

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

This Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Unaudited Interim Consolidated Financial Statements and the related Notes thereto for the period ended November 30, 2024 contained in this Quarterly Report on Form 10-Q and the Audited Consolidated Financial Statements and the related Notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended May 31, 2024, as well as in conjunction with the sections entitled “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended May 31, 2024 and in the section entitled “Item 1A. Risk Factors” in this Quarterly Report on Form 10-Q. Forward looking statements in this Form 10-Q are qualified by the cautionary statement included in this Form 10-Q under the sub-heading “Cautionary Note Regarding Forward-Looking Statements” in the introduction of this Form 10-Q.

Company Overview

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

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

Trends and Other Factors Affecting Our Business

Beverage 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 have reevaluated and initiated a refined craft beer strategy focused on enhancing our relevance within home markets on mission critical items, focusing on our core brands in their core markets. Through targeted efforts, we continue to strategically adjusted our portfolio mix and distribution geography with our over 700 distributors to refine our craft beer strategy, enhancing our relevance and focusing resources on our core markets as part of our portfolio rationalization initiatives.
- *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, water through our Liquid Love brand, flavored malt beverages, and Energy drinks. These strategic innovations underscore our commitment to offering high-quality options across diverse beverage categories, positioning us for sustained growth and differentiation in the competitive beverage segment.
- *Brew Pubs.* Following our recent Craft Acquisition on September 29, 2023 and the Craft Acquisition II effective September 1, 2024, we operate 20 brew pubs including our Breckenridge Distillery restaurant in geographic regions across the U.S. that 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 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 and strategic product placements, we believe underscore our brand's growing recognition and appeal. Despite prevailing challenges within the overall spirits market, we believe our focus on whiskey—a resilient segment—positions us for continued growth fueled by innovative product introductions and expanded market presence.

Canadian cannabis market trends:

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

- *Market share.* Tilray continues to lead the Canadian market with the highest cannabis revenue in Canada. However, during the quarter, we experienced a marginal dip in market share in Canada from 9.8% to 9.4% from the immediately preceding quarter, as reported by Hifyre data for all provinces excluding Quebec where Weedcrawler was deemed more accurate. The current period decrease in market share reflects our efforts to preserve margin in specific categories experiencing the most price compression.
- *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 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, Ireland, and Israel). 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 recently adopted cannabis regulations in Germany, 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 and New Zealand representing some 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 within Europe located in Portugal and Germany; our fully owned route-to-market encompassing sales, marketing and distribution infrastructure in Germany, Australia and Italy; a network of leading distributors who we work with in the various other countries in which we participate; 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 gleaned from our leading participation and investment into 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 considering the enactment of MedCanG and given that we are one of only three manufacturers of medical cannabis in Germany since our wholly owned subsidiary, Aphria RX, was awarded the first license for the cultivation of medical cannabis in Germany by the BfArM under the liberalized regime. Said license will improve our ability to meet the needs of patients and provide cannabis of the utmost quality and enhanced availability to a broader market.

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 refundable by the Polish health service. 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 partner.

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 approvals. 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, Tilray Medical received authorization from Italy’s Ministry of Health to distribute three new medical cannabis compounds. These medical cannabis compounds are distributed by FL Group, our wholly-owned subsidiary, 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 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.

New Zealand. In April 2020, the New Zealand Government enacted the Medicinal Cannabis Scheme which allows for the prescription of medical cannabis products. All medical cannabis products in New Zealand must meet the Minimum Quality Standards (“MQS”) which are set by government to ensure the quality and consistency of products. Any medicinal cannabis product that has either been verified against the MQS or approved as a medicine can be prescribed without specialist recommendation or Ministerial approval and there are no specific indications for which medical cannabis must be prescribed. As one of the first companies to supply medical cannabis in New Zealand, Tilray Medical holds a leading position and continues to supply a broad portfolio of whole flower and extracts products to the growing market via our distribution partner.

Wellness market trends:

Manitoba Harvest's US branded business grew 6.2% in multi-outlet consumption during the six months ended November 30, 2024 from the prior year period, further establishing its leading market share position with the brand's top five customers all seeing growth. The Company continues to focus on value-added innovation within the wellness space with the launch of 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 six months ended November 30, 2024, we incurred \$2.0 million of transaction expenses, as discussed further below.

