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

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Condensed Interim Consolidated Financial Statements and the related Notes thereto for the period ended February 29, 2024 contained in this Quarterly Report on Form 10-Q and the Audited Consolidated Financial Statements and the related Notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended May 31, 2023, as well as in conjunction with the sections entitled "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended May 31, 2023 and in the section entitled "Item 1A. Risk Factors" in this Quarterly Report on Form 10-Q. Forward looking statements in this Form 10-Q are qualified by the cautionary statement included in this Form 10-Q under the sub-heading "Cautionary Note Regarding Forward-Looking Statements" in the introduction of this Form 10-Q.

Company Overview

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

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

Trends and Other Factors Affecting Our Business

Beverage alcohol market trends:

The U.S. beverage alcohol category is approximately a $180 billion category per AKI Technologies encompassing beer, wine, and spirits and continues to maintain annual growth of 2% 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 third quarter ended February 29, 2024. This expansion has notably increased product availability, enabling us to effectively engage with a broader yet more targeted consumer base and drive sales growth.

- *Market share*. Despite a challenging environment marked by a 1.9% decline in the US Craft beer industry according to Circana, the Company’s beer category has showcased resilience in our home markets. While our overall performance trended softer due to stronger than anticipated impacts from "Dry January", 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.

- *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 Blueberry variants. These strategic innovations underscore our commitment to offering high-quality options across diverse beverage categories, positioning us for sustained growth and differentiation in the competitive beverage alcohol segment.

In the spirits category, Breckenridge Distillery stands out as a beacon within the bourbon industry, making notable strides in vodka and gin markets while offering a comprehensive hospitality experience through its world-class restaurant and retail location. Our primary growth objective centers on expanding market share across the United States. To fuel future expansion, we prioritize showcasing our exceptional product quality and introducing innovative new offerings. Recent accolades, including Double Gold awards at prestigious competitions 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 given how nascent the industry is with federal legalization of adult-use cannabis occurring just over five years ago. Through analysis of the current market conditions, the following key trends have emerged and are anticipated to influence the near-term future in the Canadian cannabis industry:

- *Market share*. Tilray continues to maintain its market leadership position in Canada. However, during the quarter, we experienced a marginal dip in market share in Canada from 12.5% to 11.6% 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 seasonal change in consumer's form factor preferences out of areas we specialize in.

- *Price compression.* Historical price compression persists in the market, intensified by fierce competition among the approximately 1,200 Licensed Producers in Canada. Despite increased sales volume, year-over-year price compression has adversely impacted revenue by approximately $3.1 million and $9.8 million for the three and nine months ended February 29, 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.

- *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 in the process of integrating our recently acquired HEXO and Truss and have identified $27 million of synergies. Once we have achieved the identified synergies, we expect our 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.

Current developments related to the Excise Tax Act:

It has recently been reported that Canada Revenue Agency (CRA) has taken steps to garnish payments due to Canadian Licensed Producers (LPs), who have failed to pay their Excise Tax in full in a timely manner. The reported garnishments by CRA were quickly followed by at least 2 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. 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.

It has been reported that the Standing Committee of the Finance Committee has recommended to Canada’s Finance Minister that the current excise tax regime be replaced with a 10% ad valorem tax regime. If the Canadian government takes this step and we encourage the various Provincial governments to resist replacing this 10% ad valorem tax regime with their own, to claim any portion of this savings as additional profit by their respective Cannabis boards, or to require the savings be passed directly to consumers, as a means to strengthening the Canadian cannabis industry.

International cannabis market updates:

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

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

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

Subsequent to the end of our third quarter, the Cannabis Act, consisting of two parts, the CanG and MedCanG, passed both chambers of the German parliament, was signed into law by the Office of the Federal President and decriminalization and MedCanG portions of the Cannabis Act became effective on April 1, 2024. It is expected that the licensing process for the cannabis social clubs will become effective on July 1, 2024.

The MedCanG provides for several important medical cannabis reforms including the abolishment of the tender for domestic production, which will be 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 will 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 will ease the reporting and storing requirements for pharmacies and distributors.

We expect to see the cornerstone framework for the Pillar Two Regulations governing the model projects after the implementation of the Cannabis Act.

We continue to believe that Tilray is well-positioned in Germany, especially in light of the enactment of MedCanG and given that we are one of only three manufacturers of medical cannabis in Germany as our wholly owned subsidiary, Aphria RX, was awarded the tender for the cultivation of medical cannabis in Germany by the BfArM. With the abolishment of the tender, we will seek to obtain a license for our state-of-the-art facility in Neumünster, which will improve our ability to more adequately meets the needs of patients. We further believe that the reclassification of medical cannabis as a non-narcotic provides Tilray with a larger market opportunity.

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 individual 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 its U.S. and Canadian leading market share position during the three and nine months ended February 29, 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 beverage space, with the launch of Bio-Active Fiber and protein rich Oatmeal coming to market during the three months ended February 29, 2024. In addition, during the later half of the quarter 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 three and nine months ended February 29, 2024, we incurred $3.5 million and $13.1 million of transaction expenses, discussed further below.

Our acquisition strategy has had a material impact on the Company’s results in the current quarter and 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 Corp. (“HEXO”) as discussed in Note 7 (Business acquisitions). 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 three and nine months ended February 29, 2024, we have achieved $27.5 million of our synergy plan on an annualized run-rate basis, of which $15.6 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.

- ***Craft beverage acquisition:***

On September 29, 2023, Tilray acquired a portfolio of craft beer brands, assets and businesses comprising eight beer and beverage brands from Anheuser-Busch Companies, LLC, including breweries and brewpubs associated with them (the “Craft Acquisition”). The acquired businesses 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 details of the acquisition are as described in Note 7 (Business acquisitions). 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 encompasses 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 second quarter which impact results for the nine months ended February 29, 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 now considers this plan fulfilled, 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 required additional capacity from our existing 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.

