

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, 2025 ("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

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

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

Trends and Other Factors Affecting Our Business

Beverage market trends:

Within the beverage category, we expect the following key trends to shape the near-term outlook in this segment:

- *Beverage Distribution.* In furtherance of our strategic vision, we remain focused on enhancing our relevance within home markets, focusing on growing our brands in their core markets. Through targeted efforts, we continue to strategically adjust our portfolio mix and distribution geography through our distributor consolidation program to refine our craft beer strategy, which we believe will allow us to enhance our relevance and focus resources on our core markets as part of our portfolio rationalization initiatives. Distributor chain spring product resets have indicated improvements of distribution for our core brands and key innovation initiatives, including Shock Top, Runner's High Non-Alcoholic, and SweetWater's newly launched Day Trip and Dive Beer. We expect to begin to see the impact of these gains during fiscal year 2026.
- *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 launching a lineup of Hemp Derived Delta-9 (HD-D9) products, non-alcoholic beverages, our Liquid Love water brand, flavored malt-based beverages, RTDs and energy drinks. These strategic innovations underscore our commitment to offering high-quality options across diverse beverage categories, positioning us for sustained growth and differentiation in the competitive beverage segment.
- *Brew Pubs.* Following our Craft Acquisition I on September 29, 2023 and the Craft Acquisition II effective September 1, 2024, we operate 16 brew pubs, and our Breckenridge Distillery restaurant and tasting room, in geographic regions across the U.S., all of which are located in close proximity to the production of our craft brands. An important part of our strategic plan for our beverage operations centers on brew pubs to promote and showcase the distinct, regional positioning of our craft beer brands and enhance brand recognition to help drive revenue growth. We believe that our brew pub strategy allows us to curate unique small batch product offerings in targeted test markets to help drive effective product innovation.

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

Canadian cannabis market trends.

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

- *Market share.* During the quarter, Tilray continued to lead the Canadian market with the highest cannabis revenue in Canada. During the quarter, we maintained our market share in Canada at 9.3% from the immediately preceding quarter as reported by Hifyre data for all provinces, excluding Quebec where Weedcrawler was deemed more accurate. Our current market share reflects our efforts to preserve margin in specific categories experiencing the most price compression and our shift in strategy to redirect certain inventories to international cannabis markets which provides for higher margin sales. We intend to enhance our global supply chain and increase our cultivation footprint to support this growing demand.
- *Price compression.* Historical price compression in specific categories is expected to persist in the market, intensified by fierce competition among the approximately 1,000 Licensed Producers in Canada. The fixed impact of excise per gram, notwithstanding the decline in average selling prices, further compounds these challenges, and has promoted ongoing industry lobbying efforts.

International cannabis market trends.

We are a global leader in the development, production, distribution, marketing and sale of pharmaceutical-grade medical cannabis products. The cannabis industry in Europe is still in its early stages of development and countries within Europe are at different stages of medical and adult-use cannabis legalization. The most meaningful progress to date has been the legalization and regulation of cannabis for medical purposes, which has now taken place in more than 15 countries representing a population of more than 350 million people (Germany, UK, Italy, Poland, Netherlands, Czech Republic, Greece, Portugal, Austria, Switzerland, Denmark, Croatia, Malta, Luxembourg, Ukraine, and Ireland). Beyond this, some countries have expressed a clear political ambition to legalize adult-use cannabis (Germany, Portugal, Luxembourg and Czech Republic), some are engaging in experiments for adult-use legalization (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, political uncertainty in various countries and the continuing 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 cannabis regulations in Germany adopted on April 1, 2024, which we believe will serve as a catalyst for continued changes in drug policy throughout Europe. Outside of Europe and North America, the cannabis industry is also in its early stages of development with Australia representing one of the larger markets.

We continue to believe that Tilray remains uniquely positioned to maintain and gain significant market share in the markets in which we participate. We benefit from our end-to-end vertically-integrated infrastructure and well-placed investments, which are comprised of two EU-GMP cultivation facilities located in Portugal and Germany; our fully owned route-to-market encompassing sales, marketing and distribution infrastructure in Germany and Italy; a network of leading distributors who we work with in the various other countries in which we operate; and, our extensive genetics portfolio and demonstrated commitment and expertise related to the cultivation and production of high-quality, safe cannabis products. Tilray's International business also benefits from the depth and breadth of knowledge, experience, relationships and infrastructure we have transferred from our leading participation and investment in the Canadian medical and adult-use markets. We believe that these assets and attributes, combined with our ability to navigate complex regulatory environments, will continue to drive our leadership in international medical markets and allow us to successfully enter new markets as they adopt medical cannabis and potentially adult-use regulations and may also serve to support a potential U.S. participation in the event of federal legalization.

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

On April 1, 2024, the Cannabis Act, consisting of two parts, the CanG and MedCanG, was signed into law by the Office of the Federal President and decriminalization and MedCanG portions of the Cannabis Act became effective. The MedCanG provides for several important medical cannabis reforms including the reclassification of medical cannabis from a narcotic to non-narcotic and the abolishment of the tender for domestic production, which has been replaced with a regular licensing scheme under the authority of the Federal Institute for Drugs and Medical Devices (the "BfArM"). Three licenses for domestic cultivation have been issued, with Tilray receiving the first one. The foreseen enhanced accessibility to medical cannabis due to non-narcotic prescriptions has had the desired effect. The prescription numbers have risen since April 1, 2024 and, accordingly, we have seen a significant increase in our business in Germany where we supply the market with a wide range of medical cannabis extracts and whole flower. In addition, the Federal Joint Committee (the "G-BA") which issues directives for the German health insurance funds, enacted a resolution in July 2024 allowing for a significant reduction of reservation of approval. This is expected to have a positive market effect, allowing more doctors and specialists to be able to prescribe medical cannabis without receiving prior approval from statutory insurers. Tilray is well positioned to benefit from this change given our leading market share within the medical cannabis extracts segment that tends to have high levels of insurance coverage.

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

We continue to see increased differentiation between the physician-led and the patient-led channels. In response, we have launched the Tilray Craft, Broken Coast, Redecan and Good Supply brands and related medical cannabis products, which provides the patient with a segmented portfolio of products while we continue to deliver on the trust, safety and consistency that has become expected from our Tilray Medical brand.

Poland. In Poland, cannabis was legalized for medical use in 2018 and is prescribed to patients by a physician and dispensed by pharmacies. Today, all doctors in Poland are allowed to prescribe medical cannabis and it is a self-pay market as medical cannabis is not reimbursed by the Polish health service. In November 2024, Poland implemented strict restrictions on telemedicine, which have significantly impacted the growth of the market with prescription numbers decreasing from 68,000 in October 2024 to 28,000 in December 2024. Tilray is a leading supplier of medical cannabis in Poland through our network of distributor partnerships. We predominantly supply the market with whole flower medical cannabis products.

United Kingdom. Since November 2018, doctors in the UK have been able to prescribe medical cannabis for medicinal use for patients with medical conditions that had failed to respond to first-line medications. The market today is predominantly all self-pay and prescriptions are facilitated by private clinics. Today, we supply the UK market with mainly whole flower products through our distributor partners.

Ireland. In June 2019, the Minister for Health signed legislation allowing for the operation of the Medical Cannabis Access Programme ("MCAP") on a pilot basis for five years. The MCAP allows a medical consultant to prescribe a cannabis-based treatment for a narrow set of specified medical conditions, where the patient has failed to respond to standard treatment. Reimbursement is available for products which have received the appropriate approval. Tilray was one of the first players to enter the Irish market and is one of a few suppliers which has received approval for its products to be prescribed and to have been granted reimbursement status. Today, we supply our approved extract product to Ireland through our distribution partner.

Italy. In May 2023, FL Group, a wholly-owned subsidiary of Tilray received authorization from Italy's Ministry of Health to distribute three new medical cannabis compounds to pharmacies across Italy. With FL Group, we have an established broad national pharmaceutical distribution network in Italy, where medical cannabis is prescribed by doctors and reimbursed by the healthcare system to eligible patients.

