year ended May 31, 2022. Adjusted gross margin of 53% decreased in the year ended May 31, 2023, from 58% in the year ended May 31, 2022. The adjusted gross margin for Beverage alcohol was 53% in the year compared to 58% for the prior year. The decrease in beverage alcohol gross margin for the year is a result of the Montauk acquisition that was not completed in the prior period comparison and the Breckenridge acquisition which was only in two quarters of the comparative period. Both acquired companies operate at a slightly lower margin than SweetWater, which contributed to the decrease. Additionally, SweetWater has expanded operations in Colorado in the current period which has had negative impacts on the margin as it is still in the start-up phase.

Wellness gross margin: Gross margin of 29% for the year ended May 31, 2023, decreased from a gross margin of 30% for the year ended May 31, 2022. The decrease is related to the impacts of higher input costs of seed ingredients as a result of inflation. The Company increased prices in the second quarter to combat the impacts of this inflation and as a result the gross margin has remained overall consistent.

Operating expenses

(in thousands of US dollars)	For the year ended May 31, 2023	2022	2021	Change 2023 vs. 2022		Change 2022 vs. 2021	
General and administrative	$ 165,159	$ 162,801	$ 111,575	$ 2,358	1%	$ 51,226	46%
Selling	34,840	34,926	26,576	(86)	(0)%	8,350	31%
Amortization	93,489	115,191	35,221	(21,702)	(19)%	79,970	227%
Marketing and promotion	30,937	30,934	17,539	3	0%	13,395	76%
Research and development	682	1,518	830	(836)	(55)%	688	83%
Change in fair value of contingent consideration	855	(44,650)	—	45,505	(102)%	(44,650)	NM
Impairments	934,000	378,241	—	555,759	147%	378,241	NM
Other than temporary change in fair value of convertible notes receivable	246,330	—	—	246,330	NM	—	NM
Litigation (recovery) costs	(505)	16,518	3,251	(17,023)	(103)%	13,267	408%
Restructuring costs	9,245	795	—	8,450	1,063%	795	NM
Transaction costs	1,613	30,944	60,361	(29,331)	(95)%	(29,417)	(49)%
Total operating expenses	$ 1,516,645	$ 727,218	$ 255,353	$ 789,427	109%	$ 471,865	185%

Total operating expenses for the year ended May 31, 2023, increased by $789.4 million to $1,516.6 million from $727.2 million as compared to prior year. Operating expenses are comprised of general and administrative, share-based compensation, selling, amortization, marketing and promotion, research and development, change in fair value of contingent consideration, impairments, litigation (recovery) costs, restructuring costs and transaction (income) costs. This increase was primarily a result of the non-cash impairments and changes in fair value of convertible notes receivable recorded in the period described in detail below.

General and administrative costs

(in thousands of US dollars)	For the year ended May 31, 2023	2022	2021	Change 2023 vs. 2022		Change 2022 vs. 2021	
Executive compensation	$ 13,655	$ 14,128	$ 8,645	$ (473)	(3)%	$ 5,483	63%
Office and general	27,845	27,153	19,503	692	3%	7,650	39%
Salaries and wages	57,228	51,693	37,126	5,535	11%	14,567	39%
Stock-based compensation	39,595	35,994	17,351	3,601	10%	18,643	107%
Insurance	12,033	17,536	12,257	(5,503)	(31)%	5,279	43%
Professional fees	7,166	13,047	11,779	(5,881)	(45)%	1,268	11%
Gain on sale of capital assets	(48)	(682)	—	634	(93)%	(682)	NM
Insurance proceeds	—	(4,032)	—	4,032	(100)%	(4,032)	NM
Travel and accommodation	4,530	4,203	2,711	327	8%	1,492	55%
Rent	3,155	3,761	2,203	(606)	(16)%	1,558	71%
Total general and administrative costs	$ 165,159	$ 162,801	$ 111,575	$ 2,358	1%	$ 51,226	46%

Executive compensation decreased by 3% in the year ended May 31, 2023 compared to $14.1 the prior year, primarily due to a minor changes in the executive team structure and otherwise remained consistent.

Office and general increased by 3% in the year ended May 31, 2023 compared to $27.2 the prior year, primarily due to the acquisition of Montauk, increased operations and some reclassification of other expenses during the period.

Salaries and wages increased 11% in the year ended May 31, 2023 compared to $51.7 the prior year. The increase is primarily due to additions associated with the inclusion of Breckenridge employees, who were partially included in the prior year and Montauk employees, who were not included in the prior year.

