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 results of 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, 2024 ("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 lifestyle consumer products company 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 in order to 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 of which beer is still the most consumed alcoholic beverage amidst shifting consumer trends, especially within the craft industry. Several key trends we expect to shape the near-term outlook for our results in this segment are in two main categories; beer and spirts:

- *Beverage Alcohol Distribution*. In alignment with our strategic vision, we have reevaluated and initiated a refined craft beer strategy focused on enhancing our relevance within home markets. Through targeted efforts, we've bolstered our distribution footprint, adding approximately 1,000 points of distribution during the year ended May 31, 2024. This expansion has notably increased product availability, enabling over 500 distributors to effectively engage with a broader yet more targeted consumer base and drive sales growth.

- *Market share*. Despite a challenging environment marked by a 4.3% decline in the US Craft beer industry in our fourth 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 segment, our emphasis on regional market penetration yielded promising results. Notably, our legacy and acquired brands demonstrated robust performance in their respective regional strongholds, showcasing significant market share gains including Ten Barrel gains in the Pacific Northwest and Shock Top gains in the Southeast per BI STR data.

- *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 10 Barrel's Pub Line to introduce Pub Ice FMB and Pub Cerveza, alongside the launch of Shock Top Mango and seasonal variants. These strategic innovations underscore our commitment to offering high-quality options across diverse beverage categories. More recently, we have also launched non-alcoholic beers such as Montauk Non-Alcoholic IPA, and Runner's High Brewing Company to target the quickly growing non-alcoholic beverage category. Lastly, we are also expanding into the functional beverage category through the launch of Liquid Love canned sparkling water positioning us for sustained growth and differentiation in the competitive beverage segment.

In the spirits category, Breckenridge Distillery is an innovative leader 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, including expanding the national chain's footprint. To fuel future expansion, we plan to prioritize showcasing our exceptional product quality and introducing innovative new offerings. Recent accolades, including Double Gold awards at prestigious competitions, being highlighted as one of the "World's Best Bourbon And American Whiskey" by Forbes magazine 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 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:

- *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 11.6% to 10.4% from the immediately preceding quarter, as reported by Hifyre data for all provinces excluding Quebec where Weedcrawler was deemed more accurate. While our market share has increased from the prior year comparison as a result of the strategic acquisitions of HEXO and Truss, the current period decrease reflects the change in consumer preferences to larger form factor products which is a category that experiences increased competition in terms of the number of product offerings and price which we strategically chose not to match.

- *Price compression.* Historical price compression persists in the market, intensified by fierce competition among the approximately 1,000 Licensed Producers in Canada. Despite increased sales volume, year-over-year price compression has adversely impacted revenue by approximately $9.8 million for the year ended May 31, 2024, influencing both cannabis gross margin and the bottom line. The fixed impact of excise per gram, notwithstanding the decline in average selling prices, further compounds these challenges, prompting ongoing industry lobbying efforts. The Expert Panel, appointed to review the Cannabis Act legislation, recently recommended a review of the excise tax framework and we expect the government to carefully consider changes to reduce the tax burden on licensed producers in the near-term future.

- *Timing difference in recognizing synergized operating results*. We have sought out and will continue to seek out potential acquisitions that are accretive to revenue and earnings. During the course of our evaluation and due diligence, we assess and validate profitability as well as potential synergies to drive additional profitability. Given that the vast majority of synergies are realized during the integration phase of the transaction, these saving are not realized immediately after the closing of a transaction. We are still in the process of integrating our recent acquisition of HEXO and have identified $35.4 million of synergies at the time of acquisition, on an annualized pre-tax basis. Once we have achieved the identified synergies, we expect the profitability of our operating results to increase. In addition, we have evaluated our facilities and have identified cost reductions associated with selling our Quebec cultivation facility and reducing our outdoor grow.

- *Industry over production*. In the last four years, the industry has shifted from production reliant business models to asset light models. As part of this shift the production capacity in the industry has edged significantly downward and is quickly approaching industry demand. As supply and demand have come close to matching, the industry's excess inventory levels have also reduced significantly. This reduction has re-invigorated pricing within the B2B wholesale category.

Current developments related to the Canadian 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 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 (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 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 in fiscal year 2024, the Cannabis Act, consisting of two parts, the KCanG and MedCanG, passed both chambers of the German parliament, was signed into law by the Office of the Federal President. The decriminalization and MedCanG portions of the Cannabis Act became effective on April 1, 2024. The licensing process for the cannabis cultivation associations began on July 1, 2024 and provides three months for the approval process. We understand that the applications to date have been low due to extensive requirements. The cultivation by the cannabis cultivation associations is expected to begin by October 1, 2024.

The MedCanG provides for several important medical cannabis reforms including the abolishment of the tender for domestic production, which is being 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. These reforms provide medical cannabis patients with enhanced accessibility to medical cannabis as it will allow for it to be prescribed via a normal prescription instead of a narcotic prescription, and eases the reporting and storing requirements for pharmacies and distributors. Prescription numbers and demand have increased since April 1.

In early July, the Ministry of Food and Agriculture put forward a draft law to regulate industrial hemp. This is expected to drive the debate about liberalized cannabis regulation further. We expect to see the policy process for the Pillar Two Regulations governing the model projects moving forward after the 2025 Federal German budget is finalized, which is expected during our second quarter of fiscal year 2025.

We continue to believe that Tilray is well-positioned in Germany, especially in light of the enactment of MedCanG and given that, subsequent to the end of the year, our wholly owned subsidiary, Aphria RX, was granted new licenses for the cultivation and distribution of medical cannabis in Germany. This will improve our ability to more adequately meet the needs of patients with a portfolio defined by their demand. The reclassification of medical cannabis as a non-narcotic provides Tilray with a larger market opportunity in Germany.

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. On March 18, 2024, Switzerland announced a new pilot study in the district of canton Zürich, which is expected to be the largest.

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 individuals with the opportunity to submit their comments.

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. It is expected that, over the next six months, Ukraine's ministries will outline legislation allowing for the importation of cannabis-based medicines into Ukraine, as well as the domestic cultivation of medical cannabis.

Wellness market trends.