Australia. In 2016, the Australian Government legalized medicinal cannabis, which is regulated by the Therapeutic Goods Administration. Medical cannabis is prescribed by a doctor but there is no coverage under the Pharmaceutical Benefits Scheme. Tilray Medical supplies the market with wide portfolio of medical cannabis extracts as well as whole flower products. We see increased differentiation between the physician-led and the patient-led channels. In response, we launched the Broken Coast, Redecan and Good Supply brands and products, which provide the patient with a segmented portfolio of products while we continue to deliver on the trust, safety and consistency that has become expected from our Tilray Medical brand.

Wellness market trends.

Tilray Wellness's branded business continues to grow across brick-and-mortar retail as well as ecommerce, further establishing its leading market share position in better for you categories. The Company continues to focus on value-added innovation within the wellness space with the launch of branded Whole Flaxseed and Ground Flaxseed and Superseed Snack Clusters in partnership with Whole Foods Market as well as continued emphasis on The Humble Seed, a seed-forward cracker brand which was purchased earlier this year.

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 long-term, sustainable growth and value to our stockholders, we continue to evaluate potential acquisitions and other strategic transactions of businesses that we believe complement our existing portfolio, infrastructure and capabilities or provide us with the opportunity to enter attractive new geographic markets and product categories as well as expand our existing capabilities. In addition, we have exited certain businesses and continue to evaluate certain businesses within our portfolio that are dilutive to profitability and cash flow. As a result, we incur transaction costs in connection with identifying and completing acquisitions and strategic transactions, as well as ongoing integration and restructuring costs as we combine acquired companies and continue to achieve synergies, which is offset by income generated in connection with the execution of these transactions. For the year ended May 31, 2025, we incurred \$4.5 million of transaction costs (income), net, as discussed further below.

Effective September 1, 2024, Tilray acquired Craft Acquisition II a portfolio of four craft brands and breweries comprised of Atwater Brewery, Hop Valley Brewing Company, Terrapin Beer Co., and Revolver Brewing from Molson, see Note 9 (Business Acquisition). We expect this acquisition to further the execution of our beverage strategy, which we believe will have positive impacts on our beverage segment leading to increased revenues and whitespace penetration.

Beverage segment Project 420:

In November 2020, we entered the beverage category with the acquisition of SweetWater Brewing Company, one of the largest independent craft brewers in the U.S. by volume, with the vision of creating a larger and more diversified global lifestyle consumer products company.

This initial acquisition provided us with a foundation to pursue additional acquisitions in the beverage category and scale our business on a national basis. We acquired Alpine Beer Company, Green Flash and Breckenridge Distillery in December 2021, Montauk Brewing Company in November 2022, Craft Acquisition I in October 2023 and Craft Acquisition II in September 2024.

With Craft Acquisition I and Craft Acquisition II, we capitalized on opportunities to acquire additional beverage businesses that consisted of strong brands in decline and in need of investment in order to promote growth at a significantly reduced price. To support the growth of these acquired brands and establish a clear path to profitability, we implemented Project 420, which is a comprehensive plan covering (i) SKU rationalization; (ii) Geographic rationalization; (iii) Distributor rationalization; and (iv) synergy optimization plan through which we expect to invest in the acquired brands for growth and improve profitability:

- *SKU rationalization* – In response to the declining growth in the craft beer industry and consolidation of distributors, we are working with our distributors in various markets to streamline our portfolio by eliminating duplicative and slower growth products, which had the immediate effect of reducing revenue. However, by eliminating these slower growing SKUs, we are able to focus our attention and resources on our higher growth SKUs and the introduction of new innovation, which we expect will accelerate our revenue growth in future quarters. Going forward, we will continue to manage SKU performance within our portfolio on a “one in and one out basis” to maximize SKU productivity.
- *Geographic rationalization* – Our brands generate sales in all states however, their results are significantly stronger in their home markets. For example, SweetWater is located in Georgia and, as a result, its revenues are stronger in Georgia, Alabama, North Carolina and Florida, while 10 Barrel, which is located in Oregon has stronger revenue in Oregon, Washington, Idaho and Wyoming. In away markets, like Oregon for SweetWater, and Georgia for 10 Barrel, the brands are not as strong in the away states. Our geographic rationalization works to concentrate our efforts in individual states with our strongest brands in those states. As we reduce the distribution of away markets brands in those states, we are working to increase the distribution and shelf space of home market brands. This initiative is consistent with our Regional Jewel strategy developed in conjunction with the Boston Consulting Group.
- *Distributor rationalization* – As a result of our various acquisitions in the last five years, we have over 750 distributors and 975 distributor shipping locations. As a result, we are shipping to multiple distributors in the same geography as well as splitting the allocation of local brands between multiple distributors. The goal of the distributor rationalization is to reduce our distributor footprint down to between 450 and 500 distributors concentrating those distributor’s effort on our brands and SKUs, while minimizing logistical complexities.
- *Synergy optimization plan* – We previously announced a \$25 million synergy plan focused on optimizing our production footprint and eliminating redundancies in manufacturing and warehouse assets. By integrating the newly acquired facilities into our existing footprint, we are optimizing capacities, utilization and better absorbing fixed overheads. This in turn is improving our gross margins. During the year, we increased the synergy plan by \$8 million to \$33 million and have achieved \$24.1 million of those savings to date. We expect to complete the synergy optimization plan in the third quarter of fiscal 2026.
- *Brand and business investment* – We have been and are continuing to increase our investment in the marketing, promotion and infrastructure of our recently acquired brands in order to reestablish their dominance in their core markets. Our intention is to fund this investment through the cost savings and synergies achieved through Project 420.

For the year ended May 31, 2025, our SKU and geographic rationalization resulted in a reduction in net sales of approximately \$20 million. We believe this temporary reduction will be offset by the growth of our new product innovation, including in new beverage categories, and brand extensions during the near term future. This revenue reduction has a corresponding decrease in our Adjusted EBITDA for the year ended May 31, 2025, of \$6.0 million.

It is important to note, however, that there is a lag between the discontinuation of the SKUs and the associated reduction in revenue, which has an immediate effect, and the acceleration of the growth of our existing SKUs and the introduction of new innovation and the associated increase in revenue, which takes time due to retailer resets. We also expect these efforts will lead to improved sales and margins, with benefits realized through lower selling costs, as well as reduced requirements for working capital through inventory reductions and an improvement in our cash conversion cycle.

Political and Economic Environment

Our results of operations may continue to be affected by economic, political, legislative, regulatory, legal actions, global volatility and general market disruption resulting from geopolitical tensions, such as Russia's continued incursion into Ukraine, the ongoing events in the Middle East and political uncertainty in certain countries in Europe. Economic conditions, such as recessionary trends, inflation, supply chain disruptions, interest and monetary exchange rates, government fiscal policies, and the recent economic uncertainties resulting from certain changes in U.S. global economic policy, including changes on global trade policies can have a significant effect on operations. More specifically, there are no expected impacts on revenue from the recently enacted U.S. tariffs and foreign enacted retaliatory tariffs (“Tariffs”). From a cost perspective, we believe the recently enacted tariffs could impact input materials such as aluminum, hops, barley, malt and vape componentry which are partially imported but we intend to mitigate these impacts to the extent possible.