Effective September 1, 2024, Tilray acquired a portfolio of four craft brands and breweries comprised of Atwater Brewery, Hop Valley Brewing Company, Terrapin Beer Co., and Revolver Brewing from Molson, see Note 7 (Business Acquisition). We expect that this recent acquisition furthers 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 December 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. To support the growth of these acquired brands and establish a clear path to profitability, we implemented Project 420, which is a comprehensive plan through which we expect to achieve our \$25 million synergy plan based on the following initiatives:

- *Operational optimization:* As we increase our operational footprint, the optimization of those facilities has been our focus. Accordingly, we continuously evaluate our beverage operational footprint and have identified redundancies in our manufacturing and warehousing assets. By integrating our operations, we are obtaining better utilization of our facilities, decreasing the amount of excess capacity and gaining efficiencies through improved fixed cost absorption.
- *Cost savings, cost avoidance and synergies:* Our focus on cost savings, synergies and cost avoidance across our beverage segment has identified and, we are continuing to identify, the elimination of duplicative fixed costs, procurement, distribution and back office costs.
- *Portfolio optimization/SKU Rationalization:* Today, our Beverage segment consists of an expansive portfolio comprised of over 20 beverage brands in different categories consisting of craft beer, spirits and non-alcoholic options. In response to the declining growth in the craft beer industry and consolidation of distributors, we worked with our distributors in various markets to streamline our portfolio to eliminate 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. In addition, in connection with our strategic review with the Boston Consulting Group, we are executing against our "regional jewel" strategy, which resulted in our conscious decision to delist certain SKUs in certain geographies that were not considered key markets for those brands.

For the six months ended November 30, 2024, our prioritization of certain products in key markets resulted in a reduction in net sales of approximately \$6.0 million. Additionally, our decision to discontinue certain SKUs due to market conditions led to an additional reduction in net sales of \$2.0 million. For the fiscal year ended May 31, 2025, it is anticipated that the cumulative impact of these initiatives will result in a reduction of approximately \$20.0 million in net sales, which we believe will be offset by the growth of our new product innovation, including in new beverage categories, and brand extensions over the next 18 months. 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.

- *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.

As of the end of the second quarter ended November 30, 2024, we achieved \$17 million of the \$25 million synergy plan. However, these savings are not completely offsetting our investment at this time. As a result, our Adjusted EBITDA for the three and six months ended November 30, 2024 was lower by \$1.8 million and \$3.2 million, respectively, as a result of our SKU rationalization. Our operating cash flow in the quarter was also lower due to these investments.

Political and Economic Environment

Our results of operations may 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 banking credit crises can have a significant effect on operations.

Results of Operations

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

(in thousands of U.S. dollars)	For the three months ended				For the six months ended			
	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change
Net revenue	\$ 210,950	\$ 193,771	\$ 17,179	9%	\$ 410,994	\$ 370,720	\$ 40,274	11%
Cost of goods sold	149,730	146,362	3,368	2%	290,068	279,115	10,953	4%
Gross profit	61,220	47,409	13,811	29%	120,926	91,605	29,321	32%
Operating expenses:								
General and administrative	45,997	43,313	2,684	6%	90,110	83,829	6,281	7%
Selling	16,162	7,583	8,579	113%	27,852	14,442	13,410	93%
Amortization	22,927	21,917	1,010	5%	44,731	44,142	589	1%
Marketing and promotion	9,720	9,208	512	6%	21,286	17,743	3,543	20%
Research and development	60	56	4	7%	165	135	30	22%
Change in fair value of contingent consideration	—	300	(300)	(100)%	—	(10,807)	10,807	(100)%
Litigation costs, net of recoveries	901	3,042	(2,141)	(70)%	2,496	5,076	(2,580)	(51)%
Restructuring costs	6,869	2,655	4,214	159%	11,116	3,570	7,546	211%
Transaction costs (income), net	802	1,094	(292)	(27)%	1,958	9,596	(7,638)	(80)%
Total operating expenses	103,438	89,168	14,270	16%	199,714	167,726	31,988	19%
Operating loss	(42,218)	(41,759)	(459)	1%	(78,788)	(76,121)	(2,667)	4%
Interest expense, net	(7,766)	(8,625)	859	(10)%	(17,608)	(18,460)	852	(5)%
Non-operating (expense) income, net	(33,255)	821	(34,076)	(4,151)%	(20,609)	(3,581)	(17,028)	476%
Loss before income taxes	(83,239)	(49,563)	(33,676)	68%	(117,005)	(98,162)	(18,843)	19%
Income tax expense (recovery), net	2,036	(3,380)	5,416	(160)%	2,922	3,884	(962)	(25)%
Net loss	\$ (85,275)	\$ (46,183)	\$ (39,092)	85%	\$ (119,927)	\$ (102,046)	\$ (17,881)	18%

Use of Non-GAAP Measures

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

- adjusted gross profit (excluding purchase price accounting ("PPA") fair value step up) for each reporting segment (Cannabis, Beverage, Distribution and Wellness) as applicable,
- adjusted gross margin (excluding PPA fair value step up) for each reporting segment (Beverage, Cannabis, Distribution and Wellness) as applicable,
- adjusted EBITDA,
- cash and marketable securities, and
- constant currency presentation of net revenue.