Manitoba Harvest's branded hemp business continued to expand both its U.S. and Canadian leading market share positions during the year ended May 31, 2024, with consumption up in both the Natural and Conventional Channels, with the brands top five customers all seeing growth. The Company continues to focus on value-added innovation within the wellness and food and beverage space, with the launch of Bio-Active Fiber and protein rich Superseed Oatmeal coming to market during the year ended May 31, 2024. In addition, we relaunched HiBall energy drinks within the wellness beverages space to complement our recent Happy Flower CBD beverage launch.

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, 2024, we incurred $15.5 million of transaction expenses, discussed further below.

Our acquisition strategy has had a material impact on the Company's results, which we expect will continue into future periods, generating accretive impacts for our stockholders. A summary of their impacts are as follows:

- ***HEXO acquisition:***

On June 22, 2023, Tilray acquired HEXO, a cannabis company in Canada for the purpose of expanding the Company's revenue base, production capabilities around certain form factors and growth opportunities with the Redecan brand. In consideration for the HEXO Acquisition, the Company paid a total purchase price equivalent of $93.9 million, which consisted of stock consideration of $63.9 million, settlement of convertible notes receivable of $28.7 million, the fair value of HEXO stock-based compensation of $1.2 million and the assumption of warrants with exercise prices that are out-of-the money. In connection with the HEXO Acquisition, each outstanding HEXO common share was exchanged for 0.4352 of a share of Tilray common stock and each outstanding HEXO preferred share was exchanged for 0.7805 of a share of Tilray common stock. In the aggregate, the Company issued 39,705,962 shares of Tilray common stock, at a share price of $1.61 per share, in connection with the HEXO Acquisition

With the HEXO Acquisition, Tilray initially expected to achieve additional cost savings of $27 million on an annualized pre-tax basis and has subsequently increased this target to between $30 to $35 million. These synergies will be realized across production, sales, marketing, distribution, and corporate savings, with incremental upside resulting from consolidating packaging, procurement, freight, logistics in addition to our facility rationalization in Quebec. This builds on Tilray's substantial progress optimizing its Canadian cannabis operations discussed below. During the year ended May 31, 2024, we exceeded our synergy plan by achieving $35.4 million of savings on an annualized run-rate basis, of which $26.2 million represented actual cost savings during the period. As discussed in our trends section, these cost savings initiatives take time to implement, resulting in related benefits being realized over time.

- ***Truss acquisition:***

On August 3, 2023, Tilray acquired the remaining 57.5% equity interest in Truss Beverage Co. ("Truss"), a cannabis beverage company, from Molson Coors Canada ("Molson"). This purchase represents the equity portion of Truss that had not been previously acquired as part of the HEXO Acquisition. The consideration paid by Tilray consisted of $74,000 (CAD $100,000) in cash and contingent consideration fair valued at $4.2 million. During the year ended May 31, 2024, the contingent consideration liability was settled in exchange for a final payment equal to $0.8 million with the resultant gain of $3.7 million recorded in change in fair value of contingent consideration, offset by $0.3 million of foreign exchange. The Company subsequently shifted production of Truss beverages to one of our existing facilities to maximize existing capacity utilization rates. During the quarter ended May 31, 2024, the Company sold Truss Beverage Co. to a third party but the Company continues to retain liability for all of Truss's pre-closing contingent obligations.

- ***Craft beverage acquisition:***

On September 29, 2023, Tilray acquired a portfolio of brands, assets and businesses comprising eight beer and beverage brands from AB including breweries and brewpubs associated with them (the "Craft Acquisition"). The acquired businesses/brands include Shock Top, Breckenridge Brewery, Blue Point Brewing Company, 10 Barrel Brewing Company, Redhook Brewery, Widmer Brothers Brewing, Square Mile Cider Company, and HiBall Energy. The Company paid a total purchase price equivalent of $83.7 million in cash, net of a working capital adjustment at closing of $1.3 million. As described in Note 12 (Long-term debt)**,** $20.0 million was borrowed under the ABC Group Delayed Draw Term Loan Agreement to fund part of the purchase price paid for the Craft Acquisition.

The Craft Acquisition, is expected to be transformational to our beverage alcohol strategy elevating the Company to the 5th largest U.S. Craft Beer market share position from our previous 9th place market share position.

The Company further believes the Craft transaction will be accretive to our adjusted EBITDA, driven by a range of strategic benefits, including:

- An established brand portfolio with a devoted consumer base, coupled with growth potential through integration and expanded capabilities in both alcoholic and non-alcoholic beverages.
- The acquisition encompassed four production facilities and eight brewpub locations, further solidifying our operational presence.
- A reinforced nationwide distribution footprint, propelling Tilray's beer sales volume from four million cases to twelve million, thereby tripling its market reach on a pro forma basis.

In addition to acquisitions completed above, the Company has also completed the following cost saving strategies during the year which impact results for the year ended May 31, 2024:

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

During the 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. As of the date of the conclusion of the plan, we achieved $22.3 million against the plan. The Company considers this plan fulfilled as of the date of this Form 10-K, owing to a strategic shift in our Cannabis beverage strategy. The Company's original targets involved repurposing our beverage facility; however, this initiative was altered following the Truss acquisition, which allowed us to leverage and effectively utilize additional capacity from our existing facility and infrastructure.

- ***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. As of the date of the conclusion of the plan, we achieved an annualized run-rate basis of $7.6 million of cost savings. The Company concluded this savings plan as of November 30, 2023. Approximately $1.3 million of cost savings identified in connection with the $8.0 million cost optimization plan were associated with a temporary furlough of certain cultivation employees, which did not occur due to an increase in the demand for our medical cannabis products thereby rendering such action not necessary. Additional cost savings were identified in order to offset the unrealized savings associated with the planned furlough.