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,			Change		Change	
	2025	2024	2023	2025 vs. 2024		2024 vs. 2023	
Net revenue	\$ 821,309	\$ 788,942	\$ 627,124	\$ 32,367	4%	\$ 161,818	26%
Cost of goods sold	580,739	565,591	480,164	15,148	3%	85,427	18%
Gross profit	240,570	223,351	146,960	17,219	8%	76,391	52%
Operating expenses:							
General and administrative	167,324	167,358	165,159	(34)	(0)%	2,199	1%
Selling	56,039	37,233	34,840	18,806	51%	2,393	7%
Amortization	88,616	84,752	93,489	3,864	5%	(8,737)	(9)%
Marketing and promotion	37,048	41,933	30,937	(4,885)	(12)%	10,996	36%
Research and development	284	635	682	(351)	(55)%	(47)	(7)%
Change in fair value of contingent consideration	—	(15,790)	855	15,790	(100)%	(16,645)	(1,947)%
Impairment of intangible assets and goodwill	2,096,139	—	934,000	2,096,139	NM	(934,000)	(100)%
Other than temporary change in fair value of convertible notes receivable	21,661	42,681	246,330	(21,020)	(49)%	(203,649)	(83)%
Litigation costs, net of recoveries	17,347	8,251	(505)	9,096	110%	8,756	(1,734)%
Restructuring costs	34,283	15,581	9,245	18,702	120%	6,336	69%
Transaction costs (income), net	4,534	15,462	1,613	(10,928)	(71)%	13,849	859%
Total operating expenses	2,523,275	398,096	1,516,645	2,125,179	534%	(1,118,549)	(74)%
Operating loss	(2,282,705)	(174,745)	(1,369,685)	(2,107,960)	1,206%	1,194,940	(87)%
Interest expense, net	(29,952)	(36,433)	(13,587)	6,481	(18)%	(22,846)	168%
Non-operating (expense) income, net	10,284	(37,842)	(66,909)	48,126	(127)%	29,067	(43)%
Loss before income taxes	(2,302,373)	(249,020)	(1,450,181)	(2,053,353)	825%	1,201,161	(83)%
Income tax expense	(121,017)	(26,616)	(7,181)	(94,401)	355%	(19,435)	271%
Net loss	<u>\$ (2,181,356)</u>	<u>\$ (222,404)</u>	<u>\$ (1,443,000)</u>	<u>\$ (1,958,952)</u>	<u>881%</u>	<u>\$ 1,220,596</u>	<u>(85)%</u>

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

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 isolation 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's 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 combining 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,		
	2025	2024	2023
Net beverage revenue	\$ 240,595	\$ 202,094	\$ 95,093
Net cannabis revenue	249,001	272,798	220,430
Distribution revenue	271,228	258,740	258,770
Wellness revenue	60,485	55,310	52,831
Beverage costs	147,591	113,522	48,770
Cannabis costs	150,005	182,594	162,755
Distribution costs	241,896	230,596	231,309
Wellness costs	41,247	38,879	37,330
Adjusted gross profit (excluding PPA step-up) (1)	242,180	235,581	206,442
Beverage adjusted gross margin (excluding PPA step-up) (1)	39%	46%	53%
Cannabis adjusted gross margin (excluding PPA step-up) (1)	40%	36%	51%
Distribution gross margin	11%	11%	11%
Wellness gross margin	32%	30%	29%
Adjusted EBITDA (1)	\$ 55,035	\$ 60,465	\$ 58,679
Cash and marketable securities (1) as at the year ended:	256,363	260,522	448,529
Working capital as at the year ended:	\$ 408,323	\$ 378,540	\$ 340,050

(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 net revenue is primarily comprised of net revenues from our beverage, cannabis, distribution, and wellness operations, as follows:

(in thousands of U.S. dollars)	For the year ended May 31,			Change		Change	
	2025	2024	2023	2025 vs. 2024		2024 vs. 2023	
Beverage business	\$ 240,595	\$ 202,094	\$ 95,093	\$ 38,501	19%	\$ 107,001	113%
Cannabis business	249,001	272,798	220,430	(23,797)	(9)%	52,368	24%
Distribution business	271,228	258,740	258,770	12,488	5%	(30)	(0)%
Wellness business	60,485	55,310	52,831	5,175	9%	2,479	5%
Total net revenue	\$ 821,309	\$ 788,942	\$ 627,124	\$ 32,367	4%	\$ 161,818	26%

Our reportable segments net 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		Change		% Change	
	2025	2024	2025 vs. 2024		2025 vs. 2024	
Beverage business	240,595	\$ 202,094	\$ 38,501		19%	
Cannabis business	254,584	272,798	(18,214)		(7)%	
Distribution business	277,187	258,740	18,447		7%	
Wellness business	61,370	55,310	6,060		11%	
Total net revenue	\$ 833,736	\$ 788,942	\$ 44,794		6%	

Our geographic net revenue is, as follows:

(in thousands of U.S. dollars)	For the year ended May 31,			Change		Change	
	2025	2024	2023	2025 vs. 2024		2024 vs. 2023	
USA	\$ 273,695	\$ 233,141	\$ 123,284	\$ 40,554	17%	\$ 109,857	89%
Canada	212,860	243,722	201,361	(30,862)	(13)%	42,361	21%
EMEA	323,350	296,450	284,567	26,900	9%	11,883	4%
Rest of World	11,404	15,629	17,912	(4,225)	(27)%	(2,283)	(13)%
Total net revenue	\$ 821,309	\$ 788,942	\$ 627,124	\$ 32,367	4%	\$ 161,818	26%

Our geographic net 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		Change		% Change	
	2025	2024	2025 vs. 2024		2025 vs. 2024	
USA	\$ 273,695	\$ 233,141	\$ 40,554		17%	
Canada	219,463	243,722	(24,259)		(10)%	
EMEA	322,960	296,450	26,510		9%	
Rest of World	17,618	15,629	1,989		13%	
Total net revenue	\$ 833,736	\$ 788,942	\$ 44,794		6%	

Our geographic capital assets are, as follows:

(in thousands of U.S. dollars)	For the year ended May 31,		Change	
	2025	2024	2025 vs. 2024	
USA	\$ 200,003	\$ 141,314	\$ 58,689	42%
Canada	267,458	313,359	(45,901)	(15)%
EMEA	97,371	99,921	(2,550)	(3)%
Rest of World	3,601	3,653	(52)	(1)%
Total capital assets	\$ 568,433	\$ 558,247	\$ 10,186	2%

Beverage revenue

Net revenue from our Beverage operations increased to \$240.6 million for the fiscal year ended May 31, 2025, compared to net revenue of \$202.1 million for the prior fiscal year ended May 31, 2024. The increase in beverage revenue was primarily driven by our newly launched innovation in the HD-D9 product category and our Craft Acquisition II, which was effective as of September 1, 2024, and included the brands and breweries of Hop Valley Brewing Company, Terrapin Beer Company, Revolver Brewing, and Atwater Brewery. Further, the prior fiscal year period did not reflect a full period of revenue from Craft Acquisition I, which was completed on September 29, 2023. These impacts to beverage revenue were offset by the SKU rationalization implemented in connection with Project 420, which resulted in a reduction of net revenue by approximately \$20 million for the fiscal year ended May 31, 2025.

Cannabis revenue

Cannabis revenue based on market channel is, as follows:

(in thousands of US dollars)	For the year ended May 31,			Change		Change	
	2025	2024	2023	2025 vs. 2024		2024 vs. 2023	
Revenue from Canadian medical cannabis	\$ 24,998	\$ 25,211	\$ 25,000	\$ (213)	(1)%	\$ 211	1%
Revenue from Canadian adult-use cannabis	224,048	266,846	214,319	(42,798)	(16)%	52,527	25%
Revenue from wholesale cannabis	18,207	25,340	1,436	(7,133)	(28)%	23,904	1,665%
Revenue from international cannabis	63,356	53,295	43,559	10,061	19%	9,736	22%
Total cannabis revenue	330,609	370,692	284,314	(40,083)	(11)%	86,378	30%
Excise taxes	(81,608)	(97,894)	(63,884)	16,286	(17)%	(34,010)	53%
Total cannabis net revenue	\$ 249,001	\$ 272,798	\$ 220,430	\$ (23,797)	(9)%	\$ 52,368	24%

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		Change	
	2025	2024	Change	% Change
Revenue from Canadian medical cannabis	\$ 25,797	\$ 25,211	\$ 586	2%
Revenue from Canadian adult-use cannabis	230,953	266,846	(35,893)	(13)%
Revenue from wholesale cannabis	18,779	25,340	(6,561)	(26)%
Revenue from international cannabis	63,211	53,295	9,916	19%
Total cannabis revenue	338,740	370,692	(31,952)	(9)%
Excise taxes	(84,156)	(97,894)	13,738	(14)%
Total cannabis net revenue	\$ 254,584	\$ 272,798	\$ (18,214)	(7)%

(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:

Gross revenue from Canadian medical cannabis decreased 1% to \$25.0 million for the fiscal year ended May 31, 2025, compared to gross revenue of \$25.2 million for the fiscal year ended May 31, 2024. On a constant currency basis, gross revenue from Canadian medical cannabis increased to \$25.8 million from \$25.2 million for the fiscal year ended May 31, 2025. This increase in gross revenue from medical cannabis on a constant currency basis was primarily driven by growth in the insured patient category exceeding the decline in uninsured patient attrition to the adult-use recreational market.