The Company recognized stock-based compensation expense of $39.6 million in the year ended May 31, 2023 compared to $36.0 million to the prior year. The increase is primarily driven by the increased number of employees and the accelerated vesting of certain elements of our stock-based compensation awards.

Insurance expenses decreased by 31% in the year ended May 31, 2023 compared to the prior year, due primarily to our revised directors and officers' insurance policy. This item was a target of the Tilray-Aphria Arrangement Agreement synergies.

Professional fees decreased by 45% to $7.2 million in the year ended May 31, 2023 from $13.0 when compared to the prior year. This item was a target of the Tilray-Aphria Arrangement Agreement synergies which drove the large decrease in the year. As well, some of our charter amendment costs were recorded in transactions costs during the period.

The Company recognized $4.0 million in the year ended May 31, 2022 related to insurance recoveries under the business interruption and extra expense portions of CC Pharma's property insurance and had no recoveries in 2023.

Selling costs

For the year ended May 31, 2023, the Company incurred selling costs of $34.8 million or 5.6% of revenue as compared to $34.9 or 5.6% of revenue in the prior year. These costs relate to third-party distributor commissions, shipping costs, Health Canada cannabis fees, and patient acquisition and maintenance costs. Patient acquisition and ongoing patient maintenance costs include funding to individual clinics to assist with additional costs incurred by clinics resulting from the education of patients using the Company's products. The amount has remained consistent as a percentage of revenue on a year over year basis.

Amortization

The Company incurred non-production related amortization charges of $93.5 million for the year ended May 31, 2023 compared to $115.2 million in 2022. The decreased amortization is a result of the reduced intangible asset levels.

Marketing and promotion cost

For the year ended May 31, 2023, the Company incurred marketing and promotion costs of $30.9 million, as compared to $30.9 in the prior year. This amount has remained consistent period over period as marketing is not directly proportionate to sales and is discretionary.

Research and development

Research and development costs were $0.7 million in the year ended May 31, 2023, compared to $1.5 million in the prior year. Research and development costs relate to external costs associated with the development of new products.

Impairment

Based upon a combination of factors including a sustained decline in the Company's market capitalization below the Company's carrying value, coupled with challenging macro-economic conditions, most particularly the rising interest rate environment and slower than anticipated progress in global cannabis legalization, the Company concluded that it is more likely than not that indicators of impairment were present in the Company's third quarter ended February 28, 2023. Accordingly, the Company performed the applicable impairment tests by computing the fair value of each reporting segment by using the income approach, and a combination of the income approach and the market approach for all other asset categories identified to have indicators of impairment as summarized below. As a result the Company incurred a non-cash impairment expense for the year ended May 31, 2023 of $934.0 million which is comprised of the following components:

- Capital asset impairments of $81.5 million on a production facility in Canada and $22.5 million on equipment which the Company has temporarily made idle in order to reduce cultivation costs and right-size the Company's production to align with current and projected demand, as references in Note 6 (Capital assets), and;

- Intangible asset impairments of $110.0 million on customer relationships & distribution channels, $55.0 million of its licenses, permits & applications and $40.0 million of its intellectual property, trademarks, knowhow & brands, as a result of the decline in market share in its Canadian cannabis with certain product lines and customers, as referenced in Note 8 (Intangible assets), and;

- Goodwill impairments of $603.5 million in cannabis goodwill and $15.0 million in wellness goodwill, as a result of the increased Company specific risk premium which was driven by increased borrowing rates and the decline of the company's market capitalization, as referenced in Note 10 (Goodwill), and;

- Other current assets impairments of $6.5 million.

This non-cash impairment expense has no impact on the Company's compliance with debt covenants, its cash flows or available liquidity.

Other than temporary write-down of convertible notes receivable

During the year the Company recognized an other-than-temporary change in fair value, which resulted in a non-cash impairment expense of convertible notes receivable impairments of $128.6 million on the HEXO Convertible Notes Receivable due to changes in the HEXO share price and HEXO operations, which culminated in HEXO's assessment of a going concern issue primarily surrounding their ability to meet their minimum liquidity covenant and $117.8 million on the MedMen Convertible Notes due to the deterioration of capital market conditions from increased interest rates and recent delays in US Federal cannabis legalization, as referenced in Note 11 (Convertible Notes Receivable). Subsequent to year-end, the Company converted the HEXO Convertible Notes Receivable and acquired all the outstanding shares of HEXO, see Note 30 (Subsequent events).