Political and Economic Environment

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

Results of Operations

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

	For the three months ended				For the nine months ended			
(in thousands of U.S. dollars)	February 29, 2024	February 28, 2023	Change 2024 vs. 2023	% Change 2024 vs. 2023	February 29, 2024	February 28, 2023	Change 2024 vs. 2023	% Change 2024 vs. 2023
Net revenue	$ 188,340	$ 145,589	$ 42,751	29%	$ 559,060	$ 442,936	$ 116,124	26%
Cost of goods sold	138,944	157,288	(18,344)	(12)%	418,059	363,139	54,920	15%
Gross profit (loss)	49,396	(11,699)	61,095	(522)%	141,001	79,797	61,204	77%
Operating expenses:								
General and administrative	39,940	38,999	941	2%	123,769	117,385	6,384	5%
Selling	9,995	6,452	3,543	55%	24,437	25,792	(1,355)	(5)%
Amortization	21,558	23,518	(1,960)	(8)%	65,700	71,872	(6,172)	(9)%
Marketing and promotion	11,191	7,354	3,837	52%	28,934	23,137	5,797	25%
Research and development	106	171	(65)	(38)%	241	502	(261)	(52)%
Change in fair value of contingent consideration	(5,983)	352	(6,335)	(1,800)%	(16,790)	563	(17,353)	(3,082)%
Impairments	—	934,000	(934,000)	(100)%	—	934,000	(934,000)	(100)%
Other than temporary change in fair value of convertible notes receivable	42,681	181,376	(138,695)	(76)%	42,681	181,376	(138,695)	(76)%
Litigation costs, net of recoveries	3,363	(5,230)	8,593	(164)%	8,439	(1,970)	10,409	(528)%
Restructuring costs	5,178	2,663	2,515	94%	8,748	10,727	(1,979)	(18)%
Transaction costs (income)	3,465	5,382	(1,917)	(36)%	13,061	(3,882)	16,943	(436)%
Total operating expenses	131,494	1,195,037	(1,063,543)	(89)%	299,220	1,359,502	(1,060,282)	(78)%
Operating loss	(82,098)	(1,206,736)	1,124,638	(93)%	(158,219)	(1,279,705)	1,121,486	(88)%
Interest expense, net	(8,517)	(1,040)	(7,477)	719%	(26,977)	(8,560)	(18,417)	215%
Non-operating (expense) income, net	(17,239)	1,213	(18,452)	(1,521)%	(20,820)	(50,229)	29,409	(59)%
Loss before income taxes	(107,854)	(1,206,563)	1,098,709	(91)%	(206,016)	(1,338,494)	1,132,478	(85)%
Income tax expense	(2,871)	(10,811)	7,940	(73)%	1,013	(15,313)	16,326	(107)%
Net loss	$ (104,983)	$ (1,195,752)	$ 1,090,769	(91)%	$ (207,029)	$ (1,323,181)	$ 1,116,152	(84)%

Use of Non-GAAP Measures

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

- adjusted gross profit (excluding purchase price allocation (“PPA”) fair value step up) and inventory valuation adjustments for each reporting segment (Cannabis, Beverage alcohol, distribution and Wellness) as applicable,

- adjusted gross margin (excluding purchase price allocation (“PPA”) fair value step up) and inventory valuation adjustments for each reporting segment (Cannabis, Beverage alcohol, distribution and Wellness) as applicable,

- adjusted EBITDA,

- cash and marketable securities, and

- constant currency presentation of net revenue.

All these non-GAAP financial measures should be considered in addition to, and not in lieu of, the financial measures calculated and presented in accordance with accounting principles generally accepted in the United States of America, ("GAAP"). These measures, which may be different than similarly titled measures used by other companies, are presented to help investors' overall understanding of our financial performance and should not be considered a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. Please see "Reconciliation of Non-GAAP Financial Measures to GAAP Measures" below for reconciliation of such non-GAAP Measures to the most directly comparable GAAP financial measures, as well as a discussion of our adjusted gross margin, adjusted gross profit and adjusted EBITDA measures and the calculation of such measures.

Constant Currency Presentation

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

Cash and Marketable Securities

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

Operating Metrics and Non-GAAP Measures

We use the operating metrics and non-GAAP measures set forth in the table below to evaluate our business and operations, measure our performance, identify trends affecting our business, project our future performance, and make strategic decisions. Other companies, including companies in our industry, may calculate operating metrics and non-GAAP measures with similar names differently which may reduce their usefulness as comparative measures. Certain variances are labeled as not meaningful ("NM") throughout management's discussion and analysis.

	For the three months ended		For the nine months ended	
(in thousands of U.S. dollars)	**February 29, 2024**	**February 28, 2023**	**February 29, 2024**	**February 28, 2023**
Net beverage alcohol revenue	$ 54,688	$ 20,640	$ 125,355	$ 62,689
Net cannabis revenue	63,432	47,549	200,879	156,017
Distribution revenue	56,794	65,385	193,174	186,158
Wellness revenue	13,426	12,015	39,652	38,072
Beverage alcohol costs	35,836	10,663	77,615	32,932
Cannabis costs	42,518	80,362	139,507	137,800
Distribution costs	51,231	57,964	172,846	165,443
Wellness costs	9,359	8,299	28,091	26,964
Adjusted gross profit (excluding PPA step-up) (1)	51,643	44,310	153,055	138,020
Beverage alcohol adjusted gross margin (excluding PPA step-up) (1)	38%	53%	42%	53%
Cannabis adjusted gross margin (excluding PPA step-up) (1)	33%	47%	34%	47%
Distribution gross margin	10%	11%	11%	11%
Wellness gross margin	30%	31%	29%	29%
Adjusted EBITDA (1)	$ 10,154	$ 13,315	30,974	$ 37,154
Cash and marketable securities (1) as at the period ended:	225,858	408,283	225,858	408,283
Working capital as at the period ended:	$ 302,111	$ 288,830	$ 302,111	$ 288,830