Revenue from adult-use cannabis:

During the fiscal year ended May 31, 2025 our gross revenue from Canadian adult-use cannabis product decreased 16% to \$224.0 million compared to revenue of \$266.8 million for the prior fiscal year. On a constant currency basis, our gross revenue from Canadian adult-use cannabis decreased 13% to \$231.0 million for the fiscal year ended May 31, 2025. The decrease in gross adult-use revenue was driven by our renewed focus on preserving gross margin and maintaining a higher average selling price in growing categories such as vapes that have experienced a high degree of price compression. At the end of the fiscal year ended May 31, 2025, we began increasing our participation in these categories as a result of our capex investments to improve these trends in the near term future. Additionally, we have shifted our strategic focus to redirect 7.2 million grams of cannabis to international cannabis markets to take advantage of the higher margin sales available in these markets. While some of these products were sold during the fourth fiscal quarter, some inventories were deferred to fiscal year 2026. The resulting impact of this strategic decision caused a temporary decline in gross adult-use cannabis revenue and cannabis revenue overall until their eventual sale. We intend to enhance our global supply chain through Phase II of our accelerated growth plan and increase our cultivation footprint to support the growing demand in both the Canadian and international markets. Lastly, gross revenue from Canadian adult-use cannabis products also included \$1.5 million of cannabis advisory services revenue in the fiscal year ended May 31, 2025, compared to \$1.5 million in the fiscal year ended May 31, 2024.

Wholesale cannabis revenue:

Gross revenue from wholesale cannabis decreased to \$18.2 million for the fiscal year ended May 31, 2025, compared to revenue of \$25.3 million for the prior fiscal year ended May 31, 2024. On a constant currency basis, gross revenue from wholesale cannabis for the fiscal year ended May 31, 2025 was \$18.8 million compared to \$25.3 million for the prior fiscal year ended May 31, 2024. 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 fiscal year but does not meet the high standards required for our branded product. In the near-term, we anticipate continued volatility and fluctuation in the wholesale market, and we will assess market conditions on a quarterly basis. Specifically, during the fourth quarter market conditions were less favorable and as a result we did not participate in the same volume of transactions when compared to the prior year fourth quarter.

International cannabis revenue:

Net revenue from international cannabis increased 19% to \$63.4 million for the fiscal year ended May 31, 2025, compared to net revenue of \$53.3 million for the fiscal year ended May 31, 2024. On a constant currency basis, net revenue from international cannabis increased 19% to \$63.2 million, compared to the prior year period. The increase during the fiscal year was primarily driven by higher sales in Germany, attributed to the expanding German medical market where we maintained our leadership position in the reimbursed market and increased our sales in the self-pay market. This growth was partially offset by lower revenue in Poland when compared to the prior year period driven by the delay in the receipt of export/import permits and lower prescriptions due to restrictions placed on telemedicine in November 2024 as well as lower revenue in Australia and the strategic decision to exit the New Zealand medical market. International cannabis net revenue may fluctuate from quarter to quarter based upon the timing of the receipt of export/import permits as well as the timing of shipments from one quarter to the next. In the fourth quarter, we experienced extensive delays in the receipt of export permits from the Portugal authorities resulting in approximately 2.1 million grams of medical cannabis flowers that we had expected to ship to other markets instead of remaining in Portugal.

Distribution revenue

Net revenue from Distribution operations increased 5% to \$271.2 million for the fiscal year ended May 31, 2025, compared to net revenue of \$258.7 million for the prior fiscal year ended May 31, 2024. On a constant currency basis, given the change in the Euro and Argentine Peso against the U.S. Dollar during the fiscal year, net revenue from Distribution was \$277.2 million for the fiscal year ended May 31, 2025, when compared to prior year period. The increase in distribution revenue, on a constant currency basis, for the fiscal year was driven by a change in product mix.

Wellness revenue

Our Wellness net revenue increased to \$60.5 million for the fiscal year ended May 31, 2025 compared to \$55.3 million for the fiscal year ended May 31, 2024. On a constant currency basis for the fiscal year ended May 31, 2025, Wellness net revenue increased to \$61.4 million from \$55.3 million. The increase in net revenue was primarily attributed to our strategic focus on expanding our product range, including the relaunch of HiBall energy drinks and organic growth within our branded hemp food business related to higher consumption.

Gross profit and gross margin

Our gross profit and gross margin for the fiscal years ended May 31, 2025, 2024 and 2023 were 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	
	2025	2024	2023	2025 vs. 2024		2024 vs. 2023		
Beverage								
Net revenue	\$ 240,595	\$ 202,094	\$ 95,093	\$ 38,501	19%	\$ 107,001	113%	
Cost of goods sold	147,591	113,522	48,770	34,069	30%	64,752	133%	
Gross profit	93,004	88,572	46,323	4,432	5%	42,249	91%	
Gross margin	39%	44%	49%	(5)%	(11)%	(5)%	(10)%	
Purchase price accounting step-up	1,610	4,602	4,482	(2,992)	(65)%	120	3%	
Adjusted gross profit (1)	94,614	93,174	50,805	1,440	2%	42,369	83%	
Adjusted gross margin (1)	39%	46%	53%	(7)%	(15)%	(7)%	(13)%	
Cannabis								
Net revenue	249,001	272,798	220,430	(23,797)	(9)%	52,368	24%	
Cost of goods sold	150,005	182,594	162,755	(32,589)	(18)%	19,839	12%	
Gross profit	98,996	90,204	57,675	8,792	10%	32,529	56%	
Gross margin	40%	33%	26%	7%	21%	7%	27%	
Purchase price accounting step-up	—	7,628	—	(7,628)	(100)%	7,628	—	
Inventory valuation adjustments	—	—	55,000	—	NM	(55,000)	(100)%	
Adjusted gross profit (1)	98,996	97,832	112,675	1,164	1%	(14,843)	(13)%	
Adjusted gross margin (1)	40%	36%	51%	4%	11%	(15)%	(29)%	
Distribution								
Net revenue	271,228	258,740	258,770	12,488	5%	(30)	(0)%	
Cost of goods sold	241,896	230,596	231,309	11,300	5%	(713)	(0)%	
Gross profit	29,332	28,144	27,461	1,188	4%	683	2%	
Gross margin	11%	11%	11%	0%	0%	0%	0%	
Wellness								
Net revenue	60,485	55,310	52,831	5,175	9%	2,479	5%	
Cost of goods sold	41,247	38,879	37,330	2,368	6%	1,549	4%	
Gross profit	19,238	16,431	15,501	2,807	17%	930	6%	
Gross margin	32%	30%	29%	2%	7%	1%	3%	
Total								
Net revenue	821,309	788,942	627,124	32,367	4%	161,818	26%	
Cost of goods sold	580,739	565,591	480,164	15,148	3%	85,427	18%	
Gross profit	240,570	223,351	146,960	17,219	8%	76,391	52%	
Gross margin	29%	28%	23%	1%	4%	5%	22%	
Inventory valuation adjustments	—	—	55,000	—	0%	(55,000)	(100)%	
Purchase price accounting step-up	1,610	12,230	4,482	(10,620)	(87)%	7,748	173%	
Adjusted gross profit (1)	242,180	235,581	206,442	6,599	3%	29,139	14%	
Adjusted gross margin (1)	29%	30%	33%	(1)%	(3)%	(3)%	(9)%	

(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 both 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 without the impacts of the aforementioned adjusted items. 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 gross margin:

Gross margin of 39% for the fiscal year ended May 31, 2025 decreased from 44% when compared to the fiscal year ended May 31, 2024. Adjusted gross margin of 39% decreased in the fiscal year ended May 31, 2025, from 46% in the fiscal year ended May 31, 2024. The change in the adjusted beverage gross margin during the fiscal year ended May 31, 2025 was driven by several factors, including our continued integration efforts of our Craft Acquisition I. The increased utilization of our facilities and improvements in our product mix as part of our strategic initiatives under Project 420 had favorable impacts on our adjusted gross margin, however, these improvements were more than offset by the impacts from the Craft Acquisition II, which has lower margins than our existing business.