Litigation costs

Litigation costs of ($0.5) million were expensed during the year ended May 31, 2023 compared to $16.5 million in the prior year. Litigation costs include fees and expenses incurred in connection with defending and settling ongoing litigation matters, net of any judgments or settlement recoveries received from third parties. See Note 27 (Commitments and Contingencies) for additional information on significant litigation matters.

Restructuring costs

In connection with executing our acquisition strategy and strategic transactions, the Company incurred non-recurring restructuring and exit costs associated with the integration efforts of these transactions. For the year ended May 31, 2023 and May 31, 2022 respectively, the Company incurred $9.2 million and $0.8 million of restructuring costs. The breakdown of the restructuring charges for the year ended May 31, 2023 are as follows:

In the year the Company incurred $2.7 million of expenses related to severance costs required to right size the Company's production to better align with current demand requirements. The Company also incurred $1.6 million of exit cost and $2.8 million for inventory adjustments from the termination of our producer partnership in Uruguay due to a breach of the underlying contract in our International cannabis business. Additionally, amounts related to the Tilray-Aphria arrangement agreement for the closure of our Canadian cannabis facility in Enniskillen were reclassified from transaction costs to restructuring costs during the quarter in the amount of $1.4 million. It is anticipated that there will continue to be additional costs associated with this transaction until the resolution of our lease termination for our Enniskillen facility and the restructuring of Nanaimo facility are completed. The Company also incurred $2.2 million of write-offs from the exit of our medical device reprocessing business in our distribution reporting segment. These one-time non-cash charges were a required exit cost as we determined this business venture was no longer accretive to our focus of being free cash flow positive and is not anticipated to have ongoing expenses.

Transaction costs

Items classified as transaction (income) costs are non-recurring in nature and correspond largely to our acquisitions, and synergy strategy. The decrease of 95% from $30.9 million in the prior year to $1.6 million in the current year is related to the following items:

- the prior year included fees related to the MedMen transaction, and there are no further expected costs to be incurred unless the Triggering Event arises;
- we recognized a change in fair value of $18.3 million on the HTI Share Consideration's purchase price derivative as a result of an increase in our share price on the shares paid for the HEXO convertible note receivable Note 11 (Convertible notes receivable). This gain was payable to the Company from HTI and was collected in cash during the current year. This gain offsets the following items in the year and contributes to the year over year decrease in transaction costs,
- a non-reimbursed compensation payment of $5.0 million, as a result of the HEXO transaction;
- fees incurred for the Montauk acquisition in the current year which differed from the fees incurred for the Breckenridge acquisitions which occurred in the prior year; and
- fees associated with amending our charter during the year.

Non-operating income (expense), net

(in thousands of US dollars)	For the year ended May 31, 2023	2022	2021	Change 2023 vs. 2022		Change 2022 vs. 2021	
Change in fair value of convertible debenture payable	$ (43,651)	$ 163,670	$ (170,453)	$ (207,321)	(127)%	$ 334,123	(196)%
Change in fair value of warrant liability	12,438	63,913	1,234	(51,475)	(81)%	62,679	5,079%
Foreign exchange loss	(25,535)	(28,383)	(22,347)	2,848	(10)%	(6,036)	27%
Loss on long-term investments	(2,190)	(6,737)	(2,352)	4,547	(67)%	(4,385)	186%
Other non-operating (losses) gains, net	(7,971)	5,208	9,080	(13,179)	(253)%	(3,872)	(43)%
Total non-operating income (expense)	$ (66,909)	$ 197,671	$ (184,838)	$ (264,580)	(134)%	$ 382,509	(207)%

For the year ended May 31, 2023, the Company recognized a gain on the change in fair value of its APHA 24 convertible debentures of ($43.7) million, compared to a loss on the change in fair value of $163.7 million for the prior year. The change is driven primarily by the changes in the Company's share price and the change in the trading price of the convertible debentures. For the year ended May 31, 2023, the Company recognized a change in fair value of its warrants of $12.4 million compared to a change in fair value of $63.9 million for the prior year. Furthermore, for the year ended May 31, 2023, the Company recognized a loss of ($25.5) million, resulting from the changes in foreign exchange rates during the period, compared to a loss of ($28.4) million for the prior year, largely associated with the strengthening of the US dollar against the Canadian dollar. The remaining other losses relate to changes in fair value in the Company's convertible notes receivable and long-term investments.

