

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

This Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Unaudited Condensed Interim Consolidated Financial Statements and the related Notes thereto for the period ended August 31, 2024 contained in this Quarterly Report on Form 10-Q and the Audited Consolidated Financial Statements and the related Notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended May 31, 2024, as well as in conjunction with the sections entitled “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended May 31, 2024 and in the section entitled “Item 1A. Risk Factors” in this Quarterly Report on Form 10-Q. Forward looking statements in this Form 10-Q are qualified by the cautionary statement included in this Form 10-Q under the sub-heading “Cautionary Note Regarding Forward-Looking Statements” in the introduction of this Form 10-Q.

Company Overview

Tilray Brands, Inc., a Delaware corporation (collectively, along with its subsidiaries, the “Company”, “Tilray”, “we”, “us” and “our”) is a leading global lifestyle consumer products company, which was incorporated on January 24, 2018 and is headquartered in Leamington and New York, with operations in Canada, the United States, Europe, Australia, New Zealand and Latin America that is leading as a transformative force at the nexus of cannabis, beverage, wellness, and entertainment, elevating lives through moments of connection. Tilray’s mission is to be a leading premium lifestyle company with a house of brands and innovative products that inspire joy, wellness and create memorable experiences.

Our overall strategy is to leverage our brands, infrastructure, expertise and capabilities to drive revenue growth in the industries in which we compete, achieve industry-leading, profitability 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 data analytics and consumer insights, drive category management leadership and assess opportunities for the introduction of new categories, products and entries into new geographies. In addition, we are relentlessly focused on managing our cost structure and expenses in order to maintain our strong financial position. Finally, our experienced leadership team provides a strong foundation to accelerate our growth. Our management team is complemented by experienced operators, cannabis industry experts, veteran beer and beverage industry leaders and leaders that are well-established in wellness foods, all of whom apply an innovative and consumer-centric approach to our businesses.

Trends and Other Factors Affecting Our Business

Beverage alcohol market trends:

The U.S. beverage alcohol category is approximately a \$180 billion category per AKI Technologies encompassing beer, wine, and spirits and continues to maintain annual growth of 2% amid shifting consumer trends, especially within the craft industry. Several key trends we expect to shape the near-term outlook in this segment, which primarily are in two main categories: beer and spirits:

- *Beverage Alcohol Distribution.* In furtherance of our strategic vision, we have reevaluated and initiated a refined craft beer strategy focused on enhancing our relevance within home markets on mission critical items. Through targeted efforts, we've bolstered our distribution footprint, gaining critical distribution on priority product offerings including, but not limited to, SweetWater 420, Montauk Wave Chaser and Seasonals, Shock Top Seasonals, and Ten Barrel Pub Beer, and Redhook Big Ballard IPA. This expansion has notably increased product availability, enabling us to effectively engage with a broader yet more targeted consumer base and drive sales growth.
- *Market share.* Despite continued challenges in the industry marked by a (4.7%) decline in the US Craft beer industry in our first quarter according to Circana, the Company's beer category has showcased resilience in our home markets. While our national performance aligned closely with that of the industry, our emphasis on regional market penetration yielded promising results. Notably, our brands demonstrated strong performance in their respective regional strongholds, showcasing market share gains with Redhook product gains across the Pacific Northwest, Ten Barrel products gaining on the West Coast, SweetWater 420 gaining share in Florida, and Montauk Wave Chaser IPA continuing to gain share in New York.
- *Innovation.* Recognizing the evolving consumer landscape and the burgeoning demand for alternative beverage options, we have prioritized innovation and portfolio diversification. Our recent endeavors include expanding into Non-Alcoholic beverages, water through our Liquid Love brand, flavored malt beverages, and Energy drinks. These strategic innovations underscore our commitment to offering high-quality options across diverse beverage categories, positioning us for sustained growth and differentiation in the competitive beverage alcohol segment.
- *Brew Pubs.* Following our recent Craft Acquisition on September 29, 2023, we operate 20 brew pubs including our Breckenridge Distillery restaurant in geographic regions across the U.S. that are in close proximity to the production of our craft brands. An important part of our strategic plan for our beverage alcohol operations centers on Brew Pubs to promote and showcase the distinct, regional positioning of our craft beer brands and enhance brand recognition to help drive revenue growth. We believe that our brew pub strategy allows us to curate unique small batch product offerings in targeted test markets to help drive effective product innovation.

In the spirits category, Breckenridge Distillery stands out as a beacon within the bourbon industry, making notable strides in vodka and gin markets while offering a comprehensive hospitality experience through its world-class restaurant and retail location. Our primary growth objective centers on expanding market share across the United States. To fuel future expansion, we prioritize showcasing our exceptional product quality and introducing innovative new offerings. Recent accolades, including Double Gold awards at prestigious competitions such as Port Cask Finish being named World's best finished Bourbon at the 2024 World Whiskies Awards and strategic product placements, we believe underscore our brand's growing recognition and appeal. Despite prevailing challenges within the overall spirits market, our focus on whiskey—a resilient segment—we believe positions us for continued growth fueled by innovative product introductions and expanded market presence.

Canadian cannabis market trends:

The cannabis industry in Canada continues to evolve given how nascent the industry is with federal legalization of adult-use cannabis occurring just over five years ago. Through analysis of the current market conditions, the following key trends have emerged and are anticipated to influence the near-term future in the Canadian cannabis industry:

- *Market share.* Tilray continues to maintain its market leadership position in Canada. However, during the quarter, we experienced a marginal dip in market share in Canada from 10.4% to 9.8% from the immediately preceding quarter, as reported by Hifyre data for all provinces excluding Quebec where Weederawler was deemed more accurate. The current period decrease in market share reflects our efforts to preserve margin despite continued price compression that our competitors are perpetuating.
- *Price compression.* Historical price compression is expected to persist in the market, intensified by fierce competition among the approximately 1,000 Licensed Producers in Canada. The fixed impact of excise per gram, notwithstanding the decline in average selling prices, further compounds these challenges, prompting ongoing industry lobbying efforts.