Cannabis gross margin:

Gross margin increased during the fiscal year ended May 31, 2025 to 40% from 33% when compared to the fiscal year ended May 31, 2024. Adjusted gross margin during the fiscal year ended May 31, 2025, increased to 40% from 36% when compared to the prior fiscal year ended May 31, 2024. The improvement in gross margin and adjusted gross margin for the year ended May 31, 2025 was driven by our increased international cannabis revenue as a proportion of total cannabis revenue, which has higher margins than our Canadian cannabis business, as well as a continued focus in our Canadian cannabis business on maintaining a higher average selling price and favorable product mix to improve gross margins.

Distribution gross margin:

Gross margin of 11% for the fiscal year ended May 31, 2025 remained consistent when compared to the fiscal year ended May 31, 2024, despite shortages in key pharmaceutical product lines as well as price reductions in certain key pharmaceutical lines of products.

Wellness gross margin:

Gross margin of 32% for the fiscal year ended May 31, 2025 increased from a gross margin of 30% when compared to the fiscal year ended May 31, 2024, resulting from strong operational efficiencies, lower input costs and the culmination of a change in sales mix towards higher margin product offerings including HiBall energy drinks.

Operating expenses

(in thousands of US dollars)	For the year ended May 31,			Change		Change	
	2025	2024	2023	2025 vs. 2024		2024 vs. 2023	
General and administrative	\$ 167,324	\$ 167,358	\$ 165,159	\$ (34)	(0)%	\$ 2,199	1%
Selling	56,039	37,233	34,840	18,806	51%	2,393	7%
Amortization	88,616	84,752	93,489	3,864	5%	(8,737)	(9)%
Marketing and promotion	37,048	41,933	30,937	(4,885)	(12)%	10,996	36%
Research and development	284	635	682	(351)	(55)%	(47)	(7)%
Change in fair value of contingent consideration	—	(15,790)	855	15,790	(100)%	(16,645)	(1,947)%
Impairment of intangible assets and goodwill	2,096,139	—	934,000	2,096,139	NM	(934,000)	(100)%
Other than temporary change in fair value of convertible notes receivable	21,661	42,681	246,330	(21,020)	(49)%	(203,649)	(83)%
Litigation costs, net of recoveries	17,347	8,251	(505)	9,096	110%	8,756	(1,734)%
Restructuring costs	34,283	15,581	9,245	18,702	120%	6,336	69%
Transaction costs (income), net	4,534	15,462	1,613	(10,928)	(71)%	13,849	859%
Total operating expenses	\$ 2,523,275	\$ 398,096	\$ 1,516,645	\$ 2,125,179	534%	\$ (1,118,549)	(74)%

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 costs (income), net. These costs increased by \$2,125.2 million to \$2,523.3 million for the fiscal year ended May 31, 2025, compared to \$398.1 million for the fiscal year ended May 31, 2024. This increase was primarily a result of the non-cash impairments recorded in the period as described in detail below. Additionally, \$20.1 million of the increase year over year was attributed to the inclusion of expenses from our recent Craft Acquisition II, effective September 1, 2024, and that the prior year period did not reflect a full period of results from the Craft Acquisition I, which was completed on September 29, 2023. These changes, period over period, are described below.

General and administrative costs

(in thousands of US dollars)	For the year ended May 31,			Change		Change	
	2025	2024	2023	2025 vs. 2024		2024 vs. 2023	
Salaries and wages	\$ 88,015	\$ 83,673	\$ 70,883	\$ 4,342	5%	\$ 12,790	18%
Office and general	28,314	28,460	27,845	(146)	(1)%	615	2%
Stock-based compensation	24,289	31,769	39,595	(7,480)	(24)%	(7,826)	(20)%
Insurance	11,843	12,586	12,033	(743)	(6)%	553	5%
Professional fees	4,765	5,345	7,166	(580)	(11)%	(1,821)	(25)%
Gain on sale of capital assets	928	(4,198)	(48)	5,126	(122)%	(4,150)	8,646%
Travel and accommodation	5,717	5,138	4,530	579	11%	608	13%
Rent	3,453	4,585	3,155	(1,132)	(25)%	1,430	45%
Total general and administrative costs	\$ 167,324	\$ 167,358	\$ 165,159	\$ (34)	(0)%	\$ 2,199	1%

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Salaries and wages increased by 5% during the fiscal year ended May 31, 2025. The change was primarily due to the inclusion of employees from Craft Acquisition II, effective September 1, 2024, and the prior fiscal year period did not reflect a full period of results from Craft Acquisition I, completed on September 29, 2023. Additionally, included in the fiscal year ended May 31, 2025 was \$4.7 million of retention payments that did not occur in the prior fiscal year period.

Office and general decreased by 1% during the fiscal year ended May 31, 2025. The decrease was primarily due to the inclusion of deposit recoveries of \$5.6 million compared to of bad debt recoveries of \$4.4 million in the prior fiscal year period ended May 31, 2024. Further, we incurred expenses related to the Craft Acquisition II, effective September 1, 2024, and the prior fiscal year period ended May 31, 2024 did not reflect a full period of results from Craft Acquisition I due to the fact that it was completed on September 29, 2023. These impacts were partially offset by our continued cost saving initiatives.

The Company recognized stock-based compensation expense of \$24.3 million for the fiscal year ended May 31, 2025 compared to \$31.8 million for the prior fiscal year period. Stock-based compensation expense is based on the time-based vesting schedules and varies according to the assumptions used in the vesting model. The decrease in stock-based compensation was driven by the vesting of previously issued stock options, restricted stock units ("RSUs") and stock appreciation rights ("SARs") during the year ended May 31, 2025. Additionally, the decrease for the year ended May 31, 2025 was driven by the cancellation of certain performance-based RSUs.

Insurance expense decreased by 6% for the fiscal year ended May 31, 2025 to \$11.8 million from \$12.6 million for the prior fiscal year period. The decrease in insurance expense for the fiscal year ended May 31, 2025 was driven by lower premiums on existing insurance policies, offset by premiums associated with new insurance policies that have been placed in connection with Craft Acquisition I and Craft Acquisition II. For the fiscal year ended May 31, 2025 as a percentage of revenue insurance was 1% compared to 2% in the prior fiscal year period, demonstrating our ability to manage our insurance policy cost despite growing the business.

Professional fees decreased by 11% to \$4.8 million in the fiscal year ended May 31, 2025 from \$5.3 million when compared to the prior fiscal year, which is a direct result of our cost savings initiatives.

The Company recognized a loss on the sale of capital assets in the amount of \$0.9 million in the fiscal year ended May 31, 2025 primarily from the sale of our Avanti facility, compared to a gain of \$4.2 million in the prior fiscal year which was predominantly from the sale of Truss Beverage Co.