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, 2024	2023	2022	Change 2024 vs. 2023		Change 2023 vs. 2022	
Net revenue	$ 788,942	$ 627,124	$ 628,372	$ 161,818	26%	$ (1,248)	(0)%
Cost of goods sold	565,591	480,164	511,555	85,427	18%	(31,391)	(6)%
Gross profit	223,351	146,960	116,817	76,391	52%	30,143	26%
Operating expenses:							0%
General and administrative	167,358	165,159	162,801	2,199	1%	2,358	1%
Selling	37,233	34,840	34,926	2,393	7%	(86)	(0)%
Amortization	84,752	93,489	115,191	(8,737)	(9)%	(21,702)	(19)%
Marketing and promotion	41,933	30,937	30,934	10,996	36%	3	0%
Research and development	635	682	1,518	(47)	(7)%	(836)	(55)%
Change in fair value of contingent consideration	(15,790)	855	(44,650)	(16,645)	(1,947)%	45,505	(102)%
Impairments	—	934,000	378,241	(934,000)	(100)%	555,759	147%
Other than temporary change in fair value of convertible notes receivable	42,681	246,330	—	(203,649)	(83)%	246,330	0%
Litigation costs, net of recoveries	8,251	(505)	16,518	8,756	(1,734)%	(17,023)	(103)%
Restructuring costs	15,581	9,245	795	6,336	69%	8,450	1,063%
Transaction costs (income), net	15,462	1,613	30,944	13,849	859%	(29,331)	(95)%
Total operating expenses	398,096	1,516,645	727,218	(1,118,549)	(74)%	789,427	109%
Operating loss	(174,745)	(1,369,685)	(610,401)	1,194,940	(87)%	(759,284)	124%
Interest expense, net	(36,433)	(13,587)	(27,944)	(22,846)	168%	14,357	(51)%
Non-operating (expense) income, net	(37,842)	(66,909)	197,671	29,067	(43)%	(264,580)	(134)%
Loss before income taxes	(249,020)	(1,450,181)	(440,674)	1,201,161	(83)%	(1,009,507)	229%
Income tax expense	(26,616)	(7,181)	(6,542)	(19,435)	271%	(639)	10%
Net loss	$ (222,404)	$ (1,443,000)	$ (434,132)	$ 1,220,596	(85)%	$ (1,008,868)	232%

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) consolidated and for each reporting segment (Cannabis, Beverage alcohol, Distribution and Wellness),

- adjusted gross margin (excluding ("PPA") step up and inventory valuation allowance) consolidated and 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 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 year ended May 31, 2024**	**2023**	**2022**
Net beverage alcohol revenue	$ 202,094	$ 95,093	$ 71,492
Net cannabis revenue	272,798	220,430	237,522
Distribution revenue	258,740	258,770	259,747
Wellness revenue	55,310	52,831	59,611
Beverage alcohol costs	113,522	48,770	32,033
Cannabis costs	182,594	162,755	194,834
Distribution costs	230,596	231,309	243,231
Wellness costs	38,879	37,330	41,457
Adjusted gross profit (excluding PPA step-up) (1)	235,581	206,442	186,031
Beverage alcohol adjusted gross margin (excluding PPA step-up) (1)	46%	53%	58%
Cannabis adjusted gross margin (excluding PPA step-up) (1)	36%	51%	43%
Distribution gross margin	11%	11%	9%
Wellness gross margin	30%	29%	30%
Adjusted EBITDA (1)	$ 60,465	$ 58,679	$ 44,947
Cash and marketable securities (1) as at the year ended:	260,522	448,529	415,909
Working capital as at the year ended:	$ 378,540	$ 340,050	$ 523,161

(1)Adjusted EBITDA, adjusted gross profit, adjusted gross margin for each of our segments are non-GAAP financial measures, and cash and marketable securities. 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 and the discussion above captioned "Cash and Marketable Securities."

Segment Reporting

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

(in thousands of U.S. dollars)	For the year ended May 31, 2024	2023	2022	Change 2024 vs. 2023	%	Change 2023 vs. 2022	%
Beverage alcohol business	$ 202,094	$ 95,093	$ 71,492	$ 107,001	113%	$ 23,601	33%
Cannabis business	272,798	220,430	237,522	52,368	24%	(17,092)	(7)%
Distribution business	258,740	258,770	259,747	(30)	(0)%	(977)	(0)%
Wellness business	55,310	52,831	59,611	2,479	5%	(6,780)	(11)%
Total net revenue	$ 788,942	$ 627,124	$ 628,372	$ 161,818	26%	$ (1,248)	(0)%

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

(in thousands of U.S. dollars)	For the year ended May 31, as reported in constant currency 2024	2023	Change 2024 vs. 2023 Change	% Change
Beverage alcohol business	202,094	$ 95,093	$ 107,001	113%
Cannabis business	274,763	220,430	54,333	25%
Distribution business	259,671	258,770	901	0%
Wellness business	55,533	52,831	2,702	5%
Total net revenue	$ 792,061	$ 627,124	$ 164,937	26%

Our geographic revenue is, as follows:

(in thousands of U.S. dollars)	For the year ended May 31, 2024	2023	2022	Change 2024 vs. 2023	%	Change 2023 vs. 2022	%
USA	$ 233,141	$ 123,284	$ 103,991	$ 109,857	89%	$ 19,293	19%
Canada	243,722	201,361	210,141	42,361	21%	(8,780)	(4)%
EMEA	296,450	284,567	296,911	11,883	4%	(12,344)	(4)%
Rest of World	15,629	17,912	17,329	(2,283)	(13)%	583	3%
Total net revenue	$ 788,942	$ 627,124	$ 628,372	$ 161,818	26%	$ (1,248)	(0)%

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

(in thousands of U.S. dollars)	For the year ended May 31, as reported in constant currency 2024	2023	Change 2024 vs. 2023 Change	% Change
USA	$ 233,141	$ 123,284	$ 109,857	89%
Canada	246,156	201,361	44,795	22%
EMEA	286,174	284,567	1,607	1%
Rest of World	26,590	17,912	8,678	48%
Total net revenue	$ 792,061	$ 627,124	$ 164,937	26%

Our geographic capital assets are, as follows:

(in thousands of U.S. dollars)	For the year ended May 31, 2024	2023	Change 2024 vs. 2023	
USA	$ 141,314	$ 63,925	$ 77,389	121%
Canada	313,359	255,248	58,111	23%
EMEA	99,921	107,131	(7,210)	(7)%
Rest of World	3,653	3,363	290	9%
Total capital assets	$ 558,247	$ 429,667	$ 128,580	30%

Beverage alcohol revenue

Revenue from our Beverage operations increased to $202.1 million the year ended May 31, 2024, compared to revenue of $95.1 million for the prior year same period. The increase is predominantly attributed to our recent acquisitions, particularly the newly integrated Craft Acquisition brands, which was completed on September 29, 2023, in addition to innovation from our existing legacy brands. Lastly during the year, the Company received a volume commitment reimbursement of $2.5 million in our spirits business which positively impacted gross margin.