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

Constant Currency Presentation

We believe that this financial measure provides useful information to investors because it eliminates the effect that foreign currency exchange rate fluctuations may have on period-to-period comparability given the volatility in foreign currency exchange markets and therefore, provides greater transparency to the underlying performance of our consolidated net sales. 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 rate in effect during the corresponding period of the prior fiscal year rather than at the actual average monthly exchange rate in effect during the current period of the current fiscal year. As a result, the foreign currency impact is equal to the current year results in local currencies multiplied by the change in average foreign currency exchange rate between the current fiscal period and the corresponding period of the prior fiscal year.

Cash and Marketable Securities

The Company combines the Cash and cash equivalent financial statement line item and the Marketable securities financial statement line item as an aggregate total as reconciled in the liquidity and capital resource section below. The Company's management believes that this presentation provides useful information to management, analysts and investors regarding certain additional financial and business trends relating to its short-term liquidity position by combining these 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 three months ended		For the six months ended	
	November 30, 2024	November 30, 2023	November 30, 2024	November 30, 2023
Net beverage revenue	\$ 63,081	\$ 46,505	\$ 119,053	\$ 70,667
Net cannabis revenue	65,652	67,114	126,901	137,447
Distribution revenue	67,611	67,223	135,682	136,380
Wellness revenue	14,606	12,929	29,358	26,226
Beverage costs	37,925	30,513	70,975	41,779
Cannabis costs	42,475	46,472	79,529	96,989
Distribution costs	59,207	60,147	119,345	121,615
Wellness costs	10,123	9,230	20,219	18,732
Adjusted gross profit (excluding PPA step-up) (1)	62,596	52,110	122,477	101,412
Beverage adjusted gross margin (excluding PPA step-up) (1)	42%	38%	42%	44%
Cannabis adjusted gross margin (excluding PPA step-up) (1)	35%	35%	37%	35%
Distribution gross margin	12%	11%	12%	11%
Wellness gross margin	31%	29%	31%	29%
Adjusted EBITDA (1)	\$ 9,017	\$ 10,086	\$ 18,351	\$ 20,820
Cash and marketable securities (1) as at the period ended:	252,249	259,791	252,249	259,791
Working capital as at the period ended:	\$ 428,815	\$ 247,041	\$ 428,815	\$ 247,041

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

Segment Reporting

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

(in thousands of U.S. dollars)	For the three months ended		Change 2024 vs. 2023	% Change	For the six months ended		Change 2024 vs. 2023	% Change
	November 30, 2024	November 30, 2023			November 30, 2024	November 30, 2023		
Beverage business	\$ 63,081	\$ 46,505	\$ 16,576	36%	\$ 119,053	\$ 70,667	\$ 48,386	68%
Cannabis business	65,652	67,114	(1,462)	(2)%	126,901	137,447	(10,546)	(8)%
Distribution business	67,611	67,223	388	1%	135,682	136,380	(698)	(1)%
Wellness business	14,606	12,929	1,677	13%	29,358	26,226	3,132	12%
Total net revenue	\$ 210,950	\$ 193,771	\$ 17,179	9%	\$ 410,994	\$ 370,720	\$ 40,274	11%

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

(in thousands of U.S. dollars)	For the three months ended as reported in constant currency				For the three months ended as reported in constant currency			
	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change
	Beverage business	\$ 63,081	\$ 46,505	\$ 16,576	36%	\$ 119,053	\$ 70,667	\$ 48,386
Cannabis business	65,853	67,114	(1,261)	(2)%	128,645	137,447	(8,802)	(6)%
Distribution business	69,411	67,223	2,188	3%	139,807	136,380	3,427	3%
Wellness business	14,629	12,929	1,700	13%	29,569	26,226	3,343	13%
Total net revenue	\$ 212,974	\$ 193,771	\$ 19,203	10%	\$ 417,074	\$ 370,720	\$ 46,354	13%

Our geographic net revenue is as follows:

(in thousands of U.S. dollars)	For the three months ended November 30, 2024				For the six months ended November 30, 2024			
	November 30, 2023	Change 2024 vs. 2023	% Change	November 30, 2023	Change 2024 vs. 2023	% Change		
	USA	\$ 71,753	\$ 53,374	\$ 18,379	34%	\$ 135,633	\$ 84,863	\$ 50,770
Canada	56,720	61,245	(4,525)	(7)%	112,625	123,277	(10,652)	(9)%
EMEA	79,254	75,292	3,962	5%	156,926	154,996	1,930	1%
Rest of World	3,223	3,860	(637)	(17)%	5,810	7,584	(1,774)	(23)%
Total net revenue	\$ 210,950	\$ 193,771	\$ 17,179	9%	\$ 410,994	\$ 370,720	\$ 40,274	11%