Current developments related to the Excise Tax Act:

It has recently been reported that Canada Revenue Agency (CRA) has taken steps to garnish payments due to Canadian Licensed Producers (LPs), who have failed to pay their Excise Tax in full in a timely manner. The reported garnishments by CRA were quickly followed by LPs filing for insolvency protection. We view CRA's proactiveness on account collection as a positive step towards the consolidation of the Canadian cannabis industry. This proactiveness in creating cash flow pressure for those LPs that were behind on Excise Taxes increases the risk of future insolvencies in the LP market. As at the date of this filing we are current with CRA on Excise Taxes owed by all of our Canadian entities that are required to pay Excise Taxes.

International cannabis market updates:

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 (Germany, Netherlands and Switzerland) and some are debating regulations for cannabinoid-based medicine (France and Spain). 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. This is evidenced by the recently adopted cannabis regulations in Germany, which we believe will serve as a catalyst for continued changes in drug policy throughout Europe. We also continue to believe that Tilray remains uniquely positioned to maintain and gain significant market share in these markets with our vertically-integrated infrastructure and well-placed investments, which is comprised of two EU-GMP cultivation facilities within Europe located in Portugal and Germany, our distribution network and our demonstrated commitment and expertise related to the availability, quality and safety of our cannabinoid-based medical products.

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

Germany. Today, Germany remains the largest medical cannabis market in Europe.

Subsequent to the end of our third quarter, the Cannabis Act, consisting of two parts, the CanG and MedCanG, passed both chambers of the German parliament, was signed into law by the Office of the Federal President and decriminalization and MedCanG portions of the Cannabis Act became effective on April 1, 2024. The

licensing process for the cannabis social clubs commenced on July 1, 2024 and is expected to provide first legal supply of adult-use cannabis outside of home-growing between November and January 2025. As of October 1, 2024, 16 licenses were issued out of 315 applications.

The MedCanG provides for several important medical cannabis reforms including the abolishment of the tender for domestic production, which has been replaced with a regular licensing scheme under the authority of the Federal Institute for Drugs and Medical Devices (the “BfArM”) as well as for the reclassification of medical cannabis from a narcotic to non-narcotic, with Tilray receiving the first one. Three licenses for domestic cultivation have been issued, of which Tilray holds one. The foreseen enhanced accessibility to medical cannabis due to non-narcotic prescriptions has had the desired effect. The prescription numbers have risen since April 1, 2024.

Due to the short remainder of the legislative term until September 2025, we expect a regulatory solution for the framework of the Pillar Two Regulations (“model projects”) via two administrative ordinances. One – of which the draft version is known – is to be transferred from the Ministry of Health into the Ministry of Food and Agriculture. A second one will likely define the framework of the model projects. Both are expected after the parliamentary approval of the federal budget in late November 2024.

We continue to believe that Tilray is well-positioned in Germany, especially considering the enactment of MedCanG and given that we are one of only three manufacturers of medical cannabis in Germany as our wholly owned subsidiary, Aphria RX, was awarded the first license for the cultivation of medical cannabis in Germany by the BfArM under the liberalized regime. Said license will improve our ability to meet the needs of patients and provide cannabis of the utmost quality and enhanced availability to a broader market.

Switzerland. In October 2021, Switzerland announced its intention to legalize cannabis by allowing production, cultivation, trade, and consumption, and in the meantime, it is commencing pilot projects in various cities, which permits selected participants to purchase cannabis for adult-use in various pharmacies in order 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. Switzerland is currently running trials in the cities of Lausanne, Zürich, Liestal, Allschwil, Bern, Bienne, and Lucerne, along with the cantons of Basel-Stadt and Geneva. A new pilot study in the district of canton Zürich has commenced, making it four model projects in total.

Spain. In February 2024, Spain’s Ministry of Health announced that it had started the process to develop a Royal Decree with which it plans to approve the regulation of medical cannabis. In addition, it launched a public consultation on its proposals for a medical cannabis framework in the country and provided organizations and individual with the opportunity to submit their comments. This process is ongoing.

France. France launched a two-year pilot experiment to supply approximately 3,000 patients with medical cannabis. To date, over 2,500 patients are enrolled in the experiment, which has been extended for another year and was targeted to end March 2024. Patients who have taken part in the pilot before March 27, 2024, can continue their treatment as previously, but no new patients will be allowed to join the pilot. In October 2023, the government proposed an amendment to the Social Security Financing Bill (PLFSS) adding medical cannabis law to France’s general medical framework. Under the new proposals, medical cannabis products will be granted a “temporary authorization” for five years, with a possibility of indefinite renewals. In addition, the French National Medicines Safety Agency (ANSM) recently confirmed that cannabis flower will not be included in its generalized medical marijuana program.

Czech Republic. The Czech Republic has discussed plans to launch a fully regulated adult-use cannabis market. It is understood that there are two separate versions of a bill to legalize adult-use cannabis, one with a fully regulated commercial market and one without. These are expected to be submitted to the Czech government to determine which model it will pursue.

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.

Netherlands. The Netherlands launched a pilot program involving the cultivation of cannabis for adult-use. The purpose of the experiment is to determine whether and how controlled cannabis can be legally supplied to coffeeshops and what the effects of this would be. During the experiment, legally produced cannabis will be sold in coffeeshops in 10 municipalities. Coffeeshops in these municipalities may only sell legally produced cannabis. The term of the experiment is set for four years. On March 5, 2024, the Tweede Kamer, the lower house of Parliament, rejected the bill that aimed to include Amsterdam in the pilot project.