Rent expense decreased by 25% for the fiscal year ended May 31, 2025 to \$3.5 million from \$4.6 million for the prior fiscal year period. Rent expense is predominantly comprised of operating lease expense for our brew pubs and office spaces. The decrease was driven by the exit from the Truss lease in the current fiscal year and a reduction in lease payments, which were previously included in the prior fiscal period results, offset by the expenses from Craft Acquisition II, effective September 1, 2024, and the prior fiscal year period did not reflect a full period of results from Craft Acquisition I due to the fact that it was completed on September 29, 2023.

Selling costs

For the fiscal year ended May 31, 2025, the Company incurred selling costs of \$56.0 million or 6.8% of net revenue as compared to \$37.2 or 4.7% of net revenue in the prior fiscal year. These costs relate to third-party shipping costs for all segments, in addition to distributor commission incurred by the cannabis segment, Health

Canada cannabis fees, and patient acquisition and maintenance costs. The increase for the fiscal year ended May 31, 2025 is predominately due to the higher freight costs experienced in the beverage segment. Additionally, during the year ended May 31, 2024, the Company received a refund of \$3.3 million related to cannabis selling fees related to an amended fee calculation and a commission refund that did not reoccur in the current fiscal period.

Amortization

The Company incurred non-production related amortization charges of \$88.6 million for the fiscal year ended May 31, 2025 compared to \$84.8 million in the prior fiscal year period based on depreciable capital and intangible assets useful lives.

Marketing and promotion cost

For the fiscal year ended May 31, 2025, the Company incurred marketing and promotion costs of \$37.0 million, as compared to \$41.9 in the prior fiscal year. This decrease was primarily due to the yearly variability in discretionary marketing expenses, offset by the inclusion of expenses from our recent Craft Acquisition II, effective September 1, 2024. Further, the prior fiscal year period did not reflect a full year of marketing and promotion costs from Craft Acquisition I as it was completed on September 29, 2023. Lastly, during the fiscal year ended May 31, 2025, we began to capitalize multi-year sponsorship licenses as outlined in Note 3 (Significant accounting policies).

Research and development

Research and development costs were \$0.3 million in the fiscal year ended May 31, 2025, compared to \$0.6 million in the prior fiscal year. These relate to external costs incurred in connection 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). During the fiscal year ended May 31, 2025, there were no changes in the fair value of contingent consideration due to the fact that there were no changes in the likelihood of achievement of certain financial metrics for Montauk Brewing Company. In the prior fiscal year period, we recognized a gain of \$15.8 million resulting from the conclusion of the SweetWater earnout period, the favorable cash settlement relating to the final determination and settlement of the contingent consideration related to the Truss acquisition, all of which was offset by an increase in the fair value of the contingent consideration driven by the increased probability of achieving the contingent consideration associated with the Montauk Brewing Company acquisition.

Impairment of intangible assets and goodwill

During the fiscal year ended May 31, 2025, based upon a combination of factors including a sustained decline in the Company's market capitalization stemming from the uncertainty resulting from certain changes in U.S. global economic policy, including slower than anticipated progress in global cannabis legalization, overall declines in the craft beer industry sector, and a change in the Company's discount rate, the Company recognized the following impairment charges:

- *Intangible assets.* Non-cash impairment charges of \$334.2 million related to customer relationships & distribution channel, \$186.6 million related to licenses, permits & applications, which were considered indefinite-lived intangible assets and \$327.1 million related to intellectual property, trademarks, knowhow & brands. See Note 8 (Intangible assets) for additional details.
- *Goodwill.* Non-cash impairment charges of \$1,070.0 million related to cannabis goodwill, \$120.8 million related to beverage goodwill, \$53.2 million related to wellness goodwill and \$4.2 million related to distribution goodwill. See Note 10 (Goodwill) for additional details.
- *Deferred tax liabilities.* These non-cash impairment charges were offset by an income tax recovery of \$121.4 million, resulting in the corresponding reduction in deferred tax liabilities. See Note 13 (Income taxes and deferred income taxes) for additional details.

Intangible asset impairments

The Company performed the annual impairment test on its indefinite-life intangible assets, and for its finite-lived intangible assets, management assessed for asset specific indicators of impairment during the fourth quarter ended May 31, 2025, and based upon a combination of factors including a sustained decline in the Company's market capitalization stemming from the uncertainty resulting from certain changes in U.S. global economic policy, including slower than anticipated progress in global cannabis legalization and overall declines in the craft beer industry sector, and a change in non-discretionary market inputs in the Company's discount rate, the Company recorded non-cash impairments of \$334.2 million related to its finite-lived customer relationships & distribution channel, \$186.6 million related to its licenses, permits & applications, which were considered indefinite-lived intangible assets and \$327.1 million related to its finite-lived intellectual property, trademarks, knowhow & brands. This impairment charge resulted in a corresponding income tax recovery of \$121.4 million, resulting in the corresponding reduction in deferred tax liabilities. In calculating the impairment charge, using an income approach, the Company used a discount rate of 10.00%-14.50%, a terminal growth rate of 2%, and an average revenue growth rate of 5%-30% over 5 years to correlate with the cash flows anticipated with the individual intangible assets that were assessed. A reasonably possible change in any of the inputs within the determination of fair value would not result in a material change to the impairment recorded.

During the fiscal year ended May 31, 2024, there were no impairments to indefinite-lived intangible assets or finite-lived intangible assets.

Goodwill impairments

During the preceding quarter ended February 28, 2025, based upon a combination of factors including a sustained decline in the Company's market capitalization stemming from the uncertainty resulting from certain changes in U.S. global economic policy, including slower than anticipated progress in global cannabis legalization and overall declines in the craft beer industry sector, the Company concluded that it is more likely than not, that the fair value of our reporting units were less than their carrying amounts as of February 28, 2025. Accordingly, the Company utilized the income approach, which uses future discounted cash flows, to determine the fair value of each reporting unit. As a result, the Company recorded non-cash impairment charges of \$570.0 million of cannabis goodwill, \$100.0 million of beverage goodwill, \$25.0 million of wellness goodwill and \$4.2 million of distribution goodwill for the nine months ended February 28, 2025. In the Company's cannabis goodwill assessment, the Company used a discount rate of 12.00%, a terminal growth rate of 5%, and an average revenue growth rate of 34% over 5 years, based on an 88% and 40% average probability of anticipated EU and U.S. cannabis legalization, respectively and/or changes in drug policy in various countries within the next 5 years. In the Company's beverage goodwill assessment, the Company used a discount rate of 9.25%, a terminal growth rate of 2%, and an average revenue growth rate of 12% over 5 years. In the Company's wellness goodwill assessment, the Company used a discount rate of 10.50%, a terminal growth rate of 2%, and an average revenue growth rate of 7% over 5 years. In the Company's distribution goodwill assessment, the Company recorded \$4.235 of impairments, which brought the remaining distribution goodwill balance to \$nil.

The Company then performed the annual impairment test during the fourth quarter ended May 31, 2025, and determined that through a combination of factors including a further decline in the Company's market capitalization, an increase in the discount rate, and changes to the aforementioned probabilities resulting from continued delays in legalization of cannabis within the United States and internationally, culminating in an unfavorable impact on the estimated future cash flows, and ultimately concluded that it is more likely than not, that the fair value of our reporting units were less than their carrying amounts as of May 31, 2025. Accordingly, the Company utilized the income approach, which uses future discounted cash flows, to determine the fair value of each reporting unit. As a result, the Company recorded additional non-cash impairment charges of \$500.0 million of cannabis goodwill, \$20.8 million of beverage goodwill and \$28.2 million of wellness goodwill during the quarter ended May 31, 2025.

In the Company's cannabis goodwill assessment, the Company used a discount rate of 14.50%, a terminal growth rate of 5%, and an average revenue growth rate of 34% over 5 years, based on a 65% and 25% average probability of anticipated EU and U.S. cannabis legalization, respectively and/or changes in drug policy in various countries within the next 5 years. A 1% increase in the discount rate would result in an additional \$133.8 million in impairment, a 1% decrease in the terminal growth rate would result in an additional \$93.5 million in impairment, a 5% decrease in the average growth rate would result in an additional \$23.4 million in impairment, a 5% decrease in the probability of EU cannabis legalization would result in an additional \$44.0 million in impairment and a 5% decrease in the probability of US cannabis legalization would result in an additional \$17.1 million in impairment. Changes to those probabilities resulting in continued delays in or cessation of legalization of cannabis within the United States and internationally, or adverse regulatory changes to existing legislation, could have an unfavorable impact on the estimated future cash flows, and ultimately, the fair value of the cannabis reporting unit, which may result in a material impairment expense recognized in future reporting periods.