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

(in thousands of U.S. dollars)	For the three months ended as reported in constant currency				For the six months ended as reported in constant currency			
	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change
	USA	\$ 71,753	\$ 53,374	18,379	34%	\$ 135,633	\$ 84,863	50,770
Canada	57,051	61,245	(4,194)	(7)%	114,487	123,277	(8,790)	(7)%
EMEA	78,542	75,292	3,250	4%	155,971	154,996	975	1%
Rest of World	5,628	3,860	1,768	46%	10,983	7,584	3,399	45%
Total net revenue	\$ 212,974	\$ 193,771	\$ 19,203	10%	\$ 417,074	\$ 370,720	\$ 46,354	13%

Our geographic capital assets are as follows:

(in thousands of U.S. dollars)	November 30, 2024	May 31, 2024	Change 2024 vs. 2023	% Change
	USA	\$ 200,667	\$ 141,314	\$ 59,353
Canada	256,828	313,359	(56,531)	(18)%
EMEA	93,703	99,921	(6,218)	(6)%
Rest of World	3,221	3,653	(432)	(12)%
Total capital assets	\$ 554,419	\$ 558,247	\$ (3,828)	(1)%

Beverage revenue

Revenue from our Beverage segment increased to \$63.1 million and \$119.1 million for the three and six months ended November 30, 2024, compared to revenue of \$46.5 million and \$70.7 million for the prior year period. This growth was primarily driven by our recent Craft Acquisition II, effective September 1, 2024, which included the brands and breweries of Hop Valley Brewing Company, Terrapin Beer Company, Revolver Brewing, and Atwater Brewery. Further, the prior year period did not reflect a full period of revenue from the initial Craft Acquisition, completed on September 29, 2023. The growth in our Beverage segment was partially offset by the SKU rationalization implemented in connection with Project 420, which resulted in a reduction of revenue during the three and six months ended November 30, 2024.

Cannabis revenue

Cannabis net revenue based on market channel was as follows:

(in thousands of US dollars)	For the three months ended				For the six months ended			
	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change
Revenue from Canadian medical cannabis	\$ 6,673	\$ 6,288	\$ 385	6%	\$ 12,934	\$ 12,430	\$ 504	4%
Revenue from Canadian adult-use cannabis	59,077	72,048	(12,971)	(18)%	116,312	143,243	(26,931)	(19)%
Revenue from wholesale cannabis	6,593	4,289	2,304	54%	12,100	9,584	2,516	26%
Revenue from international cannabis	14,865	11,931	2,934	25%	27,056	26,183	873	3%
Total cannabis revenue	87,208	94,556	(7,348)	(8)%	168,402	191,440	(23,038)	(12)%
Excise taxes	(21,556)	(27,442)	5,886	(21)%	(41,501)	(53,993)	12,492	(23)%
Total cannabis net revenue	\$ 65,652	\$ 67,114	\$ (1,462)	(2)%	\$ 126,901	\$ 137,447	\$ (10,546)	(8)%

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

(in thousands of US dollars)	For the three months ended as reported in constant currency				For the six months ended as reported in constant currency			
	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change
Revenue from Canadian medical cannabis	\$ 6,707	\$ 6,288	\$ 419	7%	\$ 13,139	\$ 12,430	\$ 709	6%
Revenue from Canadian adult-use cannabis	59,346	72,048	(12,702)	(18)%	118,152	143,243	(25,091)	(18)%
Revenue from wholesale cannabis	6,697	4,289	2,408	56%	12,355	9,584	2,771	29%
Revenue from international cannabis	14,759	11,931	2,828	24%	27,147	26,183	964	4%
Total cannabis revenue	87,509	94,556	(7,047)	(7)%	170,793	191,440	(20,647)	(11)%
Excise taxes	(21,656)	(27,442)	5,786	(21)%	(42,148)	(53,993)	11,845	(22)%
Total cannabis net revenue	\$ 65,853	\$ 67,114	\$ (1,261)	(2)%	\$ 128,645	\$ 137,447	\$ (8,802)	(6)%

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

Revenue from Canadian medical cannabis: Revenue from Canadian medical cannabis increased to \$6.7 million and \$12.9 million for the three and six months ended November 30, 2024 compared to revenue of \$6.3 million and \$12.4 million for the prior year period. On a constant currency basis, revenue from Canadian medical cannabis was \$6.7 million and \$13.1 million for the three and six months ended November 30, 2024 compared to revenue of \$6.3 million and \$12.4 million for the prior year period. This increase in revenue from medical cannabis was primarily driven by growth in the insured patient category exceeding the decline in un-insured patient attrition to the adult-use recreational market.