Cannabis revenue

Cannabis revenue based on market channel is, as follows:

(in thousands of US dollars)	For the year ended May 31, 2024	2023	2022	Change 2024 vs. 2023		Change 2023 vs. 2022	
Revenue from Canadian medical cannabis	$ 25,211	$ 25,000	$ 30,599	$ 211	1%	$ (5,599)	(18)%
Revenue from Canadian adult-use cannabis	266,846	214,319	209,501	52,527	25%	4,818	2%
Revenue from wholesale cannabis	25,340	1,436	6,904	23,904	1,665%	(5,468)	(79)%
Revenue from international cannabis	53,295	43,559	53,887	9,736	22%	(10,328)	(19)%
Total cannabis revenue	370,692	284,314	300,891	86,378	30%	(16,577)	(6)%
Excise taxes	(97,894)	(63,884)	(63,369)	(34,010)	53%	(515)	1%
Total cannabis net revenue	$ 272,798	$ 220,430	$ 237,522	$ 52,368	24%	$ (17,092)	(7)%

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 2024	2023	Change 2024 vs. 2023 Change	% Change
Revenue from Canadian medical cannabis	$ 25,441	$ 25,000	$ 441	2%
Revenue from Canadian adult-use cannabis	269,534	214,319	55,215	26%
Revenue from wholesale cannabis	25,651	1,436	24,215	1,686%
Revenue from international cannabis	53,036	43,559	9,477	22%
Total cannabis revenue	373,662	284,314	89,348	31%
Excise taxes	(98,899)	(63,884)	(35,015)	55%
Total cannabis net revenue	$ 274,763	$ 220,430	$ 54,333	25%

(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 increased 1% to $25.2 million for the fiscal year ended May 31, 2024, compared to revenue of $25.0 million for the fiscal year ended May 31, 2023. On a constant currency basis revenue from Canadian medical cannabis increased to $25.4 million from $25.0 million for the fiscal year ended May 31, 2024. This increase in revenue from medical cannabis is primarily driven by growth in the insured patients category exceeding the decline in un-insured patients attrition to the adult-use recreational market.

Revenue from adult-use cannabis: During the fiscal year ended, May 31, 2024, our revenue from Canadian adult-use cannabis product increased 25% to $266.8 million compared to revenue of $214.3 million for the prior year. On a constant currency basis, our revenue from Canadian adult-use cannabis increased 26% to $269.5 million for the fiscal year ended May 31, 2024. Further, the prior fiscal year revenue includes HEXO-related advisory fees in the amount of $40.4 million for the fiscal year ended May 31, 2023, compared to $1.5 million for the fiscal year ended May 31, 2024. Excluding the revenue from advisory services, adult-use cannabis revenue increased by $91.4 million for the fiscal year ended May 31, 2024. The increase in adult-use revenue is due to the acquisitions of HEXO on June 22, 2023 and Truss on August 3, 2023, as well as our robust innovation pipeline from existing brands.

Wholesale cannabis revenue: Revenue from wholesale cannabis increased to $25.3 million for the fiscal year ended May 31, 2024, compared to revenue of $1.4 million for the prior year same period which is consistent on a constant currency basis. 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 year but did not impact our sales to provincial boards. 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 increased to $53.3 million for the year ended May 31, 2024, compared to revenue of $43.6 million for the fiscal year ended May 31, 2023. On a constant currency basis, revenue from international cannabis increased to $53.0 million from $43.6 million in the prior year same period (during the fiscal year ended May 31, 2023, the Company recognized a one-time return adjustment of $3.1 million related to a former customer in Israel that commenced bankruptcy proceedings). The increase in the period was largely driven by revenue growth in existing markets and expansion into new international medical markets.

Distribution revenue

Revenue from Distribution operations was flat with $258.7 million for the fiscal year ended May 31, 2024 compared to revenue of $258.8 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 was $259.7 million for the fiscal year ended May 31, 2024 when compared to prior year period. During the year, revenue was negatively impacted by IT infrastructure outages and weather, both of which impacted revenue by approximately $3.0 million. Additionally, the Company shifted its focus from revenue growth to margin contribution and discontinued low margin product lines.

Wellness revenue

Our Wellness revenue from Manitoba Harvest increased to $55.3 million for the fiscal year ended May 31, 2024 compared to $52.8 million for the prior year same period. On a constant currency basis for the fiscal year ended May 31, 2024, Wellness revenue increased to $55.5 million from $52.8 million. The increase in revenue for the year was driven by strong organic growth within our branded hemp business related to higher consumption.

Gross profit and gross margin

Our gross profit and gross margin for the years ended May 31, 2024, 2023 and 2022, is as follows, for our each of our operating segments:

(in thousands of U.S. dollars)	For the year ended May 31,			Change	% Change	Change	% Change
Beverage alcohol	**2024**	**2023**	**2022**	**2024 vs. 2023**		**2023 vs. 2022**	
Net revenue	$ 202,094	$ 95,093	$ 71,492	$ 107,001	113%	$ 23,601	33%
Cost of goods sold	113,522	48,770	32,033	64,752	133%	16,737	52%
Gross profit	88,572	46,323	39,459	42,249	91%	6,864	17%
Gross margin	44%	49%	55%	(5)%	(10)%	(6)%	(11)%
Purchase price accounting step-up	4,602	4,482	2,214	120	3%	2,268	102%
Adjusted gross profit (1)	93,174	50,805	41,673	42,369	83%	9,132	22%
Adjusted gross margin (1)	46%	53%	58%	(7%)	(13%)	(5%)	(9%)
Cannabis							
Net revenue	272,798	220,430	237,522	52,368	24%	(17,092)	(7)%
Cost of goods sold	182,594	162,755	194,834	19,839	12%	(32,079)	(16)%
Gross profit	90,204	57,675	42,688	32,529	56%	14,987	35%
Gross margin	33%	26%	18%	7%	27%	8%	44%
Purchase price accounting step-up	7,628	—	—	7,628	NM	—	—
Inventory valuation adjustments	—	55,000	59,500	(55,000)	(100)%	(4,500)	(8)%
Adjusted gross profit (1)	97,832	112,675	102,188	(14,843)	(13)%	10,487	10%
Adjusted gross margin (1)	36%	51%	43%	(15)%	(29)%	8%	19%
Distribution							
Net revenue	258,740	258,770	259,747	(30)	(0)%	(977)	(0)%
Cost of goods sold	230,596	231,309	243,231	(713)	(0)%	(11,922)	(5)%
Gross profit	28,144	27,461	16,516	683	2%	10,945	66%
Gross margin	11%	11%	6%	0%	0%	5%	83%
Inventory valuation adjustments	—	—	7,500	—	NM	(7,500)	(100%)
Adjusted gross profit (1)	28,144	27,461	24,016	683	2%	3,445	14%
Adjusted gross margin (1)	11%	11%	9%	0%	0%	2%	22%
Wellness							
Net revenue	55,310	52,831	59,611	2,479	5%	(6,780)	(11)%
Cost of goods sold	38,879	37,330	41,457	1,549	4%	(4,127)	(10)%
Gross profit	16,431	15,501	18,154	930	6%	(2,653)	(15)%
Gross margin	30%	29%	30%	1%	3%	(1)%	(3)%
Total							
Net revenue	788,942	627,124	628,372	161,818	26%	(1,248)	(0)%
Cost of goods sold	565,591	480,164	511,555	85,427	18%	(31,391)	(6)%
Gross profit	223,351	146,960	116,817	76,391	52%	30,143	26%
Gross margin	28%	23%	19%	5%	22%	4%	21%
Inventory valuation adjustments	—	55,000	67,000	(55,000)	(100)%	(12,000)	(18)%
Purchase price accounting step-up	12,230	4,482	2,214	7,748	173%	2,268	102%
Adjusted gross profit (1)	235,581	206,442	186,031	29,139	14%	20,411	11%
Adjusted gross margin (1)	30%	33%	30%	(3)%	(9)%	3%	10%

(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.

Beverage alcohol gross margin: Gross margin of 44% for the year ended May 31, 2024, decreased from 49% the prior year ended May 31, 2023. Adjusted gross margin of 46% decreased in the year ended May 31, 2024, from 53% in the year ended May 31, 2023. The decrease in the adjusted beverage alcohol gross margin was a result of the newly acquired Craft Acquisition brands, which have lower margins than our historical business, primarily driven by the temporary excess capacity within the acquired breweries, which we are actively evaluating for future optimization and enhanced utilization. Due to our ongoing integration efforts of the Craft Acquisition, we will no longer differentiate gross margin from our legacy business and these newly acquired brands in the coming fiscal year as they will be fully integrated. Additionally, during the year ended May 31, 2024, this decrease was offset by a $2.5 million volume commitment reimbursement in our spirits business, which did not have any costs associated with it.

Cannabis gross margin: Gross margin increased during the year ended May 31, 2024, to 33% from 26% for the prior year same periods. The largest impact in the change in cannabis gross margin was related to the previous year including a non-cash inventory valuation adjustments that did not recur in the current period. Excluding the purchase price accounting step-up in the year ended May 31, 2024 and the inventory valuation adjustments in the year ended May 31, 2023, adjusted gross margin during the year ended May 31, 2024, decreased to 36% from 51% when comparing the same prior year period. Additionally, a portion of the decrease is a result of the termination of the HEXO advisory services agreement which contributed $1.5 million of gross profit in the current year compared to $40.4 million in the prior year, which if excluded would decrease adjusted gross margin to 36% compared to 40% in the prior year period. The remaining decline in gross margin for the year was a result of a change in sales mix with a higher percentage of sales coming from wholesale compounded by price compression in the Canadian adult-use market.

Distribution gross margin: Gross margin of 11% for the year ended May 31, 2024, remained consistent from 11% the year ended May 31, 2023. Distribution gross margin is expected to continue to fluctuate with changes in product mix as the Company continues to focus on higher margin sales in future periods.

Wellness gross margin: Gross margin of 30% for the year ended May 31, 2024, increased from a gross margin of 29% for the year ended May 31, 2023. The increase in Wellness gross margin was driven by lower material cost and overhead optimization.

Operating expenses

(in thousands of US dollars)	For the year ended May 31, 2024	2023	2022	Change 2024 vs. 2023		Change 2023 vs. 2022	
General and administrative	$ 167,358	$ 165,159	$ 162,801	$ 2,199	1%	$ 2,358	1%
Selling	37,233	34,840	34,926	2,393	7%	(86)	(0)%
Amortization	84,752	93,489	115,191	(8,737)	(9)%	(21,702)	(19)%
Marketing and promotion	41,933	30,937	30,934	10,996	36%	3	0%
Research and development	635	682	1,518	(47)	(7)%	(836)	(55)%
Change in fair value of contingent consideration	(15,790)	855	(44,650)	(16,645)	(1,947)%	45,505	(102)%
Impairments	—	934,000	378,241	(934,000)	(100)%	555,759	147%
Other than temporary change in fair value of convertible notes receivable	42,681	246,330	—	(203,649)	(83)%	246,330	NM
Litigation costs, net of recoveries	8,251	(505)	16,518	8,756	(1,734)%	(17,023)	(103)%
Restructuring costs	15,581	9,245	795	6,336	69%	8,450	1,063%
Transaction costs (income), net	15,462	1,613	30,944	13,849	859%	(29,331)	(95)%
Total operating expenses	$ 398,096	$ 1,516,645	$ 727,218	$ (1,118,549)	(74)%	$ 789,427	109%

Total operating expenses for the year ended May 31, 2024, decreased by $1,118.5 million to $398.1 million from $1,516.6 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, net. This decrease was primarily a result of the year ended May 31, 2023, including non-cash impairments which did not recur in the current period ended May 31, 2024.