Reconciliation of Non-GAAP Financial Measures to GAAP Measures

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure that does not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. The Company calculates adjusted EBITDA as net (loss) income before income taxes, interest expense, net, non-operating expense (income), net, amortization, stock-based compensation, change in fair value of contingent consideration, impairment, inventory valuation adjustments, purchase price accounting step up, facility start-up and closure costs, lease expense, litigation costs and transaction costs.

The Company's management believes that this presentation provides useful information to management, analysts and investors regarding certain additional financial and business trends relating to its consolidated results of operations and financial condition before non-controlling interests. In addition, management uses this measure for reviewing the financial results of the Company and as a component of performance-based executive compensation.

We do not consider adjusted EBITDA in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitation of adjusted EBITDA is that it excludes certain expenses and income that are required by GAAP to be recorded in our consolidated financial statements. In addition, adjusted EBITDA is subject to inherent limitations as this metric reflects the exercise of judgment by management about which expenses and income are excluded or included in determining adjusted EBITDA. In order to compensate for these limitations, management presents adjusted EBITDA in connection with GAAP results.

For the year ended May 31, 2023, adjusted EBITDA increased by $13.5 million to $61.5 million compared to $48.0 in the prior year.

	For the year ended May 31,			Change		Change	
Adjusted EBITDA reconciliation:	**2023**	**2022**	**2021**	**2023 vs. 2022**		**2022 vs. 2021**	
Net (loss) income	$ (1,443,000)	$ (434,132)	$ (336,014)	$ (1,008,868)	232%	$ (98,118)	29%
Income tax benefits, net	(7,181)	(6,542)	(8,972)	(639)	10%	2,430	(27)%
Interest expense, net	13,587	27,944	27,977	(14,357)	(51)%	(33)	(0)%
Non-operating income (expense), net	66,909	(197,671)	184,838	264,580	(134)%	(382,509)	(207)%
Amortization	130,149	154,592	67,832	(24,443)	(16)%	86,760	128%
Stock-based compensation	39,595	35,994	17,351	3,601	10%	18,643	107%
Change in fair value of contingent consideration	855	(44,650)	—	45,505	(102)%	(44,650)	NM
Impairments	934,000	378,241	—	555,759	147%	378,241	NM
Other than temporary change in fair value of convertible notes receivable	246,330	—	—	246,330	NM	—	NM
Inventory valuation adjustments	55,000	67,000	19,919	(12,000)	(18)%	47,081	236%
Purchase price accounting step-up	4,482	2,214	835	2,268	102%	1,379	165%
Facility start-up and closure costs	7,600	13,700	2,056	(6,100)	(45)%	11,644	566%
Lease expense	2,800	3,100	1,337	(300)	(10)%	1,763	132%
Litigation (recovery) costs	(505)	16,518	3,251	(17,023)	(103)%	13,267	408%
Restructuring costs	9,245	795	—	8,450	1,063%	795	NM
Transaction costs	1,613	30,944	60,361	(29,331)	(95)%	(29,417)	(49)%
Adjusted EBITDA	$ 61,479	$ 48,047	$ 40,771	$ 13,432	28%	$ 7,276	18%

Adjusted EBITDA should not be considered in isolation from, or as a substitute for, net loss. There are a number of limitations related to the use of adjusted EBITDA as compared to net loss, the closest comparable GAAP measure. Adjusted EBITDA excludes:

- Non-cash inventory valuation adjustments;
- Non-cash amortization expenses, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future;
- Stock-based compensation expenses, which has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and an important part of our compensation strategy;
- Non-cash impairment charges, as the charges are not expected to be a recurring business activity;
- Non-cash other than temporary write-down of convertible notes receivable, as the charges are not expected to be a recurring business activity;
- Non-cash foreign exchange gains or losses, which accounts for the effect of both realized and unrealized foreign exchange transactions. Unrealized gains or losses represent foreign exchange revaluation of foreign denominated monetary assets and liabilities;
- Non-cash change in fair value of warrant liability;
- Interest expense, net;
- Costs incurred to start up new facilities such as Sweetwater Colorado, and to fund emerging market operations such as Malta and our German cultivation facilities and closure costs to run facilities through the wind-down of operations;
- Lease expense, to conform with competitors who report under IFRS;
- Transaction costs includes acquisition related expenses, which vary significantly by transactions and are excluded to evaluate ongoing operating results;
- Litigation (recovery) costs includes costs related to ongoing litigations, legal settlements and recoveries which are excluded to evaluate ongoing operating results;
- Restructuring costs;
- Amortization of purchase accounting step-up in inventory value included in costs of sales - product costs; and
- Current and deferred income tax expenses and recoveries, which are a significant recurring expense or recovery in our business in the future and reduce or increase cash available to us.