Revenue from Canadian adult-use cannabis: During the three and six months ended November 30, 2024, our revenue from Canadian adult-use cannabis decreased to \$59.1 million and \$116.3 million, compared to revenue of \$72.0 million and \$143.2 million for the prior year period. Revenue in the prior year period included \$1.5 million in advisory fees, which did not repeat during the three and six months ended November 30, 2024. On a constant currency basis, our revenue from Canadian adult-use cannabis decreased to \$59.3 million and \$118.2 million for the three and six months ended November 30, 2024. The decrease in adult-use revenue was driven by our renewed focus on preserving gross margin and maintaining a higher average selling price in growing categories such as vapes that have experienced a high degree of price compression. We expect to be able to increase our participation in these categories as a result of our capex investments in the fourth quarter ended May 31, 2025, to improve these trends.

Wholesale cannabis revenue: Revenue from wholesale cannabis increased to \$6.6 million and \$12.1 million for the three and six months ended November 30, 2024 compared to revenue of \$4.3 million and \$9.6 million for the prior year period. On a constant currency basis, revenue from wholesale cannabis increased to \$6.7 million and \$12.4 million for the three and six months ended November 30, 2024 compared to revenue of \$4.3 million and \$9.6 million for the prior year period. Due to the transition to asset-light business models, the Canadian cannabis industry has experienced a reduction in excess inventory resulting in price increases in the B2B market. This shift in market dynamics and demand enabled us to strategically sell inventory that was sought after in the wholesale market during the quarter but does not meet the high 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.

International cannabis revenue: Revenue from International cannabis increased to \$14.9 million and \$27.1 million for the three and six months ended November 30, 2024 compared to revenue of \$11.9 million and \$26.2 million for the prior year period. On a constant currency basis, given the changes in the Euro against the U.S. Dollar when compared to the prior year quarter, revenue from international cannabis was \$14.8 million and \$27.1 million compared to \$11.9 million and \$26.2 million in the prior year period. The increase during the period was primarily driven by higher sales in Germany, attributed to the expanding German medical market, and Poland. This growth was partially offset by lower revenue in Australia, which was impacted by regulatory actions affecting certain prescribers. International cannabis 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.

Distribution revenue

Revenue from our Distribution segment increased to \$67.6 million and \$135.7 million for the three and six months ended November 30, 2024, compared to revenue of \$67.2 million and \$136.4 million for the prior year period. On a constant currency basis, given the change in the Euro and Argentine Peso against the U.S. Dollar in the quarter, revenue from Distribution increased to \$69.4 million and \$139.8 million for the three and six months ended November 30, 2024, compared to \$67.2 million and \$136.4 million for the prior year period. Although revenue remained relatively consistent, the period-over-period variability was primarily influenced currency fluctuations.

Wellness revenue

Our Wellness segment revenue showed strong growth delivering \$14.6 million and \$29.4 million for the three and six months ended November 30, 2024 compared to \$12.9 million and \$26.2 million from the prior year period. On a constant currency basis for the three and six months ended November 30, 2024, Wellness segment revenue increased to \$14.6 million and \$29.6 million from \$12.9 million and \$26.2 million. The increase in revenue was primarily attributed to our strategic focus on continued innovations, including the launch of our HD-D9 products and strong organic growth within our branded hemp food business related to higher consumption.

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

Our gross profit and gross margin for the three and six months ended November 30, 2024 and November 30, 2023, respectively, was as follows:

(in thousands of U.S. dollars)	For the three months ended				For the six months ended			
	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change
Beverage								
Net revenue	\$ 63,081	\$ 46,505	\$ 16,576	36%	\$ 119,053	\$ 70,667	\$ 48,386	68%
Cost of goods sold	37,925	30,513	7,412	24%	70,975	41,779	29,196	70%
Gross profit	25,156	15,992	9,164	57%	48,078	28,888	19,190	66%
Gross margin	40%	34%	6%	18%	40%	41%	(1)%	(2)%
Purchase price accounting step-up	1,376	1,763	(387)	(22)%	1,551	2,353	(802)	(34)%
Adjusted gross profit (1)	26,532	17,755	8,777	49%	49,629	31,241	18,388	59%
Adjusted gross margin (1)	42%	38%	4%	11%	42%	44%	(2)%	(5)%
Cannabis								
Net revenue	65,652	67,114	(1,462)	(2)%	126,901	137,447	(10,546)	(8)%
Cost of goods sold	42,475	46,472	(3,997)	(9)%	79,529	96,989	(17,460)	(18)%
Gross profit	23,177	20,642	2,535	12%	47,372	40,458	6,914	17%
Gross margin	35%	31%	4%	13%	37%	29%	8%	28%
Purchase price accounting step-up	—	2,938	(2,938)	(100)%	—	7,454	(7,454)	(100)%
Adjusted gross profit (1)	23,177	23,580	(403)	(2)%	47,372	47,912	(540)	(1)%
Adjusted gross margin (1)	35%	35%	0%	0%	37%	35%	2%	6%
Distribution								
Net revenue	67,611	67,223	388	1%	135,682	136,380	(698)	(1)%
Cost of goods sold	59,207	60,147	(940)	(2)%	119,345	121,615	(2,270)	(2)%
Gross profit	8,404	7,076	1,328	19%	16,337	14,765	1,572	11%
Gross margin	12%	11%	1%	9%	12%	11%	1%	9%
Wellness								
Net revenue	14,606	12,929	1,677	13%	29,358	26,226	3,132	12%
Cost of goods sold	10,123	9,230	893	10%	20,219	18,732	1,487	8%
Gross profit	4,483	3,699	784	21%	9,139	7,494	1,645	22%
Gross margin	31%	29%	2%	7%	31%	29%	2%	7%
Total								
Net revenue	210,950	193,771	17,179	9%	410,994	370,720	40,274	11%
Cost of goods sold	149,730	146,362	3,368	2%	290,068	279,115	10,953	4%
Gross profit	61,220	47,409	13,811	29%	120,926	91,605	29,321	32%
Gross margin	29%	24%	5%	21%	29%	25%	4%	16%
Purchase price accounting step-up	1,376	4,701	(3,325)	(71)%	1,551	9,807	(8,256)	(84)%
Adjusted gross profit (1)	62,596	52,110	10,486	20%	122,477	101,412	21,065	21%
Adjusted gross margin (1)	30%	27%	3%	11%	30%	27%	3%	11%

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

Beverage gross margin: Gross margin of 40% and 40% for the three and six months ended November 30, 2024 increased from 34% and decreased from 41% in the prior year period. Adjusted gross margin of 42% and 42% for the three and six months ended November 30, 2024 increased from 38% and decreased from 44% in the prior year period. The change in the adjusted beverage gross margin during the three and six months ended November 30, 2024 was driven by several factors. Our continued integration efforts of our Craft Acquisition, increased utilization of our facilities and improvements in our product mix as part of our strategic initiatives under Project 420 have had favorable impacts on our adjusted gross margin. However, these improvements were partially offset by the impacts from the Craft Acquisition II, which has lower margins than our historical business. Overall the culmination of these factors during the three months ended November 30, 2024, resulted in a 400 basis point improvement to our adjusted beverage gross margin as a result of our aforementioned cost savings initiatives.

Cannabis gross margin: Gross margin increased during the three and six months ended November 30, 2024 to 35% and 37% from 31% and 29% in the prior year period. Excluding the impact of the non-cash fair value purchase price accounting step-up, adjusted gross margin during the three and six months ended November 30, 2024 remained consistent at 35% and increased to 37% from 35% and 35% in the prior year period. The improvement in adjusted gross margin for the six months ended November 30, 2024 was driven by our increased international cannabis revenue as well as a continued focus on maintaining a higher average selling price and favorable product mix to improve gross margins in Canada despite lower sales in the Canadian adult-use market. Additionally, the prior year period also included \$1.5 million of HEXO advisory services revenue, which did not recur in the current year period.

Distribution gross margin: Gross margin increased to 12% and 12% for the three and six months ended November 30, 2024 from 11% and 11% for the prior year period, which was attributed to favorable product mix as we continued to prioritize higher margin product offerings.

Wellness gross margin: Gross margin increased to 31% and 31% for the three and six months ended November 30, 2024 from 29% and 29% from the prior year period, which was a result of strong operational efficiencies, lower input costs and the culmination of a change in sales mix towards higher margin product offerings.

Operating expenses

(in thousands of US dollars)	For the three months ended				For the six months ended			
	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change
General and administrative	\$ 45,997	\$ 43,313	\$ 2,684	6%	\$ 90,110	\$ 83,829	\$ 6,281	7%
Selling	16,162	7,583	8,579	113%	27,852	14,442	13,410	93%
Amortization	22,927	21,917	1,010	5%	44,731	44,142	589	1%
Marketing and promotion	9,720	9,208	512	6%	21,286	17,743	3,543	20%
Research and development	60	56	4	7%	165	135	30	22%
Change in fair value of contingent consideration	—	300	(300)	(100)%	—	(10,807)	10,807	(100)%
Litigation costs, net of recoveries	901	3,042	(2,141)	(70)%	2,496	5,076	(2,580)	(51)%
Restructuring costs	6,869	2,655	4,214	159%	11,116	3,570	7,546	211%
Transaction costs (income), net	802	1,094	(292)	(27)%	1,958	9,596	(7,638)	(80)%
Total operating expenses	<u>\$ 103,438</u>	<u>\$ 89,168</u>	<u>\$ 14,270</u>	<u>16%</u>	<u>\$ 199,714</u>	<u>\$ 167,726</u>	<u>\$ 31,988</u>	<u>19%</u>