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

Segment Reporting

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

	For the three months ended				For the nine months ended			
(in thousands of U.S. dollars)	**February 29, 2024**	**February 28, 2023**	**Change 2024 vs. 2023**	**% Change 2024 vs. 2023**	**February 29, 2024**	**February 28, 2023**	**Change 2024 vs. 2023**	**% Change 2024 vs. 2023**
Beverage alcohol business	$ 54,688	$ 20,640	$ 34,048	165%	$ 125,355	$ 62,689	$ 62,666	100%
Cannabis business	63,432	47,549	15,883	33%	200,879	156,017	44,862	29%
Distribution business	56,794	65,385	(8,591)	(13)%	193,174	186,158	7,016	4%
Wellness business	13,426	12,015	1,411	12%	39,652	38,072	1,580	4%
Total net revenue	$ 188,340	$ 145,589	$ 42,751	29%	$ 559,060	$ 442,936	$ 116,124	26%

Our reporting segments revenue using a constant currency(1) are as follows:

(in thousands of U.S. dollars)	For the three months ended February 29, 2024 as reported	February 28, 2023 in constant currency	Change 2024 vs. 2023	% Change 2024 vs. 2023	For the nine months ended February 29, 2024 as reported	February 28, 2023 in constant currency	Change 2024 vs. 2023	% Change 2024 vs. 2023
Beverage alcohol business	$ 54,688	$ 20,640	$ 34,048	165%	$ 125,355	$ 62,689	$ 62,666	100%
Cannabis business	63,436	47,549	15,887	33%	202,186	156,017	46,169	30%
Distribution business	59,008	65,385	(6,377)	(10)%	190,462	186,158	4,304	2%
Wellness business	13,381	12,015	1,366	11%	39,844	38,072	1,772	5%
Total net revenue	$ 190,513	$ 145,589	$ 44,924	31%	$ 557,847	$ 442,936	$ 114,911	26%

Our geographic revenue is as follows:

(in thousands of U.S. dollars)	For the three months ended February 29, 2024	February 28, 2023	Change 2024 vs. 2023	% Change 2024 vs. 2023	For the nine months ended February 29, 2024	February 28, 2023	Change 2024 vs. 2023	% Change 2024 vs. 2023
North America	$ 117,524	$ 70,463	$ 47,061	67%	$ 325,664	$ 228,866	$ 96,798	42%
EMEA	67,143	71,111	(3,968)	(6)%	222,139	199,867	22,272	11%
Rest of World	3,673	4,015	(342)	(9)%	11,257	14,203	(2,946)	(21)%
Total net revenue	$ 188,340	$ 145,589	$ 42,751	29%	$ 559,060	$ 442,936	$ 116,124	26%

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

(in thousands of U.S. dollars)	For the three months ended February 29, 2024 as reported	February 28, 2023 in constant currency	Change 2024 vs. 2023	% Change 2024 vs. 2023	For the nine months ended February 29, 2024 as reported	February 28, 2023 in constant currency	Change 2024 vs. 2023	% Change 2024 vs. 2023
North America	$ 117,091	$ 70,463	$ 46,628	66%	$ 327,734	$ 228,866	$ 98,868	43%
EMEA	66,139	71,111	(4,972)	(7)%	211,384	199,867	11,517	6%
Rest of World	7,283	4,015	3,268	81%	18,729	14,203	4,526	32%
Total net revenue	$ 190,513	$ 145,589	$ 44,924	31%	$ 557,847	$ 442,936	$ 114,911	26%

Our geographic capital assets are as follows:

(in thousands of U.S. dollars)	February 29, 2024	May 31, 2023	Change 2024 vs. 2023	% Change 2024 vs. 2023
North America	$ 473,779	$ 319,173	$ 154,606	48%
EMEA	101,271	107,131	(5,860)	(5)%
Rest of World	3,733	3,363	370	11%
Total capital assets	$ 578,783	$ 429,667	$ 149,116	35%

Beverage alcohol revenue

Revenue from our Beverage alcohol operations increased to $54.7 million and $125.4 million for the three and nine months ended February 29, 2024, compared to revenue of $20.6 million and $62.7 million for the prior year period. The increase observed during both the three and nine-month periods can be predominantly attributed to our recent acquisitions, particularly the newly integrated Craft Acquisition brands finalized on September 29, 2023. Specifically, the three-month increase is solely driven by the performance of these newly acquired brands, while our legacy brands have maintained consistent performance throughout the period. Furthermore, the nine-month period increase was also influenced by the newly acquired brands and by the organic growth of 9% in our legacy brand portfolio. The Company anticipates that revenue will increase for both acquired and legacy brands through our continued focus on expanding distribution points. Lastly during the three month period, 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:

	For the three months ended				For the nine months ended			
(in thousands of US dollars)	**February 29, 2024**	**February 28, 2023**	**Change**	**% Change 2024 vs. 2023**	**February 29, 2024**	**February 28, 2023**	**Change**	**% Change 2024 vs. 2023**
Revenue from Canadian medical cannabis	$ 6,363	$ 6,035	$ 328	5%	$ 18,793	$ 18,920	$ (127)	(1)%
Revenue from Canadian adult-use cannabis	62,107	45,318	16,789	37%	205,350	156,063	49,287	32%
Revenue from wholesale cannabis	2,764	58	2,706	4,666%	12,348	686	11,662	1,700%
Revenue from international cannabis	14,002	9,707	4,295	44%	40,185	27,834	12,351	44%
Total cannabis revenue	85,236	61,118	24,118	39%	276,676	203,503	73,173	36%
Excise taxes	(21,804)	(13,569)	(8,235)	61%	(75,797)	(47,486)	(28,311)	60%
Total cannabis net revenue	$ 63,432	$ 47,549	$ 15,883	33%	$ 200,879	$ 156,017	$ 44,862	29%

Cannabis revenue based on market channel using a constant currency(1) is as follows:

	For the three months ended February 29, February 28, as reported in constant currency				For the nine months ended February 29, February 28, as reported in constant currency			
(in thousands of US dollars)	**2024**	**2023**	**Change**	**% Change 2024 vs. 2023**	**2024**	**2023**	**Change**	**% Change 2024 vs. 2023**
Revenue from Canadian medical cannabis	$ 6,307	$ 6,035	$ 272	5%	$ 18,994	$ 18,920	$ 74	0%
Revenue from Canadian adult-use cannabis	61,576	45,318	16,258	36%	207,708	156,063	51,645	33%
Revenue from wholesale cannabis	2,763	58	2,705	4,664%	12,559	686	11,873	1,731%
Revenue from international cannabis	14,390	9,707	4,683	48%	39,609	27,834	11,775	42%
Total cannabis revenue	85,036	61,118	23,918	39%	278,870	203,503	75,367	37%
Excise taxes	(21,600)	(13,569)	(8,031)	59%	(76,684)	(47,486)	(29,198)	61%
Total cannabis net revenue	$ 63,436	$ 47,549	$ 15,887	33%	$ 202,186	$ 156,017	$ 46,169	30%

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

Revenue from Canadian medical cannabis: Revenue from Canadian medical cannabis increased to $6.4 million and $18.8 million for the three and nine months ended February 29, 2024, compared to revenue of $6.0 million and $18.9 million for the prior year same period. On a constant currency basis revenue from Canadian medical cannabis was $6.3 million and $19.0 million for the three and nine months ended February 29, 2024, compared to revenue of $6.0 million and $18.9 million for the prior year same periods. On an industry basis, the medical channel continues to experience migration of non-insured patients moving to the adult-use market. Despite this industry trend, we have grown our assortment in Tilray medical and maintained our sales despite the loss in patient base.

Revenue from Canadian adult-use cannabis: During the three and nine months ended February 29, 2024, our revenue from Canadian adult-use cannabis increased to $62.1 million and $205.4 million, compared to revenue of $45.3 million and $156.1 million for the prior year period. Further, the prior year revenue includes advisory fees in the amount of $8.7 million and $24.3 million for the three and nine months ended February 28, 2023, compared to $nil and $1.5 million for the three and nine months ended February 29, 2024. Excluding these advisory service fees, revenue increased by $25.5 million and $72.1 million for the three and nine months ended February 29, 2024. The increase in adult-use revenue is due to the acquisitions of HEXO on June 22, 2023 and Truss on August 3, 2023, and our robust innovation pipeline from existing brands. On a constant currency basis, our revenue from Canadian adult-use cannabis increased to $61.6 million and $207.7 million for the three and nine months ended February 29, 2024.

Wholesale cannabis revenue: Revenue from wholesale cannabis increased to $2.8 million and $12.3 million for the three and nine months ended February 29, 2024, compared to revenue of $0.1 million and $0.7 million for the prior year period. On a constant currency basis, revenue from wholesale cannabis increased to $2.8 million and $12.6 million for the three and nine months ended February 29, 2024 compared to revenue of $0.1 million and $0.7 million. The Company continues to believe that wholesale cannabis revenue will remain subject to quarter-to-quarter variability and is based on opportunistic sales. The wholesale transactions that occurred in the current year periods aided with our liquidity initiatives to increase our cash flow from operations despite having unfavorable impacts on our gross margin and EBITDA.

International cannabis revenue: Revenue from international cannabis increased to $14.0 million and $40.2 million for the three and nine months ended February 29, 2024, compared to revenue of $9.7 million and $27.8 million for the prior year period. On a constant currency basis, given the changes in the Euro against the U.S. Dollar when compared to the prior year quarter, revenue from international cannabis was $14.4 million and $39.6 million compared to $9.7 million and $27.8 million in the prior year period (during the nine months ended February 28, 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 is largely driven by revenue growth in existing markets and expansion into new international medical markets.

Distribution revenue

Revenue from distribution decreased to $56.8 million and increased to $193.2 million for the three and nine months ended February 29, 2024, compared to revenue of $65.4 million and $186.2 million for the prior year period. On a constant currency basis, given the change in the Euro and Argentine Peso against the U.S. Dollar in the quarter, revenue from Distribution was $59.0 million and $190.5 million for the three and nine months ended February 29, 2024. In the quarter, revenue was negatively impacted by IT infrastructure outages and weather, both of which impacted revenue by approximately $3.0 million. Additionally, the Company faced short-term challenges related to new regulatory rebates, which caused us to lower our sales activities.

Wellness revenue

Our Wellness revenue showed strong growth delivering $13.4 million and $39.7 million for the three and nine months ended February 29, 2024 compared to $12.0 million and $38.1 million from the prior year period. On a constant currency basis for the three and nine months ended February 29, 2024, Wellness revenue increased to $13.4 million and $39.8 million from $12.0 and $38.1 million. The increase in revenue can be attributed to our strategic focus on targeted advertising campaigns aligned with emerging trends in healthier lifestyles, particularly around the new year, coupled with our continuous innovation efforts.

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

Our gross profit and gross margin for the three and nine months ended February 29, 2024 and February 28, 2023, is as follows:

(in thousands of U.S. dollars)	For the three months ended February 29, 2024	For the three months ended February 28, 2023	Change 2024 vs. 2023	% Change 2024 vs. 2023	For the nine months ended February 29, 2024	For the nine months ended February 28, 2023	Change 2024 vs. 2023	% Change 2024 vs. 2023
Beverage alcohol								
Net revenue	$ 54,688	$ 20,640	$ 34,048	165%	$ 125,355	$ 62,689	$ 62,666	100%
Cost of goods sold	35,836	10,663	25,173	236%	77,615	32,932	44,683	136%
Gross profit	18,852	9,977	8,875	89%	47,740	29,757	17,983	60%
Gross margin	34%	48%	(14)%	(29)%	38%	47%	(9)%	(19)%
Purchase price accounting step-up	2,073	1,009	1,064	105%	4,426	3,223	1,203	37%
Adjusted gross profit (1)	20,925	10,986	9,939	90%	52,166	32,980	19,186	58%
Adjusted gross margin (1)	38%	53%	(15%)	(28%)	42%	53%	(11%)	(21%)
Cannabis								
Net revenue	63,432	47,549	15,883	33%	200,879	156,017	44,862	29%
Cost of goods sold	42,518	80,362	(37,844)	(47)%	139,507	137,800	1,707	1%
Gross profit (loss)	20,914	(32,813)	53,727	(164)%	61,372	18,217	43,155	237%
Gross margin	33%	(69)%	102%	(148)%	31%	12%	19%	158%
Purchase price accounting step-up	174	—	174	NM	7,628	—	7,628	NM
Inventory valuation adjustments	—	55,000	(55,000)	(100)%	—	55,000	(55,000)	(100)%
Adjusted gross profit (1)	21,088	22,187	(1,099)	(5)%	69,000	73,217	(4,217)	(6)%
Adjusted gross margin (1)	33%	47%	(14)%	(30)%	34%	47%	(13)%	(28)%
Distribution								
Net revenue	56,794	65,385	(8,591)	(13)%	193,174	186,158	7,016	4%
Cost of goods sold	51,231	57,964	(6,733)	(12)%	172,846	165,443	7,403	4%
Gross profit	5,563	7,421	(1,858)	(25)%	20,328	20,715	(387)	(2)%
Gross margin	10%	11%	(1)%	(9)%	11%	11%	0%	0%
Wellness								
Net revenue	13,426	12,015	1,411	12%	39,652	38,072	1,580	4%
Cost of goods sold	9,359	8,299	1,060	13%	28,091	26,964	1,127	4%
Gross profit	4,067	3,716	351	9%	11,561	11,108	453	4%
Gross margin	30%	31%	(1)%	(3)%	29%	29%	0%	0%
Total								
Net revenue	188,340	145,589	42,751	29%	559,060	442,936	116,124	26%
Cost of goods sold	138,944	157,288	(18,344)	(12)%	418,059	363,139	54,920	15%
Gross profit	49,396	(11,699)	61,095	(522)%	141,001	79,797	61,204	77%
Gross margin	26%	(8)%	34%	(425)%	25%	18%	7%	39%
Inventory valuation adjustments	—	55,000	(55,000)	(100)%	—	55,000	(55,000)	(100)%
Purchase price accounting step-up	2,247	1,009	1,238	123%	12,054	3,223	8,831	274%
Adjusted gross profit (1)	51,643	44,310	7,333	17%	153,055	138,020	15,035	11%
Adjusted gross margin (1)	27%	30%	(3)%	(10)%	27%	31%	(4)%	(13)%

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

Beverage alcohol gross margin: Gross margin of 34% and 38% for the three and nine months ended February 29, 2024 decreased from 48% and 47% from the same period in the prior year. Adjusted gross margin of 38% and 42% for the three and nine months ended February 29, 2024 decreased from 53% and 53% from the periods in the prior year. 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. Additionally, during the three month period 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 three and nine months ended February 29, 2024 to 33% and 31% from (69)% and 12% for the prior year same period. Excluding the impact of the non-cash fair value purchase price accounting step-up and inventory valuation adjustments, adjusted gross margin during the three and nine months ended February 29, 2024 decreased to 33% and 34% from 47% and 47% when comparing the same prior year period. A portion of the decrease is a result of the termination of the HEXO advisory services agreement which contributed $nil and $1.5 million of gross profit in the current year compared to $8.7 and $24.3 million in the prior year, which if excluded would decrease adjusted gross margin to 35% and 37% for the three and nine months ended February 28, 2023. The remaining decline in gross margin for the three and nine month periods was a result of a change in sales mix with a higher percentage of sales coming from wholesale.

Distribution gross margin: Gross margin of 10% and 11% for the three and nine months ended February 29, 2024 decreased from 11% and 11% for the prior year period. While consistent for the nine month period comparison, the decrease in the gross margin for the three month period is attributed to product mix.

Wellness gross margin: Gross margin of 30% and 29% for the three and nine months ended February 29, 2024 decreased from 31% and 29% from the same period in the prior year. The decrease in the three month period was a result of a change in sales mix towards more bulk retail sales which have a lower margin. Wellness gross margin stayed consistent during the nine month period.

Operating expenses

(in thousands of US dollars)	For the three months ended February 29, 2024	For the three months ended February 28, 2023	Change 2024 vs. 2023	% Change 2024 vs. 2023	For the nine months ended February 29, 2024	For the nine months ended February 28, 2023	Change 2024 vs. 2023	% Change 2024 vs. 2023
General and administrative	$ 39,940	$ 38,999	$ 941	2%	$ 123,769	$ 117,385	$ 6,384	5%
Selling	9,995	6,452	3,543	55%	24,437	25,792	(1,355)	(5)%
Amortization	21,558	23,518	(1,960)	(8)%	65,700	71,872	(6,172)	(9)%
Marketing and promotion	11,191	7,354	3,837	52%	28,934	23,137	5,797	25%
Research and development	106	171	(65)	(38)%	241	502	(261)	(52)%
Change in fair value of contingent consideration	(5,983)	352	(6,335)	(1,800)%	(16,790)	563	(17,353)	(3,082)%
Impairments	—	934,000	(934,000)	(100)%	—	934,000	(934,000)	(100)%
Other than temporary change in fair value of convertible notes receivable	42,681	181,376	(138,695)	(76)%	42,681	181,376	(138,695)	(76)%
Litigation costs, net of recoveries	3,363	(5,230)	8,593	(164)%	8,439	(1,970)	10,409	(528)%
Restructuring costs	5,178	2,663	2,515	94%	8,748	10,727	(1,979)	(18)%
Transaction costs (income)	3,465	5,382	(1,917)	(36)%	13,061	(3,882)	16,943	(436)%
Total operating expenses	$ 131,494	$ 1,195,037	$ (1,063,543)	(89)%	$ 299,220	$ 1,359,502	$ (1,060,282)	(78)%

Operating expenses are comprised of general and administrative, selling, amortization, marketing and promotion, research and development, change in fair value of contingent consideration, impairments, other than temporary change in fair value of convertible notes receivable, litigation costs, net of recoveries, restructuring costs and transaction (income) costs. These costs decreased by ($1,063.5) and ($1,060.3) million to $131.5 and $299.2 million for the three and nine months ended February 29, 2024 as compared to $1,195.0 and $1,359.5 million for the same period of the prior year. These changes period over period are described below.