Ukraine. In February 2024, President Zelensky signed the legislation permitting the prescription of cannabis-based medicines for conditions including pain, cancer and PTSD. The distribution of cannabis for recreational purposes is still prohibited, and the government will strictly control the sale and distribution of medical cannabis. Only patients with a prescription from a doctor are able to buy the drug legally, mainly related to the indication of PTSD.

Wellness market trends:

Manitoba Harvest's US branded business grew 5.2% in Multi-Outlet consumption during the three months ended August 31, 2024 from the prior year period, further establishing its leading market share position with the brand's top five customers all seeing growth. The Company continues to focus on value-added innovation within the wellness space with the acquisition of The Humble Seed, a seed-forward cracker company with snacking distribution in key US retailers, along with the launch of two new flavors of BioActive Fiber within the current quarter.

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 and restructuring 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 three months ended August 31, 2024, we incurred \$1.2 million of transaction expenses, discussed further below.

Effective September 1, 2024, Tilray acquired a portfolio of four craft brands and breweries comprised of Atwater Brewery, Hop Valley Brewing Company, Terrapin Beer Co., and Revolver Brewing from Molson, see Note 27 (Subsequent Events). We expect that this recent acquisition furthers the execution of our beverage strategy and will have positive impacts on our beverage segment leading to increased revenues and whitespace penetration.

Political and Economic Environment

Our results of operations may be affected by economic, political, legislative, regulatory, legal actions, the global volatility and general market disruption resulting from geopolitical tensions, such as Russia's incursion into Ukraine and the ongoing events in the Middle East. Economic conditions, such as recessionary trends, inflation, supply chain disruptions, interest and monetary exchange rates, and government fiscal policies, and the recent banking credit crises can have a significant effect on operations. Accordingly, we could be affected by civil, criminal, environmental, regulatory or administrative actions, claims or proceedings.

Results of Operations

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

(in thousands of U.S. dollars)	For the three months ended		Change 2024 vs. 2023	% Change
	August 31, 2024	August 31, 2023		
Net revenue	\$ 200,044	\$ 176,949	\$ 23,095	13%
Cost of goods sold	140,338	132,753	7,585	6%
Gross profit	59,706	44,196	15,510	35%
Operating expenses:				
General and administrative	44,113	40,516	3,597	9%
Selling	11,690	6,859	4,831	70%
Amortization	21,804	22,225	(421)	(2)%
Marketing and promotion	11,566	8,535	3,031	36%
Research and development	105	79	26	33%
Change in fair value of contingent consideration	—	(11,107)	11,107	(100)%
Litigation costs, net of recoveries	1,595	2,034	(439)	(22)%
Restructuring costs	4,247	915	3,332	364%
Transaction costs (income), net	1,156	8,502	(7,346)	(86)%
Total operating expenses	96,276	78,558	17,718	23%
Operating loss	(36,570)	(34,362)	(2,208)	6%
Interest expense, net	(9,842)	(9,835)	(7)	0%
Non-operating (expense) income, net	12,646	(4,402)	17,048	(387)%
Loss before income taxes	(33,766)	(48,599)	14,833	(31)%
Income tax expense, net	886	7,264	(6,378)	(88)%
Net loss	\$ (34,652)	\$ (55,863)	\$ 21,211	(38)%

Use of Non-GAAP Measures

Throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report on Form 10-Q, we discuss non-GAAP financial measures, including reference to:

- adjusted gross profit (excluding purchase price accounting ("PPA") fair value step up) for each reporting segment (Cannabis, Beverage alcohol, Distribution and Wellness) as applicable,
- adjusted gross margin (excluding PPA fair value step up) for each reporting segment (Cannabis, Beverage alcohol, Distribution and Wellness) as applicable,
- 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, which may be different than similarly titled measures used by other companies, are presented to help investors' overall understanding of our financial performance and should not be considered a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. Please see "Reconciliation of Non-GAAP Financial Measures to GAAP Measures" below for 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 and 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 combining these three GAAP metrics.

Operating Metrics and Non-GAAP Measures

We use the operating metrics and non-GAAP measures set forth in the table below 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 operating metrics and non-GAAP measures with similar names differently which may reduce their usefulness as comparative measures. Certain variances are labeled as not meaningful ("NM") throughout management's discussion and analysis.

(in thousands of U.S. dollars)	For the three months ended	
	August 31, 2024	August 31, 2023
Net beverage alcohol revenue	\$ 55,972	\$ 24,162
Net cannabis revenue	61,249	70,333
Distribution revenue	68,071	69,157
Wellness revenue	14,752	13,297
Beverage alcohol costs	33,050	11,266
Cannabis costs	37,054	50,517
Distribution costs	60,138	61,468
Wellness costs	10,096	9,502
Adjusted gross profit (excluding PPA step-up) (1)	59,881	49,302
Beverage alcohol adjusted gross margin (excluding PPA step-up) (1)	41%	56%
Cannabis adjusted gross margin (excluding PPA step-up) (1)	40%	35%
Distribution gross margin	12%	11%
Wellness gross margin	32%	29%
Adjusted EBITDA (1)	\$ 9,334	\$ 10,734
Cash and marketable securities (1) as at the period ended:	280,055	466,465
Working capital as at the period ended:	\$ 432,334	\$ 291,981

(1) Adjusted EBITDA, adjusted gross profit (excluding PPA step-up) and adjusted gross margin (excluding PPA step-up) for each of our segments, and cash and marketable securities are non-GAAP financial measures. See "Use of Non-GAAP Measures" above for a discussion of these Non-GAAP measures and "Reconciliation of Non-GAAP Financial Measures to GAAP Measures" below for a reconciliation of these Non-GAAP Measures to our most comparable GAAP measure and the discussion above captioned "Cash and Marketable Securities."