Operating expenses are comprised of general and administrative, selling, amortization, marketing and promotion, research and development, change in fair value of contingent consideration, litigation costs, net of recoveries, restructuring costs and transaction (income) costs, net. These costs increased by \$14.2 million and \$32.0 million to \$103.4 million and \$199.7 million for the three and six months ended November 30, 2024 compared to \$89.2 million and \$167.7 million for the prior year period. Of the \$14.2 million and \$32.0 million increase recognized during the three and six months ended November 30, 2024, \$9.1 million and \$18.8 million 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 initial Craft Acquisition, completed on September 29, 2023. These changes period over period are described below.

General and administrative costs

During the three and six months ended November 30, 2024, the changes in general and administrative costs when compared to the prior year period are as follows:

(in thousands of US dollars)	For the three months ended				For the six months ended			
	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change
Salaries and wages	\$ 22,726	\$ 19,119	\$ 3,607	19%	\$ 44,293	\$ 35,894	\$ 8,399	23%
Office and general	9,458	8,065	1,393	17%	18,718	16,233	2,485	15%
Stock-based compensation	7,237	8,201	(964)	(12)%	14,154	16,458	(2,304)	(14)%
Insurance	3,155	2,499	656	26%	5,610	6,348	(738)	(12)%
Professional fees	1,126	2,503	(1,377)	(55)%	2,304	4,002	(1,698)	(42)%
(Gain) loss on sale of capital assets	(505)	(23)	(482)	2,096%	(531)	(20)	(511)	2,555%
Travel and accommodation	1,754	1,374	380	28%	3,247	2,481	766	31%
Rent	1,046	1,575	(529)	(34)%	2,315	2,433	(118)	(5)%
Total general and administrative costs	\$ 45,997	\$ 43,313	\$ 2,684	6%	\$ 90,110	\$ 83,829	\$ 6,281	7%

Salaries and wages increased by 19% and 23% during the three and six months ended November 30, 2024. The increase during the three and six months ended November 30, 2024 was primarily due to the inclusion of employees 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 initial Craft Acquisition, completed on September 29, 2023. Additionally, included in the six month period ended November 30, 2024, there was \$1.7 million of retention payments that did not occur in the prior year period.

Office and general increased by 17% and 15% during the three and six months ended November 30, 2024. The increase was primarily due 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 initial Craft Acquisition, completed on September 29, 2023.

The Company recognized stock-based compensation expense of \$7.2 million and \$14.2 million for the three and six months ended November 30, 2024 compared to \$8.2 million and \$16.5 million for the prior year period. Stock based compensation expense is based on the time-based vesting schedules and varies according to the assumptions used in the vesting model. During the three and six months ended November 30, 2024, as a result of previously issued stock options, restricted stock units (“RSUs”) and stock appreciation rights (“SARs”) under Tilray 2018 Equity Incentive Plan and Original Plan, as described in the Annual Report on Form 10-K for the fiscal year ended May 31, 2024, that have fully vested, stock-based compensation decreased period over period.

Insurance expense increased by 26% and decreased by 12% for the three and six months ended November 30, 2024 to \$3.2 million and \$5.6 million from \$2.5 million and \$6.3 million for the prior year period. The change for the three and six months ended November 30, 2024 was driven by lower premiums, offset by the additional policies required for our newly acquired beverage business portfolio for both the Craft Acquisition and Craft Acquisition II. For the three and six months ended November 30, 2024, as a percentage of revenue insurance was 1.5% and 1.4% compared to 1.3% and 1.7% in the prior year period, demonstrating our ability to manage our policy costs despite growing the business.

Rent expense decreased by 34% and 5% for the three and six months ended November 30, 2024 to \$1.0 million and \$2.3 million from \$1.6 million and \$2.4 million for the prior period. Rent expense is predominantly comprised of operating lease costs for our Brewpubs and office spaces. The six month increase was driven by 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 initial Craft Acquisition, completed on September 29, 2023. Additionally, the three month decrease was driven by the exit from the Truss Lease in the current year and a reduction in lease payments, which was previously included in the prior period results.