General and administrative costs

(in thousands of US dollars)	For the year ended May 31, 2024	2023	2022	Change 2024 vs. 2023		Change 2023 vs. 2022	
Executive compensation	$ 15,597	$ 13,655	$ 14,128	$ 1,942	14%	$ (473)	(3)%
Office and general	28,460	27,845	27,153	615	2%	692	3%
Salaries and wages	68,076	57,228	51,693	10,848	19%	5,535	11%
Stock-based compensation	31,769	39,595	35,994	(7,826)	(20)%	3,601	10%
Insurance	12,586	12,033	17,536	553	5%	(5,503)	(31)%
Professional fees	5,345	7,166	13,047	(1,821)	(25)%	(5,881)	(45)%
Gain on sale of capital assets	(4,198)	(48)	(682)	(4,150)	8,646%	634	(93)%
Insurance proceeds	—	—	(4,032)	—	—	4,032	(100)%
Travel and accommodation	5,138	4,530	4,203	608	13%	327	8%
Rent	4,585	3,155	3,761	1,430	45%	(606)	(16)%
Total general and administrative costs	$ 167,358	$ 165,159	$ 162,801	$ 2,199	1%	$ 2,358	1%

Executive compensation increased by 14% in the year ended May 31, 2024 compared to $13.7 the prior year, primarily as a result of changes in estimates related to timing of compensation accruals.

Office and general increased by 2% in the year ended May 31, 2024 compared to $27.8 the prior year, due to the acquisition of the newly acquired beverage alcohol business portfolio and HEXO, which did not occur in the prior period. This increase was offset by $4.4 million of bad debt recoveries on a previously recognized credit loss provision, see Note 28 (Commitments and contingencies).

Salaries and wages increased 19% in the year ended May 31, 2024 compared to $57.2 the prior year. The increase is primarily due to the inclusion of newly acquired employees from the beverage alcohol business portfolio and HEXO acquisitions, which were not in the prior period.

The Company recognized stock-based compensation expense of $31.8 million in the year ended May 31, 2024 compared to $39.6 million to the prior year. The decrease is primarily driven by the change in the probability of achievement of stock price targets for certain grants issued in 2021, as well as an increased forfeiture rate, stock-based compensation decreased period over period.

Insurance expenses increased by 5% in the year ended May 31, 2024 compared to the prior year, due to the expanded polices required for our newly acquired beverage alcohol business portfolio, and HEXO entities, partially offset by the Company's decision to self-insure certain of its property risks.

Professional fees decreased by 25% to $5.3 million in the year ended May 31, 2024 from $7.2 million when compared to the prior year as this item was a target of our cost savings initiatives.

The Company recognized gain on sale of capital assets of $4.2 million in the year ended May 31, 2024, compared to $0.0 million to the prior year. This gain is predominantly from the sale of Truss Beverage Co. Refer to Note 9 (Business Acquisitions).

Rent expense increased by 45% in the year ended May 31, 2024 compared to $3.2 million prior year. This increase was driven by leases in the newly-acquired beverage alcohol business portfolio and the HEXO Acquisition.

Selling costs

For the year ended May 31, 2024, the Company incurred selling costs of $37.2 million or 4.7% of revenue as compared to $34.8 or 5.5% 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 increase for the year is a result of the increase in sales from the prior year period, which was offset by the renegotiation of terms in one of our distributor relationships resulting in reduced variable fees.

Amortization

The Company incurred non-production related amortization charges of $84.8 million for the year ended May 31, 2024 compared to $93.5 million in 2023. The decreased amortization is a result of the reduced intangible asset levels, as a result of prior year impairments.

Marketing and promotion cost

For the year ended May 31, 2024, the Company incurred marketing and promotion costs of $41.9 million, as compared to $30.9 in the prior year. The increase is due to the acquisition of the newly acquired beverage alcohol business portfolio, and HEXO and is subject to variability as marketing is not directly proportionate to sales and is discretionary.

Research and development

Research and development costs were $0.6 million in the year ended May 31, 2024, compared to $0.7 million in the prior year. Research and development costs 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 29 (Financial risk management and financial instruments). The net decrease in fair value of $16.6 million was driven by the conclusion of the Sweetwater earnout, the favorable cash settlement for the Truss contingent consideration, and was offset by an increase related to the higher probability of achieving the contingent consideration from the Montauk acquisition. During the year ended May 31, 2024, the contingent consideration liability that arose from the Truss acquisition of $4.2 million was settled for $0.8 million. The contingent consideration liability from the Montauk acquisition, increased to $15.0 million as of May 31, 2024 from $10.9 million as of May 31, 2023. The contingent consideration liability from the Sweetwater acquisition elapsed and there are no further obligations related thereto.

Impairments

The Company assesses for indicators of impairment of goodwill and indefinite-life intangibles on an ongoing and annual basis, of which $nil impairment expense was recognized in the period ended May 31, 2024 as a result of our assessment. Comparatively in the prior year period ended May 31, 2023, $934.0 million of non-cash impairment expense was recognized as a result of 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.

Other than temporary write-down of convertible notes receivable

During the year ended May 31, 2024, the Company recognized an other-than-temporary change in fair value, which resulted in a non-cash impairment expense of convertible notes receivable of $42.7 million on the Medmen Convertible Notes Receivable compared to $117.8 million in the prior year ended May 31, 2023. The MedMen Convertible Note was valued based upon the fair value of the collateral assets net of disposal costs and has been reduced to reflect recent events, including the appointment of a chief restructuring officer for MedMen on January 23, 2024 and pending asset sales, as referenced in Note 11 (Convertible Notes Receivable). Additionally, the Company recognized $nil and $128.6 million of non-cash other-than-temporary change in fair value on the HEXO Convertible Notes Receivable for the period ended May 31, 2024 and May 31, 2023, respectively, as a result of completing the HEXO acquisition, Note 9 (Business Acquisitions).

Litigation costs

Litigation costs of $8.3 million were expensed during the year ended May 31, 2024 compared to a recovery of ($0.5) million in the prior year. Litigation costs include fees and expenses incurred in connection with defending and settling ongoing legacy inherited litigation matters, net of any judgments or settlement recoveries received from third parties. Included in the prior year period ended May 31, 2023, is proceeds of $39.9 million related to the SLC litigation settlement, offset by judgments, probable and estimable losses as well as ongoing litigation costs and fees. See Note 28 (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 restructuring and exit costs associated with the integration efforts of these non-recurring transactions. For the year ended May 31, 2024 and May 31, 2023 respectively, the Company incurred $15.6 million and $9.2 million of restructuring costs. The breakdown of the restructuring charges for the year ended May 31, 2024 are as follows:

- *HEXO Acquisition:* Pursuant to our announced synergy program of $35.2 million in relation to the HEXO Acquisition, we expect our HEXO restructuring plan to span the first 24 months following the acquisition. In the current twelve-month period, we recognized $10.2 million related to employee termination benefits costs, costs for the conversion from cannabis to produce at Quebec cultivation facility(which is currently held for sale), and the optimization of our Redecan facilities.