Critical Accounting Policies and Significant Judgments and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). A detailed discussion of our significant accounting policies can be found in Part II, Item 8, Note 3, "*Summary of Significant Accounting Policies*", and the impact and risks associated with our accounting policies are discussed throughout this Form 10-K and in the Notes to the Consolidated Financial Statements. We have identified certain policies and estimates as critical to our business operations and the understanding of our past or present results of operations related to (i) long-term investments and convertible notes receivable, (ii) estimated useful lives, impairment consideration and amortization of capital and intangible assets, (iii) stock-based compensation, (iv) business combinations, (v) convertible debentures and (vi) warrant liability. These policies and estimates are considered critical because they had a material impact, or they have the potential to have a material impact, on our consolidated financial statements and because they require us to make significant judgments, assumptions or estimates. We believe that the estimates, judgments and assumptions made when accounting for the items described below were reasonable, based on information available at the time they were made. Actual results could differ materially from these estimates.

(i) Revenue recognition

Revenue is recognized when the control of the promised goods, through performance obligation, is transferred to the customer in an amount that reflects the consideration we expect to be entitled to in exchange for the performance obligations or as advisory services are provided. Payments received for the goods or services in advance of performance are recognized as a contract liability.

Excise taxes remitted to tax authorities are government-imposed excise taxes on cannabis and beer. Excise taxes are recorded as a reduction of sales in net revenue in the consolidated statements of operations and recognized as a current liability within accounts payable and other current liabilities on the consolidated balance sheets, with the liability subsequently reduced when the taxes are remitted to the tax authority.

In addition, amounts disclosed as net revenue are net of excise taxes, sales tax, duty tax, allowances, discounts and rebates.

In determining the transaction price for the sale of goods, the Company considers the effects of variable consideration and the existence of significant financing components, if any.

Some contracts for the sale of goods may provide customers with a right of return, volume discount, bonuses for volume/quality achievement, or sales allowance. In addition, the Company may provide in certain circumstances, a retrospective price reduction to a customer based primarily on inventory movement. These items give rise to variable consideration. The Company uses the expected value method to estimate the variable consideration because this method best predicts the amount of variable consideration to which the Company will be entitled. The Company uses historical evidence, current information and forecasts to estimate the variable consideration. The Company reduces revenue and recognizes a contract liability equal to the amount expected to be refunded to the customer in the form of a future rebate or credit for a retrospective price reduction, representing its obligation to return the customer's consideration. The estimate is updated at each reporting period date.

(ii) Valuation of inventory

Refer to Part II, Item 8, Note 3, "*Summary of Significant Accounting Policies*" for further details on our inventory cost policy. At the end of each reporting period, the Company performs an assessment of inventory and records write-downs for excess and obsolete inventories based on the Company's estimated forecast of product demand, production requirements, market conditions, regulatory environment, and spoilage. Actual inventory losses may differ from management's estimates and such differences could be material to the Company's statements of financial position, statements of loss and comprehensive loss and statements of cash flows. Changes in the regulatory structure, lack of retail distribution locations or lack of consumer demand could result in future inventory reserves.

(iii) Impairment of goodwill and indefinite-lived intangible assets

Goodwill and indefinite-lived intangible assets are tested for impairment annually, or more frequently when events or circumstances indicate that impairment may have occurred. As part of the impairment evaluation, we may elect to perform an assessment of qualitative factors. If this qualitative assessment indicates that it is more likely than not that the fair value of the indefinite-lived intangible asset or the reporting unit (for goodwill) is less than its carrying value, a quantitative impairment test to compare the fair value to the carrying value is performed. An impairment charge is recorded if the carrying value exceeds the fair value. The assessment of whether an indication of impairment exists is performed at the end of each reporting period and requires the application of judgment, historical experience, and external and internal sources of information. We make estimates in determining the future cash flows and discount rates in the quantitative impairment test to compare the fair value to the carrying value.