Segment Reporting

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

(in thousands of U.S. dollars)	For the three months ended			
	August 31, 2024	August 31, 2023	Change 2024 vs. 2023	% Change
Beverage alcohol business	\$ 55,972	\$ 24,162	\$ 31,810	132%
Cannabis business	61,249	70,333	(9,084)	(13)%
Distribution business	68,071	69,157	(1,086)	(2)%
Wellness business	14,752	13,297	1,455	11%
Total net revenue	\$ 200,044	\$ 176,949	\$ 23,095	13%

Our reporting segment revenue on a constant currency⁽¹⁾ basis is as follows:

(in thousands of U.S. dollars)	For the three months ended		Change	% Change
	August 31, as reported in constant currency 2024	August 31, 2023		
Beverage alcohol business	\$ 55,972	\$ 24,162	\$ 31,810	132%
Cannabis business	62,792	70,333	(7,541)	(11)%
Distribution business	70,396	69,157	1,239	2%
Wellness business	14,940	13,297	1,643	12%
Total net revenue	\$ 204,100	\$ 176,949	\$ 27,151	15%

Our geographic revenue is as follows:

(in thousands of U.S. dollars)	For the three months ended		Change	% Change
	August 31, 2024	August 31, 2023		
USA	\$ 63,880	\$ 31,489	\$ 32,391	103%
Canada	55,905	62,032	(6,127)	(10)%
EMEA	77,672	79,704	(2,032)	(3)%
Rest of World	2,587	3,724	(1,137)	(31)%
Total net revenue	\$ 200,044	\$ 176,949	\$ 23,095	13%

Our geographic revenue on a constant currency⁽¹⁾ basis is as follows:

(in thousands of U.S. dollars)	For the three months ended		Change	% Change
	August 31, as reported in constant currency 2024	August 31, 2023		
USA	\$ 63,880	\$ 31,489	\$ 32,391	103%
Canada	57,436	62,032	(4,596)	(7)%
EMEA	77,429	79,704	(2,275)	(3)%
Rest of World	5,355	3,724	1,631	44%
Total net revenue	\$ 204,100	\$ 176,949	\$ 27,151	15%

Our geographic capital assets are as follows:

(in thousands of U.S. dollars)	August 31,	May 31,	Change	% Change
	2024	2024		
USA	\$ 140,900	\$ 141,314	\$ (414)	(0)%
Canada	312,432	313,359	(927)	(0)%
EMEA	98,433	99,921	(1,488)	(1)%
Rest of World	3,371	3,653	(282)	(8)%
Total capital assets	\$ 555,136	\$ 558,247	\$ (3,111)	(1)%

Beverage alcohol revenue

Revenue from our Beverage alcohol operations increased to \$56.0 million for the three months ended August 31, 2024, compared to revenue of \$24.2 million for the prior year period. The increase during the period was predominantly attributed to our recent Craft Acquisition completed on September 29, 2023 and, thus, was not reflected in the prior year comparison. Specifically, the increase was largely driven by the performance of the newly acquired brands, while our legacy brands have maintained consistent performance throughout the period.

Cannabis revenue

Cannabis revenue based on market channel was as follows:

(in thousands of US dollars)	For the three months ended		Change	% Change
	August 31, 2024	August 31, 2023		
Revenue from Canadian medical cannabis	\$ 6,261	\$ 6,142	\$ 119	2%
Revenue from Canadian adult-use cannabis	57,235	71,195	(13,960)	(20)%
Revenue from wholesale cannabis	5,507	5,295	212	4%
Revenue from international cannabis	12,191	14,252	(2,061)	(14)%
Total cannabis revenue	81,194	96,884	(15,690)	(16)%
Excise taxes	(19,945)	(26,551)	6,606	(25)%
Total cannabis net revenue	\$ 61,249	\$ 70,333	\$ (9,084)	(13)%

Cannabis revenue based on market channel on a constant currency⁽¹⁾ basis was as follows:

(in thousands of US dollars)	For the three months ended		Change	% Change
	August 31, as reported in constant currency 2024	August 31, 2023		
Revenue from Canadian medical cannabis	\$ 6,432	\$ 6,142	\$ 290	5%
Revenue from Canadian adult-use cannabis	58,806	71,195	(12,389)	(17)%
Revenue from wholesale cannabis	5,658	5,295	363	7%
Revenue from international cannabis	12,388	14,252	(1,864)	(13)%
Total cannabis revenue	83,284	96,884	(13,600)	(14)%
Excise taxes	(20,492)	(26,551)	6,059	(23)%
Total cannabis net revenue	\$ 62,792	\$ 70,333	\$ (7,541)	(11)%

(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 Canadian medical cannabis: Revenue from Canadian medical cannabis increased to \$6.3 million for the three months ended August 31, 2024 compared to revenue of \$6.1 million for the prior year period. On a constant currency basis, revenue from Canadian medical cannabis was \$6.4 million for the three months ended August 31, 2024 compared to revenue of \$6.1 million for the prior year period. This increase in revenue from medical cannabis was primarily driven by growth in the insured patient category exceeding the decline in un-insured patient attrition to the adult-use recreational market.

Revenue from Canadian adult-use cannabis: During the three months ended August 31, 2024, our revenue from Canadian adult-use cannabis decreased to \$57.2 million, compared to revenue of \$71.2 million for the prior year period. Revenue in the prior year period included \$1.5 million in advisory fees which did not repeat during the three months ended August 31, 2024. On a constant currency basis, our revenue from Canadian adult-use cannabis decreased to \$58.8 million for the three months ended August 31, 2024. The decrease in adult-use revenue was driven by our renewed focus on preserving gross margin and maintaining a higher average selling price in categories that have experienced a high degree of price compression.