- *Truss Acquisition:* In relation to the acquisition of Truss, the Company determined to repurpose the facility for the production of non-cannabis beverages. The Company expected the completion timeline for this program to be 18 months from date of acquisition. In the current twelve-month period, we recognized $3.5 million of restructuring charges related to the costs of exiting the Truss facility until the new business has resumed. However, during the quarter ended May 31, 2024, the Company sold Truss to a third party.

- *Canadian business cost reduction plan:* As referenced in our Canadian cannabis cost optimization plan for $30 million, the Company has committed to reducing costs, which was completed during the year. In the current twelve-month period, we recognized $0.5 million of restructuring charges related to the relocation of our Broken Coast facility from Duncan to Nanaimo, BC, and the employee termination benefits associated with the transition of packaging finished goods to the Aphria One location.

- *Distribution Cost Optimization:* The Company executed a cost optimization plan during the year to reduce costs within the distribution segment by $1.5 million annually. It is expected that this plan will be completed within the fiscal year, however the Company continues to evaluate this segment for further cost optimizations and production efficiencies. In the current twelve-month period, we recognized $1.4 million related to employee termination benefits in association with executing this plan.

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 increase from $1.6 million in the prior year to $15.5 million in the current year ended May 31, 2024, is related to the following items:

- costs associated with completing the HEXO Acquisition on June 22, 2023, including, but not limited to, due diligence fees of $2.4 million, discretionary incentive compensation payments of $5.8 million, transaction income from the loan amendment agreement of $(6.0) million, and HEXO director and office runoff insurance of $5.1 million;

- costs related to the acquisition of the beverage alcohol business portfolio;

- refunds from outstanding government rebates of $(1.1) million claims not previously recognized as assets associated with the Aphria and Tilray Arrangement Agreement;
- in the prior year period comparative, we recognized transaction income for 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 in the previous year. This did not recur in the year ended May 31, 2024.

Non-operating income (expense), net

(in thousands of US dollars)	For the year ended May 31, 2024	2023	2022	Change 2024 vs. 2023		Change 2023 vs. 2022	
Change in fair value of convertible debenture payable	$ (19,736)	$ (43,651)	$ 163,670	$ 23,915	(55)%	$ (207,321)	(127)%
Change in fair value of warrant liability	(1,436)	12,438	63,913	(13,874)	(112)%	(51,475)	(81)%
Foreign exchange (loss) gain	(4,086)	(25,535)	(28,383)	21,449	(84)%	2,848	(10)%
Loss on long-term investments	(217)	(2,190)	(6,737)	1,973	(90)%	4,547	(67)%
Other non-operating (losses) gains, net	(12,367)	(7,971)	5,208	(4,396)	55%	(13,179)	(253)%
Total non-operating income (expense)	$ (37,842)	$ (66,909)	$ 197,671	$ 29,067	(43)%	$ (264,580)	(134)%

For the year ended May 31, 2024, the Company recognized a loss on the change in fair value of its APHA 24 convertible debentures of ($19.7) million, compared to a loss on the change in fair value of ($43.7) million for the prior year. The change is driven primarily by the changes in the Company's share price and the early settlement of $136.4 million principal of the APHA 24 debentures. For the year ended May 31, 2024, the Company recognized a change in fair value of its warrants of ($1.4) million compared to a change in fair value of $12.4 million for the prior year. Furthermore, for the year ended May 31, 2024, the Company recognized a loss of ($4.1) million, resulting from the changes in foreign exchange rates during the period, compared to a loss of ($25.5) million for the prior year, largely associated with the strengthening of the US dollar from the prior year. Included in other non-operating (losses) gains, net for the year ended May 31, 2024, are losses of $12.4 million, which is comprised of $2.3 million from the downside protection share issuance relating to the HTI note, as described in Note 19 (Stockholders' equity), $2.5 million of amounts to settle outstanding notes with non-controlling interest shareholders, $4.6 million for a decrease in value of equity investee, as described in Note 28 (Commitments and contingencies), Cannfections, and $3.1 million of loss on measurement at the lower of carrying amount and the fair value less costs to sell of Broken Coast's former Duncan facility refer to Note 6 (Capital assets).

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, inventory valuation adjustments, 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.

Had the Company continued to include lease expenses that were treated differently under IFRS 16 and ASC 842 Leases, the impact to adjusted EBITDA would have been $4.6 million for the year ended May 31, 2024. In comparison, under the previous reconciliation, the impact to adjusted EBITDA would have been $2.8 million and $3.1 million for the years ended May 31, 2023 and May 31, 2022, respectively.

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 the year ended May 31, 2024, adjusted EBITDA increased by $1.8 million to $60.5 million compared to $58.7 in the prior year.

	For the year ended May 31,			Change		Change	
Adjusted EBITDA reconciliation:	**2024**	**2023**	**2022**	**2024 vs. 2023**		**2023 vs. 2022**	
Net loss	$ (222,404)	$ (1,443,000)	$ (434,132)	$ 1,220,596	(85)%	$ (1,008,868)	232%
Income tax (recovery) expense	(26,616)	(7,181)	(6,542)	(19,435)	271%	(639)	10%
Interest expense, net	36,433	13,587	27,944	22,846	168%	(14,357)	(51)%
Non-operating income (expense), net	37,842	66,909	(197,671)	(29,067)	(43)%	264,580	(134)%
Amortization	126,913	130,149	154,592	(3,236)	(2)%	(24,443)	(16)%
Stock-based compensation	31,769	39,595	35,994	(7,826)	(20)%	3,601	10%
Change in fair value of contingent consideration	(15,790)	855	(44,650)	(16,645)	(1,947)%	45,505	(102)%
Impairments	—	934,000	378,241	(934,000)	(100)%	555,759	147%
Other than temporary change in fair value of convertible notes receivable	42,681	246,330	—	(203,649)	(83)%	246,330	NM
Inventory valuation adjustments	—	55,000	67,000	(55,000)	(100)%	(12,000)	(18)%
(Gain) loss on sale of capital assets - non-operating facility	(3,987)	—	—	(3,987)	NM	—	NM
Purchase price accounting step-up	12,230	4,482	2,214	7,748	173%	2,268	102%
Facility start-up and closure costs	2,100	7,600	13,700	(5,500)	(72)%	(6,100)	(45)%
Litigation costs, net of recoveries	8,251	(505)	16,518	8,756	(1,734)%	(17,023)	(103)%
Restructuring costs	15,581	9,245	795	6,336	69%	8,450	1,063%
Transaction costs (income), net	15,462	1,613	30,944	13,849	859%	(29,331)	(95)%
Adjusted EBITDA	$ 60,465	$ 58,679	$ 44,947	$ 1,786	3%	$ 13,732	31%