General and administrative costs

During the three and nine months ended February 29, 2024, the changes in general and administrative costs when compared to the prior year periods are described as follows:

(in thousands of US dollars)	For the three months ended February 29, 2024	For the three months ended February 28, 2023	Change 2024 vs. 2023	% Change 2024 vs. 2023	For the nine months ended February 29, 2024	For the nine months ended February 28, 2023	Change 2024 vs. 2023	% Change 2024 vs. 2023
Executive compensation	$ 1,585	$ 2,754	$ (1,169)	(42)%	$ 4,757	$ 9,359	$ (4,602)	(49)%
Office and general	4,190	6,799	(2,609)	(38)%	20,423	20,011	412	2%
Salaries and wages	19,588	13,621	5,967	44%	52,310	38,407	13,903	36%
Stock-based compensation	8,059	9,630	(1,571)	(16)%	24,517	29,766	(5,249)	(18)%
Insurance	3,569	3,159	410	13%	9,917	8,588	1,329	15%
Professional fees	656	1,165	(509)	(44)%	4,658	5,385	(727)	(14)%
(Gain) loss on sale of capital assets	23	(15)	38	(253)%	3	(2)	5	(250)%
Travel and accommodation	1,246	1,104	142	13%	3,727	3,484	243	7%
Rent	1,024	782	242	31%	3,457	2,387	1,070	45%
Total general and administrative costs	$ 39,940	$ 38,999	$ 941	2%	$ 123,769	$ 117,385	$ 6,384	5%

Executive compensation decreased by 42% and 49% in the three and nine months ended February 29, 2024, primarily as a result of changes in estimates related to timing of compensation accruals.

Office and general decreased by 38% and 2% during the three and nine months ended February 29, 2024. The decrease for the three month period is a result of $4.4 million of bad debt recoveries on a previously recognized credit loss provision, see Note 19 (Commitments and contingencies). The decrease is offset by the acquisition of the newly acquired beverage alcohol business portfolio and HEXO, which did not occur in the prior period.

Salaries and wages increased by 44% and 36% during the three and nine months ended February 29, 2024. The increase is primarily due to the inclusion of newly acquired beverage alcohol business portfolio and HEXO employees, which were not in the prior period.

The Company recognized stock-based compensation expense of $8.1 and $24.5 million for the three and nine months ended February 29, 2024 compared to $9.6 and $29.8 million for the same period in the prior year. Stock based compensation expense is based on the time-based vesting schedules and varies according to the assumptions used in the vesting model. During the three and nine months ended February 29, 2024, as a result of a 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 expense increased by 13% and increased by 15% for the three and nine months ended February 29, 2024 to $3.6 and $9.9 million from $3.2 and $8.6 million for the same period in the prior year. The increase for the three and nine months ended February 29, 2024, was driven by 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.

Rent expense increased by 31% and 45% for the three and nine months ended February 29, 2024 to $1.0 and $3.5 million from $0.8 and $2.4 million for the same period in the prior year. This increase was driven by the newly acquired beverage alcohol business portfolio and HEXO.

Selling costs

For the three and nine months ended February 29, 2024, the Company incurred selling costs of $10.0 and $24.4 million or 5.3% and 4.4% of net revenue as compared to $6.5 and $25.8 million and 4.4% and 5.8% of net revenue in the prior year period. These costs relate to third-party shipping costs for all segments, with the majority of the selling costs relating to the cannabis segment from distributor commissions, 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 three month period is a result of the increase in sales from the prior year period. The decrease in the nine month period was related to 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 $21.6 and $65.7 million for the three and nine months ended February 29, 2024 compared to $23.5 and $71.9 million in the prior year period. The decreased amortization in the period is a result of the reduced intangible asset levels, as a result of prior year impairments.

Marketing and promotion costs

For the three and nine months ended February 29, 2024, the Company incurred marketing and promotion costs of $11.2 and $28.9 million as compared to $7.4 and $23.1 million for the prior year period. The increase is due to the acquisition of the newly acquired beverage alcohol business portfolio, and HEXO.

Research and development

Research and development costs were $0.1 and $0.2 million during the three and nine months ended February 29, 2024 compared to $0.2 and $0.5 million in the prior year period. These relate to external costs associated with the development of new products.

Change in fair value of contingent consideration

The Company measures contingent consideration at fair value classified as Level 3, as discussed in Note 25 (Fair value measurements). During the three months ended February 29, 2024, the contingent consideration liability that arose from the Truss acquisition of $4.2 million was settled for $0.7 million. The contingent consideration liability from the Montauk acquisition, increased to $14.0 million as of February 29, 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. The decrease in fair value of $16.8 million was driven by the conclusion of the Sweetwater obligation, the favorable cash settlement for the Truss contingent consideration, and was offset by an increase related to the increased probability of achieving the contingent consideration from the Montauk acquisition.

Litigation

For the three and nine months ended February 29, 2024, the Company recorded $3.4 and $8.4 million of litigation settlements costs, net of favorable recoveries, and the third party fees associated with defending these claims, compared to a net benefit of ($5.2) and ($2.0) million for the prior period comparative. The increase is related to period to period variability as litigation is non-recurring in nature. Included in the three and nine months ended February 28, 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.

Restructuring costs

In connection with the execution of our acquisition strategy and strategic transactions, the Company has incurred non-recurring restructuring and exit costs associated with the integration efforts of these transactions. For the three and nine months ended February 29, 2024, the Company incurred $5.2 and $8.7 million of restructuring costs compared to $2.7 and $10.7 million for the prior period comparative.

The Company approves detailed restructuring initiative plans at the executive level and recognizes these expenses in the period in which the plan has been committed to. The detailed breakdown of the restructuring plans in place, inclusive of their expected timeline for completion, for the three and nine months ended February 29, 2024, is as follows:

HEXO Acquisition: Pursuant to our announced synergy program of $27 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 nine-month period, we recognized $4.0 million related to employee termination benefits costs in relation to the conversion of our Masson facility from cannabis to produce, the optimization of our Redecan facilities and expenses associated with our Masson facility, which is currently operational although available for sale.