In the Company's beverage goodwill assessment, the Company used a discount rate of 10.00%, a terminal growth rate of 2%, and an average revenue growth rate of 2% over 5 years, which brought the remaining beverage goodwill balance to \$nil.

In the Company's wellness goodwill assessment, the Company used a discount rate of 12.25%, a terminal growth rate of 2%, and an average revenue growth rate of 7% over 5 years, which brought the remaining beverage goodwill balance to \$nil.

For the fiscal year ended May 31, 2024, the Company recognized \$nil impairment expense.

Other than temporary write-down of convertible notes receivable

During the fiscal year ended May 31, 2025, the Company recognized an other-than-temporary change in fair value of convertible notes receivable, which resulted in a non-cash expense of \$21.7 million compared to \$42.7 million for the prior fiscal year period related to the MedMen Convertible Note. The MedMen Convertible Note was valued based upon the estimated fair value of the collateral assets net of estimated disposal costs and has been reduced to reflect recent developments in restructuring efforts. See Note 11 (Convertible notes receivable), for additional transactions related to the MedMen Convertible Note, which occurred during the fiscal year ended May 31, 2025.

Litigation costs

Litigation costs of \$17.3 million were expensed during the fiscal year ended May 31, 2025 compared \$8.3 million in the prior fiscal 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. See Note 28 (Commitments and contingencies) for additional details.

Restructuring costs

In connection with the execution of our acquisition strategy and strategic transactions, the Company incurred non-recurring restructuring and exit costs associated with the integration efforts of these transactions. In connection with these efforts, during the fiscal year ended May 31, 2025, the Company incurred \$34.3 million of restructuring charges compared to \$15.6 million for the prior fiscal year period. All restructuring plans are approved at the executive level, and their associated expenses are recognized in the fiscal period in which the plan is committed.

Within the Cannabis segment, our restructuring costs predominantly related to the HEXO acquisition, which were completed within 24 months from the acquisition, which occurred in June 2023. In the fiscal year ended May 31, 2025, we recognized \$10.4 million of expenses related to employee termination severance and benefits and other costs related to the conversion of the HEXO Quebec cultivation facility from cannabis production to produce production, the optimization of our Redecan facilities, and \$1.0 million of restructuring charges related to the exiting of the Truss facility following its sale to a third party in the fiscal year ended May 31, 2024. Additionally, the Company recognized \$1.1 million of cost associated with the closure and sale of our Avanti facility, which occurred during the fiscal year ended May 31, 2025. The Company also recognized \$2.1 million of exit cost in connection with the termination of its contract with its distribution partner in the Quebec adult-use cannabis market and the insourcing of the function. Lastly, the Company recognized \$0.8 million of restructuring charges related to our decision to exit the New Zealand medical cannabis market during the fiscal year ended May 31, 2025.

Within the Beverage segment during the fiscal year ended May 31, 2025, the Company recognized \$1.6 million of expenses related to employee severance and benefits and \$4.2 million of costs associated with the consolidation of production sites through the integration of Craft Acquisition I and the Craft Acquisition II. Additionally, the Company recognized \$8.5 million of restructuring charges related to the closure of the Hop Valley production facility, which was accrued, but not yet paid. Lastly, the Company recognized \$1.6 million of restructuring charges related to terminating a legacy storage agreement from Craft Acquisition I. We expect to transition to a new storage facility in fiscal year 2026, consistent with our announced cost savings initiatives.

Within the Distribution segment during the fiscal year ended May 31, 2025, the Company recognized \$0.5 million of restructuring charges related to the divestiture of its retail pharmacy location in Argentina.

Lastly, for the fiscal year ended May 31, 2025, the Company recognized \$2.5 million of costs associated with the investment held in Superhero Acquisition Corp. as a result of MedMen's ongoing restructuring and liquidation undertakings.

Transaction (income) costs, net

Transaction (income) costs, net, consists of acquisition related income and expenses, including legal fees, financial advisor and other third-party due diligence cost and expenses as well as any transaction related compensation. During the fiscal year ended May 31, 2025, transaction (income) costs, net decreased 71% from the prior fiscal year period as a result of lower transaction costs associated with Craft Acquisition II in the current fiscal year compared to the costs associated with the HEXO, Truss and the Craft Acquisition I in the prior fiscal year.

Non-operating income (expense), net

(in thousands of US dollars)	For the year ended May 31,			Change		Change	
	2025	2024	2023	2025 vs. 2024		2024 vs. 2023	
Change in fair value of convertible debenture payable	\$ —	\$ (19,736)	\$ (43,651)	\$ 19,736	(100)%	\$ 23,915	(55)%
Change in fair value of warrant liability	2,161	(1,436)	12,438	3,597	(250)%	(13,874)	(112)%
Foreign exchange (loss) gain	9,639	(4,086)	(25,535)	13,725	(336)%	21,449	(84)%
Loss on long-term investments	(5,550)	(217)	(2,190)	(5,333)	2,458%	1,973	(90)%
Other non-operating (losses) gains, net	4,034	(12,367)	(7,971)	16,401	(133)%	(4,396)	55%
Total non-operating income (expense)	\$ 10,284	\$ (37,842)	\$ (66,909)	\$ 48,126	(127)%	\$ 29,067	(43)%

For the fiscal year ended May 31, 2025, the Company recognized a change in fair value of its convertible debentures payable of \$nil compared to \$19.7 million in the prior fiscal year period as the instrument was fully settled upon maturity, and recognized a change in fair value of its warrants, resulting in a gain of \$2.2 million compared to a loss of \$1.4 million as a result of the change in our share price and the exercise price of the instrument. The Company recognized a gain of \$9.6 million resulting from the changes in foreign exchange rates during the period compared to a loss of \$4.1 million for the prior fiscal year period. The Company recognized a loss on long-term investments, resulting in a loss of \$5.6 million as a result of a change in fair value of certain long-term investments compared to loss of \$0.2 million for the prior period. The other non-operating (losses) gains, net were \$4.0 million for the fiscal year ended May 31, 2025, which was mainly comprised of a gain of \$5.8 million resulting from the exchange transaction of the TLR 27 Notes, see Note 17 (Convertible debentures payable). The other non-operating (losses) gains, net for the fiscal year ended May 31, 2024 were \$12.4 million and were mainly comprised of \$2.3 million relating to the downside protection on the share issuance relating to the HTI note, \$2.5 million to settle outstanding notes with non-controlling interest shareholders, \$4.6 million related to the decrease in value of equity investee, 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.

Reconciliation of Non-GAAP Financial Measures to GAAP Measures

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure that does not have a 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, Project 420 business optimization, loss (gain) on sale of capital assets - non-operating facility, 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 our 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 decisions.

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 fiscal year ended May 31, 2025, adjusted EBITDA decreased by \$5.4 million to \$55.0 million compared to \$60.5 in the prior fiscal year as we continue to integrate our recent craft beverage acquisitions.