Wholesale cannabis revenue: Revenue from wholesale cannabis increased to \$5.5 million for the three months ended August 31, 2024 compared to revenue of \$5.3 million for the prior year period. On a constant currency basis, revenue from wholesale cannabis increased to \$5.7 million for the three months ended August 31, 2024 compared to revenue of \$5.3 million for the prior year period. Due to the transition to asset-light business models, the Canadian cannabis industry has experienced a reduction in excess inventory resulting in price increases in the B2B market. This shift in market dynamics and demand enabled us to strategically sell inventory that was sought after in the wholesale market during the quarter but does not meet the high standard of our branded product. In the near-term future, we anticipate continued volatility and fluctuation in the wholesale market, and we will assess market conditions on a quarterly basis.

International cannabis revenue: Revenue from international cannabis decreased to \$12.2 million for the three months ended August 31, 2024 compared to revenue of \$14.3 million for the prior year period. On a constant currency basis, given the changes in the Euro against the U.S. Dollar when compared to the prior year quarter, revenue from international cannabis was \$12.4 million compared to \$14.3 million in the prior year period. The decrease in the period was driven in part by the extended time periods to receive import and export permits in Europe, which resulted in variability on a quarterly basis and, to a larger extent, lower revenue in Australia driven by certain regulatory actions on certain prescribers.

Distribution revenue

Revenue from distribution decreased to \$68.1 million for the three months ended August 31, 2024, compared to revenue of \$69.2 million for the prior year period. On a constant currency basis, given the change in the Euro and Argentine Peso against the U.S. Dollar in the quarter, revenue from Distribution increased to \$70.4 million for the three months ended August 31, 2024 compared to \$69.2 million for the prior year period. The decrease in revenue was attributed to the effects of foreign exchange.

Wellness revenue

Our Wellness revenue showed strong growth delivering \$14.8 million for the three months ended August 31, 2024 compared to \$13.3 million from the prior year period. On a constant currency basis for the three months ended August 31, 2024, Wellness revenue increased to \$14.9 million from \$13.3 million. The increase in revenue was primarily attributed to our strategic focus on continued innovations and strong organic growth within our branded hemp business related to higher consumption.

Gross profit, gross margin and adjusted gross margin⁽¹⁾ for our reporting segments

Our gross profit and gross margin for the three months ended August 31, 2024 and August 31, 2023, was as follows:

(in thousands of U.S. dollars)	For the three months ended		Change 2024 vs. 2023	% Change
	August 31, 2024	August 31, 2023		
Beverage alcohol				
Net revenue	\$ 55,972	\$ 24,162	\$ 31,810	132%
Cost of goods sold	33,050	11,266	21,784	193%
Gross profit	22,922	12,896	10,026	78%
Gross margin	41%	53%	(12)%	(23)%
Purchase price accounting step-up	175	590	(415)	(70)%
Adjusted gross profit (1)	23,097	13,486	9,611	71%
Adjusted gross margin (1)	41%	56%	(15)%	(27)%
Cannabis				
Net revenue	61,249	70,333	(9,084)	(13)%
Cost of goods sold	37,054	50,517	(13,463)	(27)%
Gross profit	24,195	19,816	4,379	22%
Gross margin	40%	28%	12%	43%
Purchase price accounting step-up	—	4,516	(4,516)	(100)%
Adjusted gross profit (1)	24,195	24,332	(137)	(1)%
Adjusted gross margin (1)	40%	35%	5%	14%
Distribution				
Net revenue	68,071	69,157	(1,086)	(2)%
Cost of goods sold	60,138	61,468	(1,330)	(2)%
Gross profit	7,933	7,689	244	3%
Gross margin	12%	11%	1%	9%
Wellness				
Net revenue	14,752	13,297	1,455	11%
Cost of goods sold	10,096	9,502	594	6%
Gross profit	4,656	3,795	861	23%
Gross margin	32%	29%	3%	10%
Total				
Net revenue	200,044	176,949	23,095	13%
Cost of goods sold	140,338	132,753	7,585	6%
Gross profit	59,706	44,196	15,510	35%
Gross margin	30%	25%	5%	20%
Purchase price accounting step-up	175	5,106	(4,931)	(97)%
Adjusted gross profit (1)	59,881	49,302	10,579	21%
Adjusted gross margin (1)	30%	28%	2%	7%

(1) Adjusted gross profit is our Gross profit (adjusted to exclude purchase price accounting valuation step-up) and adjusted gross margin is our Gross margin (adjusted to exclude purchase price accounting valuation step-up) and are non-GAAP financial measures. See “Use of Non-GAAP Measures” above 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.

Beverage alcohol gross margin: Gross margin of 41% for the three months ended August 31, 2024 decreased from 53% in the prior year period. Adjusted gross margin of 41% for the three months ended August 31, 2024 decreased from 56% in the prior year period. The decrease in the adjusted beverage alcohol gross margin during the three months ended August 31, 2024 was a result of the newly acquired brands in our Craft Acquisition, which have lower margins than our historical business. We are continuing to manage the temporary excess capacity within the acquired breweries, which have already begun seeing optimization and enhanced utilization as well as favorable sales mix. As a result of the seasonality of our beverage business, our third quarter ended February 29, 2024 is our most comparable period reflecting the newly acquired craft brands, to which we improved gross margin by 300 basis points for the aforementioned reasons.

Cannabis gross margin: Gross margin increased during the three months ended August 31, 2024 to 40% from 28% in the prior year period. Excluding the impact of the non-cash fair value purchase price accounting step-up, adjusted gross margin during the three months ended August 31, 2024 increased to 40% from 35% in the prior year period. The increase in the adjusted gross margin for the three months ended August 31, 2024 was driven by our international cannabis revenue as well as a continued focus on maintaining a higher average selling price and selling a favorable product mix to improve gross margins in Canada. Additionally, the prior year period also included \$1.5 million of HEXO advisory services revenue, which did not recur in the current year period.