(iv) Stock-based compensation

We measure and recognize compensation expenses for stock options and restricted stock units ("RSUs") to employees, directors and consultants on a straight-line basis over the vesting period based on their grant date fair values. We estimate the fair value of stock options on the date of grant using the Black-Scholes option pricing model. The fair value of RSUs is based on the share price as at the date of grant. We estimate forfeitures at the time of grant and revise these estimates in subsequent periods if actual forfeitures differ from those estimates.

Determining the estimated fair value at the grant date requires judgment in determining the appropriate valuation model and assumptions, including the fair value of common shares on the grant date, risk-free rate, volatility rate, annual dividend yield and the expected term. Volatility is estimated by using the historical volatility of the accounting acquirer and, other companies that we consider comparable and have trading and volatility history.

(v) Business combinations and goodwill

We use judgement in applying the acquisition method of accounting for business combinations and estimates to value contingent consideration, identifiable assets and liabilities assumed at the acquisition date. Estimates are used to determine cash flow projections, including the period of future benefit, and future growth and discount rates, among other factors. The values allocated to the acquired assets and liabilities assumed affect the amount of goodwill recorded on acquisition. Fair value of assets acquired and liabilities assumed is typically estimated using an income approach, which is based on the present value of future discounted cash flows. Significant estimates in the discounted cash flow model include the discount rate, rate of future revenue growth and profitability of the acquired business and working capital effects. The discount rate considers the relevant risk associated with the business-specific characteristics and the uncertainty related to the ability to achieve projected cash flows. These estimates and the resulting valuations require significant judgment. Management engages third party experts to assist in the valuation of material acquisitions.

(vi) Convertible notes receivable

Convertible notes receivables include various investments in which the Company has the right, or potential right to convert the indenture into common stock shares of the investee and are classified as available-for-sale and are recorded at fair value. Unrealized gains and losses during the year, net of the related tax effect, are excluded from income and reflected in other comprehensive income (loss), and the cumulative effect is reported as a separate component of shareholders' equity until realized. We use judgement to assess convertible notes receivables for impairment at each measurement date. Convertible notes receivables are impaired when a decline in fair value is determined to be other-than-temporary. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, credit quality of debt instrument issuers, and the duration and extent to which the fair value is less than cost. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in the statements of loss and comprehensive loss and a new cost basis for the investment is established. We also evaluate whether there is a plan to sell the security, or it is more likely than not that we will be required to sell the security before recovery. If neither of the conditions exist, then only the portion of the impairment loss attributable to credit loss is recorded in the statements of net loss and the remaining amount is recorded in other comprehensive income (loss).

(vii) Warrants

Warrants are accounted for in accordance with applicable accounting guidance provided in ASC Topic 815, Derivatives and Hedging – Contracts in Entity's Own Equity ("ASC 815"), as either liabilities or as equity instruments depending on the specific terms of the warrant agreement. Our warrants are classified as liabilities and are recorded at fair value. The warrants are subject to re-measurement at each settlement date and at each balance sheet date and any change in fair value is recognized as a component of change in fair value of warrant liability in the statements of net loss and comprehensive loss. Transaction costs allocated to warrants that are presented as a liability are expensed immediately within transaction costs in the statements of net loss and comprehensive loss.

We estimate the fair value of the warrant liability using a Black-Scholes pricing model. We are required to make assumptions and estimates in determining an appropriate risk-free interest rate, volatility, term, dividend yield, discount due to exercise restrictions, and the fair value of common stock. Any significant adjustments to the unobservable inputs would have a direct impact on the fair value of the warrant liability.

(viii)Convertible debentures

The Company accounts for its convertible debentures in accordance with ASC 470-20 *Debt with Conversion and Other Options*, whereby the convertible instrument is initially accounted for as a single unit of account, unless it contains a derivative that must be bifurcated from the host contract in accordance with ASC 815-15 *Derivatives and Hedging – Embedded Derivatives* or the substantial premium model in ASC 470-20 *Debt – Debt with Conversion and Other Options* applies. Where the substantial premium model applies, the premium is recorded in additional paid-in capital. The resulting debt discount is amortized over the period during which the convertible notes are expected to be outstanding as additional non-cash interest expenses.

Upon repurchase of convertible debt instruments, ASC 470-20 requires the issuer to allocate total settlement consideration, inclusive of transaction costs, amongst the liability and equity components of the instrument based on the fair value of the liability component immediately prior to repurchase. The difference between the settlement consideration allocated to the liability component and the net carrying value of the liability component, including unamortized debt issuance costs, would be recognized as gain (loss) on extinguishment of debt in the statements of loss and comprehensive loss. The remaining settlement consideration allocated to the equity component would be recognized as a reduction of additional paid-in capital in the statements of financial position.