Truss Acquisition: In relation to the acquisition of Truss, the Company has decided to repurpose the facility for the production of non-cannabis beverages. The Company expects the timeline of completion of this program to be 18 months from date of acquisition. In the current nine-month period, we recognized $3.5 million of restructuring charges related to the costs of exiting the facility until the new business has resumed.

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 three months ended November 30, 2023. In the current nine-month period ended February 29, 2024, 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 quarter 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 nine-month period, we recognized $0.8 million related to employee termination benefits in association with executing this plan.

For the prior period three and nine months ended February 28, 2023, the Company recognized $2.7 and $10.7 million of restructuring charges. This was comprised of amounts related to the Tilray-Aphria Arrangement Agreement for the closure of our Canadian cannabis facility in Enniskillen of $2.7 million and $4.2 million for the three and nine months ended February 28, 2023, respectively. Additionally, $1.6 million of exit cost and $2.8 million for inventory adjustments from the termination of our producer partnership in Uruguay due to a breach of the underlying contract in our International cannabis business. The Company also incurred $2.2 million of write-offs from the exit of our medical device reprocessing business in our distribution reporting segment. These exit costs were non-recurring in nature and did not have on going impacts in the current year.

Transaction (income) costs

Transaction (income) costs, which includes acquisition related income and expenses, related legal, financial advisor and due diligence cost and expenses and transaction related compensation. The three and nine months ended February 29, 2024 decrease of 36% and 436% from the prior year period is related to the following items:

- the nine months ended February, 29, 2024, included 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 nine months ended February 29, 2024 results.

Non-operating (expense) income, net

Non-operating (expense) income is comprised of:

(in thousands of US dollars)	For the three months ended February 29, 2024	For the three months ended February 28, 2023	Change	% Change 2024 vs. 2023	For the nine months ended February 29, 2024	For the nine months ended February 28, 2023	Change	% Change 2024 vs. 2023
Change in fair value of convertible debenture payable	$ (6,311)	$ 207	$ (6,518)	(3,149)%	$ (12,352)	$ (20,375)	$ 8,023	(39)%
Change in fair value of warrant liability	586	5,256	(4,670)	(89)%	(1,365)	6,841	(8,206)	(120)%
Foreign exchange (loss) gain	(3,302)	(1,955)	(1,347)	69%	1,941	(26,621)	28,562	(107)%
Loss on long-term investments	33	(925)	958	(104)%	383	(2,529)	2,912	(115)%
Other non-operating (losses) gains, net	(8,245)	(1,370)	(6,875)	502%	(9,427)	(7,545)	(1,882)	25%
Total non-operating income (expense)	$ (17,239)	$ 1,213	$ (18,452)	(1,521)%	$ (20,820)	$ (50,229)	$ 29,409	(59)%

For the three and nine months ended February 29, 2024, the Company recognized a change in fair value of its convertible debentures payable of ($6.3) million and ($12.4) million compared to $0.2 million and ($20.4) million in the prior year periods. The change is driven primarily by the changes in the Company's share price, the change in the trading price of the convertible debentures payable. Additionally, for the three and nine months ended February 29, 2024, the Company recognized a change in fair value of its warrants, resulting in a gain of $0.6 million and a loss ($1.4) million compared to gains of $5.3 million and $6.8 million also as a result of the change in our share price and the exercise price of the instrument. For the three and nine months ended February 29, 2024, the Company recognized a loss of ($3.3) million and a gain of $1.9 million, resulting from the changes in foreign exchange rates during the period, compared to a gain of ($2.0) million and a loss of ($26.6) million for the prior year periods, largely associated with the recovery of the Euro. Lastly, included in other non-operating (losses) gains, net for the three and nine months ended February 29, 2024 was $2.3 million of the downside protection share issuance relating to the HTI note, as described in Note 15 (Stockholders' equity), $2.5 million amounts to settle outstanding notes with non-controlling interest shareholders and the decrease in value of an equity investee for $4.6 million as described in Note 19 (Commitments and contingencies).

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, 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 $1.4 million and $3.2 million for the three and nine months ended February 29, 2024,. In comparison, under the previous reconciliation, the impact to adjusted EBITDA would have been $0.7 million and $2.1 million for the three and nine months ended February 28, 2023.

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

For three and nine months ended February 29, 2024, adjusted EBITDA decreased to $10.2 million and $31.0 million compared to $13.3 and $37.2 million from the prior year period. The decrease was primarily driven by the aforementioned negative impacts to our cannabis gross margin.

Adjusted EBITDA reconciliation:	For the three months ended February 29, 2024	For the three months ended February 28, 2023	Change 2024 vs. 2023	% Change 2024 vs. 2023	For the nine months ended February 29, 2024	For the nine months ended February 28, 2023	Change 2024 vs. 2023	% Change 2024 vs. 2023
Net loss	$ (104,983)	$ (1,195,752)	$ 1,090,769	(91)%	$ (207,029)	$ (1,323,181)	$ 1,116,152	(84)%
Income tax expense	(2,871)	(10,811)	7,940	(73)%	1,013	(15,313)	16,326	(107)%
Interest expense, net	8,517	1,040	7,477	719%	26,977	8,560	18,417	215%
Non-operating income (expense), net	17,239	(1,213)	18,452	(1,521)%	20,820	50,229	(29,409)	(59)%
Amortization	32,842	33,769	(927)	(3)%	95,183	101,156	(5,973)	(6)%
Stock-based compensation	8,059	9,630	(1,571)	(16)%	24,517	29,766	(5,249)	(18)%
Change in fair value of contingent consideration	(5,983)	352	(6,335)	(1,800)%	(16,790)	563	(17,353)	(3,082)%
Impairments	—	934,000	(934,000)	(100)%	—	934,000	(934,000)	(100)%
Other than temporary change in fair value of convertible notes receivable	42,681	181,376	(138,695)	(76)%	42,681	181,376	(138,695)	(76)%
Inventory valuation adjustments	—	55,000	(55,000)	(100)%	—	55,000	(55,000)	(100)%
Purchase price accounting step-up	2,247	1,009	1,238	123%	12,054	3,223	8,831	274%
Facility start-up and closure costs	400	2,100	(1,700)	(81)%	1,300	6,900	(5,600)	(81)%
Litigation costs, net of recoveries	3,363	(5,230)	8,593	(164)%	8,439	(1,970)	10,409	(528)%
Restructuring costs	5,178	2,663	2,515	94%	8,748	10,727	(1,979)	(18)%
Transaction costs (income)	3,465	5,382	(1,917)	(36)%	13,061	(3,882)	16,943	(436)%
Adjusted EBITDA	$ 10,154	$ 13,315	$ (3,161)	(24)%	$ 30,974	$ 37,154	$ (6,180)	(17)%

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

- Non-cash amortization expenses and, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future;
- Stock-based compensation expenses, a non-cash expense and are an important part of our compensation strategy;
- Non-cash impairment charges, as the charges are not expected to be a recurring business activity;
- Non-cash 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, 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.