Distribution gross margin: Gross margin increased to 12% for the three months ended August 31, 2024 from 11% for the prior year period, which was attributed to favorable product mix as we continued to prioritize higher margin product offerings.

Wellness gross margin: Gross margin increased to 32% for the three months ended August 31, 2024 from 29% from the prior year period. The increase in the three month period was a result of strong operational efficiency, combined with a change in sales mix towards higher margin product offering.

Operating expenses

(in thousands of US dollars)	For the three months ended		Change	% Change
	August 31, 2024	August 31, 2023		
General and administrative	\$ 44,113	\$ 40,516	\$ 3,597	9%
Selling	11,690	6,859	4,831	70%
Amortization	21,804	22,225	(421)	(2)%
Marketing and promotion	11,566	8,535	3,031	36%
Research and development	105	79	26	33%
Change in fair value of contingent consideration	—	(11,107)	11,107	(100)%
Litigation costs, net of recoveries	1,595	2,034	(439)	(22)%
Restructuring costs	4,247	915	3,332	364%
Transaction costs (income), net	1,156	8,502	(7,346)	(86)%
Total operating expenses	<u>\$ 96,276</u>	<u>\$ 78,558</u>	<u>\$ 17,718</u>	<u>23%</u>

Operating expenses are comprised of general and administrative, selling, amortization, marketing and promotion, research and development, change in fair value of contingent consideration, other than temporary change in fair value of convertible notes receivable, litigation costs, net of recoveries, restructuring costs and transaction (income) costs, net. These costs increased by \$17.7 million to \$96.3 million for the three months ended August 31, 2024 as compared to \$78.6 million for the prior year period. These changes period over period are described below.

General and administrative costs

During the three months ended August 31, 2024, the changes in general and administrative costs when compared to the prior year period are as follows:

(in thousands of US dollars)	For the three months ended		Change	% Change
	August 31, 2024	August 31, 2023		
Salaries and wages	\$ 21,567	\$ 16,775	\$ 4,792	29%
Office and general	9,260	8,168	1,092	13%
Stock-based compensation	6,917	8,257	(1,340)	(16)%
Insurance	2,455	3,849	(1,394)	(36)%
Professional fees	1,178	1,499	(321)	(21)%
(Gain) loss on sale of capital assets	(26)	3	(29)	(967)%
Travel and accommodation	1,493	1,107	386	35%
Rent	1,269	858	411	48%
Total general and administrative costs	<u>\$ 44,113</u>	<u>\$ 40,516</u>	<u>\$ 3,597</u>	<u>9%</u>

Salaries and wages increased by 29% during the three months ended August 31, 2024. The increase was primarily due to the inclusion of newly acquired craft beverage portfolio, which were not in the prior year period.

Office and general increased by 13% during the three months ended August 31, 2024. This increase was driven by the acquisition of the newly acquired craft beverage portfolio.

The Company recognized stock-based compensation expense of \$6.9 million for the three months ended August 31, 2024 compared to \$8.3 million for the prior year period. Stock based compensation expense is based on the time-based vesting schedules and varies according to the assumptions used in the vesting model. During the three months ended August 31, 2024, as a result of previously issued stock options, restricted stock units (“RSUs”) and stock appreciation rights (“SARs”) under Tilray 2018 Equity Incentive Plan and Original Plan, as described in the Annual Report on the May 31, 2024 Form 10-K, that have fully vested, stock-based compensation decreased period over period.

Insurance expense decreased by 36% for the three months ended August 31, 2024 to \$2.5 million from \$3.8 million for the prior year period. The decrease for the three months ended August 31, 2024 was driven by lower premiums, offset by the additional policies required for our newly acquired beverage alcohol business portfolio.

Rent expense increased by 48% for the three months ended August 31, 2024 to \$1.3 million from \$0.9 million for the prior year period. This increase was driven by the acquisition of the newly acquired beverage alcohol business portfolio.

Selling costs

For the three months ended August 31, 2024, the Company incurred selling costs of \$11.7 million and or 5.8% of net revenue as compared to \$6.9 million and 3.9% of net revenue in the prior year period. These costs relate to third-party shipping costs for all segments, with the majority of the selling costs relating to distributor commission incurred by the cannabis segment, Health Canada cannabis fees, and patient acquisition and maintenance costs. Patient acquisition and ongoing patient maintenance costs including funding to individual clinics to assist with additional costs incurred by such clinics for the education of patients using the Company’s products. The three month increase for the period ended August 31, 2024 is predominately due to the acquisition of the newly acquired craft beverage portfolio, which did not occur in the prior year period. Additionally, in the period ended August 31, 2023, the Company received a refund of \$1.2 million on cannabis selling fees related to an amended fee calculation.

Amortization

The Company incurred non-production related amortization charges of \$21.8 million for the three months ended August 31, 2024 compared to \$22.2 million in the prior year period. The three month decrease was driven by the assets acquired from craft beverage acquisition, offset by the assets that are held for sale and are no longer depreciated, see Note 3 (Capital assets).

Marketing and promotion costs

For the three months ended August 31, 2024, the Company incurred marketing and promotion costs of \$11.6 million as compared to \$8.5 million for the prior year period, which is due to the acquisition of the newly acquired craft beverage portfolio and quarterly variability in discretionary marketing.

Research and development

Research and development costs were \$0.1 million during the three months ended August 31, 2024 compared to \$0.1 million in the prior year period. These relate to external costs associated with the development of new products.

Change in fair value of contingent consideration

The Company measures contingent consideration at fair value classified as Level 3, as discussed in Note 25 (Fair value measurements). During the three months ended August 31, 2024, the Company recognized \$nil change in fair value of contingent consideration as there were no changes to the likelihood achievement for Montauk Brewing compared to a loss of \$11.1 million in the prior year period for the contingent consideration from the SweetWater acquisition as a result of not achieving the earnout targets.