For convertible debentures with an embedded conversion feature that did not meet the equity scope exception from derivative accounting pursuant to ASC 815-15, the Company elected the fair value option under ASC 825 *Fair Value Measurements*. When the fair value option is elected, the convertible debenture is initially recognized at fair value on the statements of financial position and all subsequent changes in fair value, excluding the impact of the change in fair value related to instrument-specific credit risk are recorded in non-operating income (loss). The changes in fair value related to instrument-specific credit risk is recorded through other comprehensive income (loss). Transaction costs directly attributable to the issuance of the convertible debenture is immediately expensed in the statements of loss and comprehensive loss.

New Standards and Interpretations Applicable Effective June 1, 2022

Refer to Part II, Item 8, Note 3, *Significant Accounting Policies,* of this Form 10-K for additional information on changes in accounting policies. There have been no new standards or interpretations applicable to the Company during the year.

Liquidity and Capital Resources

We actively manage our cash and investments in order to internally fund operating needs, make scheduled interest and principal payments on our borrowings, and make acquisitions. On March 3, 2022, we entered into an at the market offering arrangement (the "ATM Program") pursuant to which we offered and sold our common stock having an aggregate offering price of up to $400 million. The ATM Program was intended to strengthen our balance sheet and improve our liquidity position and was utilized to offer and sell common stock having a total of $400 million. The Company fully completed its sales of shares under the ATM Program during the fiscal year. In addition, the Company issued additional convertible debentures payable (Note 17) to pay off certain existing convertible debentures. We believe that existing cash, cash equivalents, short-term investments and cash generated by operations, together with received proceeds from the ATM Program and access to external sources of funds, will be sufficient to meet our domestic and foreign capital needs for a short and long term outlook.

For the Company's short-term liquidity requirements, we are focused on generating positive cash flows from operations and being free cash flow positive. As a result of delays in legalization across multiple markets, management continues to reduce operations, headcount, as well as the elimination of other discretionary operational costs. Some of these actions may be less accretive to our Adjusted EBITDA in the short term, however we believe that they will be required for our liquidity aspirations in the near term future. Additionally, the Company continues to invest our excess cash in the short-term in marketable securities which are comprised of U.S. treasury bills and term deposits with major Canadian banks.

For the Company's long-term liquidity requirements, we will be focused on funding operations through profitable organic and inorganic growth through acquisitions. We may need to take on additional debt or equity financing arrangements in order to achieve these ambitions on a long-term basis.

The following table sets forth the major components of our statements of cash flows for the periods presented:

	For the Year ended May 31, 2023	2022	2021	Change 2023 vs. 2022		Change 2022 vs. 2021	
Net cash provided by (used in) operating activities	$ 7,906	$ (177,262)	$ (44,717)	$ 185,168	(104)%	$ (132,545)	296%
Net cash (used in) provided by investing activities	(285,111)	(21,533)	46,105	(263,578)	1,224%	(67,638)	(147)%
Net cash provided by financing activities	70,158	128,196	124,308	(58,038)	(45)%	3,888	3%
Effect on cash of foreign currency translation	(2,230)	(1,958)	2,124	(272)	14%	(4,082)	(192)%
Cash and cash equivalents, beginning of period	415,909	488,466	360,646	(72,557)	(15)%	127,820	(176)%
Cash and cash equivalents, end of period	$ 206,632	$ 415,909	$ 488,466	$ (209,277)	-50%	$ (72,557)	35%
Marketable securities	241,897	-	-	241,897	NM	-	NM
Cash and marketable securities	$ 448,529	$ 415,909	$ 488,466	$ 32,620	8%	$ (72,557)	(222)%

Cash flows from operating activities

The improvement in net cash provided by operating activities of $7.9 million during the year ended May 31, 2023, compared to the net cash used in operating activities of $177.3 million in the prior year same period is primarily related to improved operating efficiencies realized through our synergy and cost optimization programs, improved management of our working capital requirements, the $18.3 million of the cash collected from the HTI Share Consideration's purchase price derivative and the $33.0 million of cash received from the SLC Settlement.

Cash flows from investing activities

The increase in net cash used in investing activities to $285.1 million from $21.5 million in 2023 compared to 2022 changed primarily due to the $243.1 million purchase of marketable securities and the $26.7 million for our acquisition of Montauk Brewing Company.