Adjusted EBITDA reconciliation:	For the year ended May 31,			Change		Change	
	2025	2024	2023	2025 vs. 2024		2024 vs. 2023	
Net loss	\$ (2,181,356)	\$ (222,404)	\$ (1,443,000)	\$ (1,958,952)	881%	\$ 1,220,596	(85)%
Income tax (recovery) expense	(121,017)	(26,616)	(7,181)	(94,401)	355%	(19,435)	271%
Interest expense, net	29,952	36,433	13,587	(6,481)	(18)%	22,846	168%
Non-operating income (expense), net	(10,284)	37,842	66,909	(48,126)	(127)%	(29,067)	(43)%
Amortization	133,490	126,913	130,149	6,577	5%	(3,236)	(2)%
Stock-based compensation	24,289	31,769	39,595	(7,480)	(24)%	(7,826)	(20)%
Change in fair value of contingent consideration	—	(15,790)	855	15,790	(100)%	(16,645)	(1,947)%
Impairment of intangible assets and goodwill	2,096,139	—	934,000	2,096,139	NM	(934,000)	(100)%
Other than temporary change in fair value of convertible notes receivable	21,661	42,681	246,330	(21,020)	(49)%	(203,649)	(83)%
Project 420 business optimization	2,600	—	—	2,600	NM	—	NM
Inventory valuation adjustments	—	—	55,000	—	NM	(55,000)	(100)%
Loss (gain) on sale of capital assets - non-operating facility	1,787	(3,987)	—	5,774	(145)%	(3,987)	NM
Purchase price accounting step-up	1,610	12,230	4,482	(10,620)	(87)%	7,748	173%
Facility start-up and closure costs	—	2,100	7,600	(2,100)	(100)%	(5,500)	(72)%
Litigation costs, net of recoveries	17,347	8,251	(505)	9,096	110%	8,756	(1,734)%
Restructuring costs	34,283	15,581	9,245	18,702	120%	6,336	69%
Transaction costs (income), net	4,534	15,462	1,613	(10,928)	(71)%	13,849	859%
Adjusted EBITDA	\$ 55,035	\$ 60,465	\$ 58,679	\$ (5,430)	(9)%	\$ 1,786	3%

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;
- Project 420 business optimization costs;
- Loss (gain) on sale of capital assets - non-operating facility;
- 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. Both 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, and (v) 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 are 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 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, 2024

Refer to Part II, Item 8, Note 3, *Significant Accounting Policies*, of this Form 10-K for additional information on changes in accounting policies. During the fiscal year ended May 31, 2025, the Company adopted ASU 2023-07: Segment Reporting (*Topic 280*) *Improvements to Reportable Segment Disclosures*, See Note 30 (Segments).

Liquidity and Capital Resources

We actively manage our cash and investments in order to internally fund operating needs, make scheduled interest and principal payments on our borrowings, and complete acquisitions. We believe that existing cash, cash equivalents, marketable securities and cash generated by operations, together with access to external sources of funds, will be sufficient to meet our domestic and foreign capital needs for the short and long term outlook.

For the Company's short-term liquidity requirements, we are focused on generating positive cash flows from operations and being free cash flow positive. As a result of delays in legalization across multiple markets, management continues to optimize our operating structure, headcount, as well as the elimination of other discretionary operational costs. Additionally, the Company continues to invest our excess cash in the short-term in marketable securities which are comprised of U.S. treasury bills and term deposits with major Canadian, European and Australian banks.

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

On May 17, 2024, the Company entered into an equity distribution agreement with TD Securities (USA) LLC and Jefferies LLC in connection with an aggregate offering value of up to \$250 million through an at-the-market equity program ("ATM Program"). During the fiscal year ended May 31, 2025, the Company issued 135,938,741 shares under the ATM Program generating gross proceeds of \$163.4 million. The Company paid \$2.2 million in commissions and other fees associated with these issuances generating net proceeds of \$161.2 million. The Company intends to use the net proceeds from the ATM Program to fund strategic and accretive acquisitions or investments in businesses and capital expenditures for acquired businesses, including potential acquisitions of assets in the U.S. and internationally in order to capitalize on expected regulatory advancements or expansion opportunities. As of May 31, 2025, \$74.7 million of gross proceeds remain available through the ATM program. See Note 31 (Subsequent events), for additional transactions.

Additionally, we are committed to optimizing our capital structure and enhancing financial flexibility as we intend to continue to opportunistically purchase or exchange equity for the TLR 27 Notes prior to their underlying maturity date in June 2027, subject to market conditions. See Note 31 (Subsequent events), for additional transactions.

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

	For the year ended May 31,			Change		Change	
	2025	2024	2023	2025 vs. 2024		2024 vs. 2023	
Net cash provided by (used in) operating activities	\$ (94,599)	\$ (30,905)	\$ 7,906	\$ (63,694)	206%	\$ (38,811)	(491)%
Net cash provided by (used in) investing activities	(46,718)	128,349	(285,111)	(175,067)	(136)%	413,460	(145)%
Net cash (used in) provided by financing activities	133,506	(75,187)	70,158	208,693	(278)%	(145,345)	(207)%
Effect on cash of foreign currency translation	1,137	(549)	(2,230)	1,686	(307)%	1,681	(75)%
Cash and cash equivalents, beginning of period	228,340	206,632	415,909	21,708	11%	(209,277)	(50)%
Cash and cash equivalents, end of period	\$ 221,666	\$ 228,340	\$ 206,632	\$ (6,674)	(3)%	\$ 21,708	11%
Marketable securities	34,697	32,182	241,897	2,515	8%	(209,715)	(87)%
Cash and marketable securities(1)	\$ 256,363	\$ 260,522	\$ 448,529	\$ (4,159)	(2)%	\$ (188,007)	(42)%

(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

Net cash used in operating activities was (\$94.6) million for the fiscal year ended May 31, 2025, compared to (\$30.9) million for the prior fiscal year period, resulting from the additional working capital requirements in our beverage segment as we continued to scale and integrate our operations, including the Craft Acquisition II, which we completed in September 2024.

Cash flows from investing activities

Net cash used in investing activities was (\$46.7) million for the fiscal year ended May 31, 2025 compared to net cash provided by investing activities of \$128.3 million for the prior fiscal year period, resulting from the purchase of marketable securities in the current fiscal year compared to the sale of marketable securities in the prior period, and the differences in cash paid for the Craft Acquisition II in the current fiscal year compared to HEXO, Truss and Craft Acquisition I in the prior fiscal year period.

Cash flows from financing activities

Net cash provided by financing activities was \$133.5 million for the fiscal year ended May 31, 2025 compared to net cash used in financing activities of (\$75.2) million for the prior fiscal year period. In the current period, cash was provided by funds from the ATM Program that did not occur in the prior period. In the prior fiscal year period ended May 31, 2024, the Company received proceeds of \$21.6 million for the over-allotment issuance of the TLRY 27 Notes and proceeds from the delayed draw on the ABC credit facility, offset by the \$107.3 million repayment of the TLRY 23 Notes and the APHA 24 Notes.

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, 2025, the Company maintained \$256.4 million of cash and cash equivalents on hand and marketable securities, compared to \$260.5 million in cash and cash equivalents as of May 31, 2024.

Working capital provides funds for the Company to meet its operational and capital requirements. As of May 31, 2025, the Company maintained working capital of \$408.3 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 on various dates through September 2040:

	Operating leases	Finance leases
2026	\$ 7,171	\$ 4,515
2027	6,840	4,515
2028	5,786	4,515
2029	2,846	4,368
Thereafter	10,948	66,570
Total minimum lease payments	\$ 33,591	\$ 84,483
Imputed interest	(7,580)	(38,628)
Obligations recognized	<u>\$ 26,011</u>	<u>\$ 45,855</u>

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	2026	2027	2028	2029	Thereafter
Long-term debt repayment	\$ 164,124	14,767	18,243	97,828	3,489	29,797
Convertible debentures payable	105,000	—	—	105,000	—	—
Material purchase obligations	78,181	48,135	30,046	—	—	—
Construction commitments	528	528	—	—	—	—
Total	<u>\$ 347,833</u>	<u>\$ 63,430</u>	<u>\$ 48,289</u>	<u>\$ 202,828</u>	<u>\$ 3,489</u>	<u>\$ 29,797</u>

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 as of May 31, 2025 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 of May 31, 2025, 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 June of 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 as of May 31, 2025, management regards liquidity risk to be low.

(c) Currency rate risk

As of May 31, 2025, 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. As of the date of this Form 10-K, the Company does not 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.