Litigation

For the three months ended August 31, 2024, the Company recorded \$1.6 million of litigation settlements costs and third-party fees incurred in defending these claims, net of favorable recoveries. This quarterly amount in 2024 decreased compared to \$2.0 million for the period ended August, 31 2023. The decrease is related to period-to-period variability as litigation costs and expenses are non-recurring in nature.

Restructuring costs

In connection with the execution of our acquisition strategy and strategic transactions, the Company has incurred non-recurring restructuring and exit costs associated with the integration efforts of these transactions. For the three months ended August 31, 2024, the Company incurred \$4.2 million of restructuring costs compared to \$0.9 million for the prior year period.

Within the Cannabis segment, restructuring costs predominantly related to the HEXO acquisition-related charges, which are expected to take place within 24 months from the acquisition date. In the three months ended August 31, 2024 we recognized \$2.6 million of employee termination benefits and costs for the conversion from cannabis to produce at HEXO's Quebec cultivation facility (which is currently held for sale), the optimization of our Redecan facilities and \$0.3 million of restructuring charges related to the remaining costs of exiting the Truss facility following its sale to a third party in the previous fiscal year ended May 31, 2024. Additionally, the Company recognized \$0.1 million of cost associated with winding down the Fort Collins, CO warehouse currently held for sale.

Within the Beverage alcohol segment, the Company recognized \$0.1 million of employee termination benefits through the integration of the Craft acquisition.

Within the Distribution segment, the Company recognized \$0.1 million of restructuring charges for its Argentinean pharmacy business.

Lastly, for the three months ended August 31, 2024, the Company recognized \$1.1 million of cost associated with the investment held in Superhero (SH) as a result of MedMen's ongoing restructuring or liquidation undertakings.

Transaction (income) costs, net

Transaction (income) costs net, which includes acquisition related income and expenses, related legal, financial advisor and due diligence cost and expenses and transaction related compensation. The three months ended August 31, 2024 decrease of 86% from the prior year period was a result of the HEXO and Truss acquisitions taking place in the previous year which did not recur. The expenses incurred in the current period largely related the acquisition of the four craft beer brands and breweries from Molson that was completed subsequent to the quarter end, see Note 27 (Subsequent Events).

Non-operating (expense) income, net

Non-operating (expense), net income was comprised of:

(in thousands of US dollars)	For the three months ended		Change 2024 vs. 2023	% Change
	August 31, 2024	August 31, 2023		
Change in fair value of convertible debenture payable	\$ —	\$ (2,147)	\$ 2,147	(100)%
Change in fair value of warrant liability	696	(8,198)	8,894	(108)%
Foreign exchange gain (loss)	11,881	6,267	5,614	90%
Loss on long-term investments	(39)	(109)	70	(64)%
Other non-operating (losses) gains, net	108	(215)	323	(150)%
Total non-operating income (expense)	<u>\$ 12,646</u>	<u>\$ (4,402)</u>	<u>\$ 17,048</u>	<u>(387)%</u>

For the three months ended August 31, 2024, the Company recognized a change in fair value of its convertible debentures payable of \$nil million compared to (\$2.1) million in the prior year period. The change was driven primarily by the settlement of APHA 24 convertible debenture upon maturity. Additionally, for the three months ended August 31, 2024, the Company recognized a change in fair value of its warrants, resulting in a gain of \$0.7 million compared to a loss of (\$8.2) million as a result of the change in our share price and the exercise price of the instrument. For the three months ended August 31, 2024, the Company recognized a gain of \$11.9 million resulting from the changes in foreign exchange rates during the period compared a gain of \$6.3 million for the prior year period.

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/net income before income taxes, net interest expense, depreciation and amortization, equity in net loss of equity-method investees, purchase price accounting step-up on inventory, stock-based compensation, impairments, other than temporary change in fair value of convertible notes receivable, restructuring costs, transaction (income) costs net, litigation costs net of recoveries, change in fair value of contingent consideration, unrealized currency gains and losses and other adjustments.

We believe that this presentation provides useful information to management, analysts and investors regarding certain additional financial and business trends relating to its results of operations and financial condition. In addition, management uses this measure for reviewing the financial results of the Company and as a component of performance-based executive compensation.

Historically, we have included lease expenses for leases that were treated differently under IFRS 16 and ASC 842 Leases in the calculation of adjusted EBITDA, aiming to align our definition with industry peers reporting under IFRS. The decision to include these lease expenses in the Company's definition of adjusted EBITDA was based on our efforts to maintain comparability with peers. However, as the Company has continued to diversify, particularly with strategic acquisitions such as the newly acquired beverage alcohol business portfolio, this comparison is no longer relevant, accordingly, we are no longer including this adjustment.

Under the previous reconciliation, when the Company had continued to include lease expenses that were treated differently under IFRS 16 and ASC 842, the impact to adjusted EBITDA was \$0.7 million for the three months ended August 31, 2023.

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 U.S. 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 three months ended August 31, 2024, adjusted EBITDA decreased to \$9.3 million compared to \$10.7 million for the prior year period.