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.

During the three months ended February 29, 2024, the Company exchanged $50.7 million principal of APHA 24 Notes prior to their maturity, demonstrating our commitment to optimizing our capital structure and enhancing financial flexibility. We intend to continue to opportunistically purchase or exchange additional APHA 24 Notes prior to their underlying maturity date in June 2024. We believe this demonstrates and reinforces our commitment to optimizing our capital structure and enhancing financial flexibility. See Note 27 (Subsequent events) for additional details.

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

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

	For the three months ended				For the nine months ended			
	February 29, 2024	February 28, 2023	Change	% Change	February 29, 2024	February 28, 2023	Change	% Change
			2024 vs. 2023				2024 vs. 2023	
Net cash provided by (used in) operating activities	$ (15,361)	$ (18,632)	$ 3,271	(18)%	$ (61,612)	$ (35,692)	$ (25,920)	73%
Net cash provided by (used in) investing activities	28,086	(4,592)	32,678	(712)%	83,293	(277,527)	360,820	(130)%
Net cash (used in) provided by financing activities	(10,909)	(2,442)	(8,467)	347%	(82,257)	63,922	(146,179)	(229)%
Effect on cash of foreign currency translation	(512)	445	(957)	(215)%	197	(1,615)	1,812	(112)%
Cash and cash equivalents, beginning of period	144,949	190,218	(45,269)	(24)%	206,632	415,909	(209,277)	(50)%
Cash and cash equivalents, end of period	$ 146,253	$ 164,997	$ (18,744)	(11)%	$ 146,253	$ 164,997	$ (18,744)	(11)%
Marketable securities	79,605	243,286	(163,681)	(67)%	79,605	243,286	(163,681)	(67)%
Cash and marketable securities(1)	$ 225,858	$ 408,283	$ (182,425)	(45)%	$ 225,858	$ 408,283	$ (182,425)	(45)%

(1) Cash and marketable securities are non-GAAP financial measures. See “Use of Non-GAAP Measures” above for additional discussion regarding these non-GAAP measures. The Company combines the Cash and cash equivalent financial statement line item, and the Marketable securities financial statement line item as an aggregate total as reconciled in the liquidity and capital resource section below. The Company’s management believes that this presentation provides useful information to management, analysts and investors regarding certain additional financial and business trends relating to its short-term liquidity position by combing these three GAAP metrics.

Cash flows from operating activities

The change in net cash provided by (used in) operating activities was ($15.4) million and ($61.6) million for three and nine months ended February 29, 2024 compared to ($18.6) million and ($35.7) million for the prior year period. The decrease in cash used in the three month period was primarily related to the achievement of the previously described synergies. The increase in cash used in the nine month period was primarily related to the settlement of pre-acquisition liabilities assumed from the HEXO acquisition. Additionally, the prior period included the cash collection of the $18.3 million purchase price derivative from HTI as noted in the transaction cost section above, which did not recur in the current year.

Cash flows from investing activities

The change in net cash provided by (used in) investing activities was $28.1 million and $83.3 million for three and nine months ended February 29, 2024 compared to ($4.6) million and ($277.5) million for the prior year period, and is a result of 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 7 (Business acquisitions).

Cash flows from financing activities

The change in cash (used in) provided by financing activities was ($10.9) million and ($82.3) million for three and nine months ended February 29, 2024 compared to ($2.4) million and $63.9 million for the prior year period. In the current period, cash was provided by funds from 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.

ABC Group Credit Agreement

As previously disclosed, on January 5, 2024, the Company’s wholly-owned subsidiary, American Beverage Crafts Group, Inc. (f/k/a Four Twenty Corporation, the “Borrower”), entered into a waiver (the “Waiver”) to that certain Credit Agreement dated as of June 30, 2023 (the “ABC Group Credit Agreement”) by and among the Borrower, Bank of America, N.A., in its capacity as Administrative Agent, and certain other guarantors and lenders thereto. The Waiver effectively eliminated a potential event of default relating to the “Consolidated Leverage Ratio” financial covenant contained in the ABC Group Credit Agreement. On March 29, 2024, and in satisfaction of the Waiver requirements, the Borrower entered into a further amendment (the "Amendment") to the ABC Group Credit Agreement to reflect certain internal subsidiary contributions and lease transfers. The foregoing description of the Waiver and Amendment does not purport to be complete and is qualified in its entirety by the full text of each of the Waiver and Amendment, which are being filed as Exhibits 10.2 and 10.5, respectively, to this quarterly report on Form 10-Q for the quarter ended February 29, 2024.

Subsequent Events

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

Contingencies

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

Critical Accounting Estimates

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. The accounting principles we use require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and amounts of income and expenses during the reporting periods presented. We believe in the quality and reasonableness of our critical accounting policies; however, materially different amounts may be reported under different conditions or using assumptions different from those that we have applied. The accounting estimates that have been identified as critical to our business operations and to understanding the results of our operations pertain to revenue recognition, valuation of inventory, valuation of long-lived assets, goodwill and intangible assets, stock-based compensation and valuation allowances for deferred tax assets. The application of each of these critical accounting policies and estimates is discussed in Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the fiscal year ended May 31, 2023.

Recently Issued Accounting Pronouncements

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