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 expenses 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 inventory valuation adjustments;
- 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 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. 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.

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) Revenue recognition, (ii) valuation of inventory (iii) impairment of goodwill and indefinite-lived intangible assets, (iv) business combinations and goodwill, (v) convertible notes receivable and (vi) convertible debentures. 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) 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.

(v) Convertible notes receivable

Convertible notes receivables include 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).

(vi) 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, 2023

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 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 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 optimize our operating structure, 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.

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"). The net proceeds from this offering are intended 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. The Company does not currently intend to use the net proceeds from the ATM Program for general working capital purposes, see Note 31 (Subsequent events).

During the year ended May 31, 2024, the Company exchanged $136.4 million principal of APHA 24 Notes prior to their maturity, demonstrating our commitment to optimizing our capital structure and enhancing financial flexibility. Subsequent to May 31, 2024, the remaining $0.3 million of APHA 24 was paid upon its maturity in cash, see Note 17 (Convertible debentures payable). Additionally, we intend to continue to opportunistically purchase or exchange TLRY 27 Notes prior to their underlying maturity date should the opportunity arise.

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

	For the year ended May 31, 2024	2023	2022	Change 2024 vs. 2023		Change 2023 vs. 2022	
Net cash provided by (used in) operating activities	$ (30,905)	$ 7,906	$ (177,262)	$ (38,811)	(491)%	$ 185,168	(104)%
Net cash provided by (used in) investing activities	128,349	(285,111)	(21,533)	413,460	(145)%	(263,578)	1,224%
Net cash (used in) provided by financing activities	(75,187)	70,158	128,196	(145,345)	(207)%	(58,038)	(45)%
Effect on cash of foreign currency translation	(549)	(2,230)	(1,958)	1,681	(75)%	(272)	14%
Cash and cash equivalents, beginning of period	206,632	415,909	488,466	(209,277)	(50)%	(72,557)	(15)%
Cash and cash equivalents, end of period	$ 228,340	$ 206,632	$ 415,909	$ 21,708	11%	$ (209,277)	(50)%
Marketable securities	32,182	241,897	-	(209,715)	(87)%	241,897	NM
Cash and marketable securities(1)	$ 260,522	$ 448,529	$ 415,909	$ (188,007)	(42)%	$ 32,620	8%

*(1)*The cash and marketable securities presentation of our cash flows is a non-GAAP financial measure. See "Use of Non-GAAP Measures –Cash and Marketable Securities" above for a discussion of these Non-GAAP Measures.

Cash flows from operating activities

The change in net cash used in by operating activities of ($30.9) million during the year ended May 31, 2024, compared to the net cash provided by operating activities of $7.9 million in the prior year same period is primarily related to the settlement of pre-acquisition liabilities assumed from the HEXO acquisition. Additionally, the prior period included 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, which did not recur in the current year.

Cash flows from investing activities

The increase in net cash provided by investing activities to $128.3 million from net cash used in investing activities of ($285.1) million in 2024 compared to 2023 changed primarily due to the sale of marketable securities in the current periods compared to investing in marketable securities in the prior periods as well as the cash used in the acquisition of various businesses, Note 9 (Business acquisitions).

Cash flows from financing activities

The cash used in financing activities of ($75.2) million in the period ended May 31, 2024, changed from $70.2 million provided by financing activities in the period ended May 31, 2023. In the current period, cash was provided by initial funds from the new ATM program, the overallotment of TLRY 27 Notes and other long term debt offset by the repurchase of convertible notes and long-term debt, while in the comparative period a larger amount of cash was provided by the ATM capital raise and smaller amounts of repurchased debt.

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, 2024, the Company maintained $260.5 million of cash and cash equivalents on hand and marketable securities, compared to $448.5 million in cash and cash equivalents at May 31, 2023.

Working capital provides funds for the Company to meet its operational and capital requirements. As of May 31, 2024, the Company maintained working capital of $378.5 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	Finance leases
2025	$ 5,821	$ 4,036
2026	5,540	4,036
2027	4,893	4,036
2028	3,997	4,036
Thereafter	6,101	79,993
Total minimum lease payments	$ 26,352	$ 96,137
Imputed interest	(5,879)	(51,097)
Obligations recognized	$ 20,473	$ 45,040

Purchase and other commitments

The Company has payments on long-term debt, refer to Note 16 (Long-term debt), convertible notes, refer to Note 17 (Convertible debentures payable), material purchase commitments and construction commitments as follows:

	Total	2025	2026	2027	2028	Thereafter
Long-term debt repayment	$ 174,666	$ 15,507	$ 43,232	$ 11,764	$ 68,672	$ 35,491
Convertible debentures payable	172,830	330	—	172,500	—	—
Material purchase obligations	59,959	26,410	33,549	—	—	—
Construction commitments	575	575	—	—	—	—
Total	$ 408,030	$ 42,822	$ 76,781	$ 184,264	$ 68,672	$ 35,491

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. See Note 28 (Commitments and contingencies) for additional details.

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, 2024, 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, 2024, 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 are due in 2027.

The Company maintains debt service charge and leverage covenants on certain loans secured by its Aphria Diamond facilities and ABC Group 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, 2024, management regards liquidity risk to be low.

(c) Currency rate risk

As at May 31, 2024, 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 as of the date of this Form 10-K 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 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.