	For the three months ended		Change	% Change
	August 31, 2024	August 31, 2023		
Adjusted EBITDA reconciliation:				
Net loss	\$ (34,652)	\$ (55,863)	\$ 21,211	(38)%
Income tax expense, net	886	7,264	(6,378)	(88)%
Interest expense, net	9,842	9,835	7	0%
Non-operating income (expense), net	(12,646)	4,402	(17,048)	(387)%
Amortization	31,814	30,789	1,025	3%
Stock-based compensation	6,917	8,257	(1,340)	(16)%
Change in fair value of contingent consideration	—	(11,107)	11,107	(100)%
Purchase price accounting step-up	175	5,106	(4,931)	(97)%
Facility start-up and closure costs	—	600	(600)	(100)%
Litigation costs, net of recoveries	1,595	2,034	(439)	(22)%
Restructuring costs	4,247	915	3,332	364%
Transaction costs (income)	1,156	8,502	(7,346)	(86)%
Adjusted EBITDA	\$ 9,334	\$ 10,734	\$ (1,400)	(13)%

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 adjusts for the following:

- Non-cash amortization expenses and, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future;
- Stock-based compensation expenses, a non-cash expense and are 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, and to fund emerging market operations;
- Transaction (income) costs, net which includes acquisition related income and expenses, related legal, financial advisor and due diligence cost and expenses and transaction related compensation, which vary significantly by transaction and are excluded to evaluate ongoing operating results;
- Restructuring charges;
- Litigation costs, net of favorable recoveries and the third party fees associated with defending these claims, includes costs related to legacy and non-operational litigation matters, legal settlements and recoveries;
- Amortization of purchase accounting fair value step-up in inventory value included in costs of goods sold; and
- Current and deferred income tax expenses and recoveries, which could be a significant recurring expense or recovery in our business in the future and reduce or increase cash available to us.

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 PPA valuation step-up) and adjusted gross margin is our Gross margin (adjusted to exclude PPA 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.

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 complete acquisitions. We believe that existing cash, cash equivalents, marketable securities and cash generated by operations, together with access to external sources of funds, will be sufficient to meet our domestic and foreign capital needs for the 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 optimize our operating structure, headcount, as well as the elimination of other discretionary operational costs. Additionally, the Company continues to invest our excess cash in the short-term in marketable securities which are comprised of U.S. treasury bills, term deposits with major Canadian, European and Australian banks.

For the Company's long-term liquidity requirements, we are 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.

On May 17, 2024, the Company entered into an equity distribution agreement with TD Securities (USA) LLC ("TD Securities") and Jefferies LLC ("Jefferies") in connection with an aggregate offering value of up to \$250 million from time to time through an at-the-market equity program ("ATM Program"). During the three months ended August 31, 2024, the Company issued 36,693,307 shares under its At-the-Market ("ATM") program generating gross proceeds of \$68.3 million. The Company paid \$1.8 million in commissions and other fees associated with these issuances generating net proceeds of \$66.5 million. See Note 27 (Subsequent events) for additional transactions. The Company intends to use net proceeds from the ATM Program to fund strategic and accretive acquisitions or investments in businesses, including potential acquisitions of assets in the U.S. and internationally in order to capitalize on expected regulatory advancements or expansion opportunities.

Additionally, we are committed to optimizing our capital structure and enhancing financial flexibility as we intend to continue to opportunistically purchase or exchange equity for the TLRY 27 Notes prior to their underlying maturity date in June 2027. See Note 27 (Subsequent events) for additional transactions.

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

	For the three months ended	
	August 31, 2024	August 31, 2023
Net cash provided by (used in) operating activities	\$ (35,307)	\$ (15,842)
Net cash provided by (used in) investing activities	(49,395)	(26,290)
Net cash provided by financing activities	60,590	14,018
Effect on cash of foreign currency translation	958	614
Cash and cash equivalents, beginning of period	228,340	206,632
Cash and cash equivalents, end of period	\$ 205,186	\$ 179,132
Marketable securities	74,869	287,333
Cash and marketable securities(1)	\$ 280,055	\$ 466,465

(1) Cash and marketable securities are non-GAAP financial measures. See "Use of Non-GAAP Measures" above for additional discussion regarding these non-GAAP measures. The Company combines the Cash and cash equivalent financial statement line item, and 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 combining these three GAAP metrics.

Cash flows from operating activities

The change in net cash used in operating activities was (\$35.3) million for three months ended August 31, 2024 compared to (\$15.8) million for the prior year period and was a result of additional working capital requirements as we continued to scale up our operations.

Cash flows from investing activities

The change in net cash used in investing activities was (\$49.4) million for three months ended August 31, 2024 compared to (\$26.3) million for the prior year period, and was a result of the sale of marketable securities in the current period, while the prior year period included cash provided from the HEXO and Truss acquisitions.

Cash flows from financing activities

The change in cash provided by financing activities was \$60.6 million for three months ended August 31, 2024 compared to \$14.0 million for the prior year period. In the current period, cash was provided by funds from the ATM program that did not occur in the prior year period. Additionally, in the prior year period ended, August 31, 2023, the Company also received proceeds of \$21.6 million for the overallotment issuance of TLRV 27 Notes.

Subsequent Events

Refer to Part I, Financial Information, Note 27 *Subsequent Events*.

Contingencies

In addition to the litigation described in the Part II, Item 1 - Legal Proceedings, the Company is and may be a defendant in lawsuits from time to time in the normal course of business. While the results of litigation and claims cannot be predicted with certainty, the Company believes the reasonably possible losses of such matters, individually and in the aggregate, are not material. Additionally, the Company believes the probable final outcome of such matters will not have a material adverse effect on the Company's consolidated results of operations, financial position, cash flows or liquidity.

Critical Accounting Estimates

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. The accounting principles we use require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and amounts of income and expenses during the reporting periods presented. We believe in the quality and reasonableness of our critical accounting policies, however, materially different amounts may be reported under different conditions or using assumptions different from those that we have applied. The accounting estimates that have been identified as critical to our business operations and to understanding the results of our operations pertain to revenue recognition, valuation of inventory, valuation of long-lived assets, goodwill and intangible assets, stock-based compensation and valuation allowances for deferred tax assets. The application of each of these critical accounting policies and estimates is discussed in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the fiscal year ended May 31, 2024.

Recently Issued Accounting Pronouncements

A description of recently issued accounting pronouncements that may potentially impact our financial position and results of operations is disclosed in "Part I, Item 1. Note 1 – Basis of presentation and summary of significant accounting policies" to our financial statements appearing elsewhere in this Quarterly Report on Form 10-Q.