Cash flows from financing activities

The decrease in cash provided by financing activities to $70.2 million from $128.2 million in 2023 compared to 2022 is primarily due to less funds received from the ATM financing completed in fiscal year 2023, and the early payment on the Company's convertible debentures of $187.4 million in fiscal year 2023 compared to $88.0 million in fiscal year 2022, offset by the convertible debt financing for $145.1 million completed in fiscal year 2023 that did not occur in fiscal year 2022.

Cash resources and working capital requirements

The Company constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations. As of May 31, 2023, the Company maintained $448.5 million of cash and cash equivalents on hand and marketable securities, compared to $415.9 million in cash and cash equivalents at May 31, 2022.

Working capital provides funds for the Company to meet its operational and capital requirements. As of May 31, 2023, the Company maintained working capital of $340.1 million. We historically financed our operations through the issuance of common stock, sale of convertible notes and revenue generating activities. While we believe we have sufficient cash to meet existing working capital requirements in the short term, we may need additional sources of capital and/or financing, to meet our U.S. growth ambitions, expansion of our international operations and other strategic transactions.

Contractual obligations

We lease various facilities, under non-cancelable operating leases, which expire at various dates through September 2040:

	Operating leases
2024	$ 4,106
2025	3,295
2026	3,486
2027	3,412
Thereafter	4,012
Total minimum lease payments	$ 18,311
Imputed interest	(7,952)
Obligations recognized	$ 10,359

Purchase and other commitments

The Company has payments for long-term debt, convertible debentures, material purchase commitments and constructions commitments, as follows:

	Total	2024	2025	2026	2027	Thereafter
Long-term debt repayment	$ 161,707	$ 24,080	$ 14,208	$ 41,798	$ 10,522	$ 71,099
Convertible notes payable	464,070	177,330	136,740	—	—	150,000
Material purchase obligations	24,468	18,726	5,140	602	—	—
Construction commitments	8,410	8,410	—	—	—	—
Total	$ 658,655	$ 228,546	$ 156,088	$ 42,400	$ 10,522	$ 221,099

Except as disclosed elsewhere in this Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, there have been no material changes with respect to the contractual obligations of the Company during the year-to-date period except for those related to the Company's acquisitions.

Contingencies

In the normal course of business, we may receive inquiries or become involved in legal disputes regarding various litigation matters. In the opinion of management, any potential liabilities resulting from such claims would not have a material adverse effect on our consolidated financial statements.

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

The Company has exposure to the following risks from its use of financial instruments: credit; liquidity; currency rate; and, interest rate price.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at May 31, 2023, is the carrying amount of cash and cash equivalents, accounts receivable, prepaids and other current assets and convertible notes receivable. All cash and cash equivalents are placed with major financial institutions in Canada, Australia, Portugal, Germany, Colombia, Argentina and the United States. To date, the Company has not experienced any losses on its cash deposits. Accounts receivable are unsecured, and the Company does not require collateral from its customers.

(b) Liquidity risk

As at May 31, 2023, the Company’s financial liabilities consist of bank indebtedness and accounts payable and accrued liabilities, which have contractual maturity dates within one-year, long-term debt, and convertible debentures which have contractual maturities over the next five years.

The Company maintains debt service charge and leverage covenants on certain loans secured by its Aphria Diamond facilities and 420 that are measured quarterly. The Company believes that it has sufficient operating room with respect to its financial covenants for the next fiscal year and does not anticipate being in breach of any of its financial covenants.

The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company’s working capital position at May 31, 2023, management regards liquidity risk to be low.

(c) Currency rate risk

As at May 31, 2023, a portion of the Company’s financial assets and liabilities held in Canadian dollars and Euros consist of cash and cash equivalents, convertible notes receivable, and long-term investments. The Company’s objective in managing its foreign currency risk is to minimize its net exposure to foreign currency cash flows by transacting, to the greatest extent possible, with third parties in the functional currency. The Company is exposed to currency rate risk in other comprehensive income, relating to foreign subsidiaries which operate in a foreign currency. The Company does not currently use foreign exchange contracts to hedge its exposure of its foreign currency cash flows as management has determined that this risk is not significant at this point in time.

(d) Interest rate price risk

The Company’s exposure to changes in interest rates relates primarily to the Company’s outstanding debt. The Company manages interest rate risk by restricting the type of investments and varying the terms of maturity and issuers of marketable securities. Varying the terms to maturity reduces the sensitivity of the portfolio to the impact of interest rate fluctuations.