Selling costs

For the three and six months ended November 30, 2024, the Company incurred selling costs of \$16.2 million and \$27.9 million or 7.7% and 6.8% of net revenue as compared to \$7.6 million and \$14.4 million or 3.9% and 3.9% of net revenue in the prior year period. 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 three and six months ended November 30, 2024, is predominately due to the higher freight costs experienced in the beverage segment as well as proportionate increase for the higher sales associated with the recent Craft Acquisition II, effective September 1, 2024, and that the prior year period did not reflect a full period of results from the initial Craft Acquisition, completed on September 29, 2023. Additionally, in the six month period ended November 30, 2023, the Company received a refund of \$1.2 million on cannabis selling fees related to an amended fee calculation and a commission refund that did not recur in the current period.

Amortization

The Company incurred non-production related amortization charges of \$22.9 million and \$44.7 million for the three and six months ended November 30, 2024 compared to \$21.9 million and \$44.1 million in the prior year period based on depreciable capital and intangible assets useful lives.

Marketing and promotion costs

For the three and six months ended November 30, 2024, the Company incurred marketing and promotion costs of \$9.7 million and \$21.3 million as compared to \$9.2 million and \$17.7 million for the prior year period, which was primarily due 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 initial Craft Acquisition, completed on September 29, 2023. Additionally, there was quarterly variability in discretionary marketing expenses.

Research and development

Research and development costs were \$0.1 million and \$0.2 million during the three and six months ended November 30, 2024, compared to \$0.1 million and \$0.1 million in the prior year period. These relate to external costs associated with the development of new products.

Change in fair value of contingent consideration

The Company measures contingent consideration at fair value classified as Level 3, as discussed in Note 25 (Fair value measurements). During the three and six months ended November 30, 2024, the Company recognized \$nil and \$nil change in fair value of contingent consideration as there were no changes to the likelihood achievement for Montauk Brewing compared to a loss of \$0.3 million and a gain of \$10.8 million in the prior period for the contingent consideration from the SweetWater acquisition as a result of not achieving the earnout targets.

Litigation costs, net of recoveries

For the three and six months ended November 30, 2024, the Company recorded \$0.9 million and \$2.5 million of litigation settlements costs and third-party fees incurred in defending these claims, net of favorable recoveries compared to \$3.0 million and \$5.1 million in the prior period. The decrease is related to period-to-period variability as litigation costs and expenses are non-recurring in nature.

Restructuring costs

In connection with the execution of our acquisition strategy and strategic transactions, the Company has incurred non-recurring restructuring and exit costs associated with the integration efforts of these transactions. In connection with these efforts, the Company recognized three and six months ended November 30, 2024, the Company incurred \$6.9 million and \$11.1 million of restructuring charges compared to \$2.7 million and \$3.6 million for the prior year period. All restructuring plans are approved at the executive level, and their associated expenses are recognized in the period in which the plan is committed. All amounts incurred as of November 30, 2024 have been paid.

Within the Cannabis segment, our restructuring costs predominantly related to the HEXO acquisition, which are expected to be completed within 24 months from the original acquisition, which occurred June 2023. In the six months ended November 30, 2024, we recognized \$5.9 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 to produce (which is currently held for sale), the optimization of our Redecan facilities, and \$0.6 million of restructuring charges related to the remaining costs of exiting the Truss facility following its sale to a third party in the fiscal year ended May 31, 2024. Additionally, the Company recognized \$0.4 million of cost associated winding down the Fort Collins warehouse (which is currently held for sale), and \$0.6 million of cost associated with the winding down of our Avanti facility, the closure of which was announced during the quarter ended November 30, 2024.

Within the beverage segment, the Company recognized \$1.0 million of expenses related to employee termination severance and benefits and \$0.8 million of costs associated with the consolidation of production sites through the integration of the Craft Acquisition and the Craft Acquisition II. Additionally, the Company recognized \$0.5 million of restructuring charges related to terminating a legacy storage agreement from the Craft Acquisition. We expect to transition to a new storage facility in the fourth quarter of fiscal year 2025, consistent with our announced cost savings initiatives.

Within the distribution segment, the Company recognized \$0.2 million of restructuring charges related to the divestiture of its retail pharmacy location in Argentina.

Lastly, for the three and six months ended November 30, 2024, the Company recognized \$1.1 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, includes acquisition related income and expenses, related legal, financial advisor and due diligence cost and expenses and transaction related compensation. The three and six months ended November 30, 2024 decrease of 27% and 80% from the prior year period was a result of HEXO, Truss and the Craft Acquisition taking place in the previous year which did not recur. The expenses incurred in the current period largely related to the Craft Acquisition II, for the four craft beer brands and breweries from Molson, which was effective September 1, 2024.

Non-operating (expense) income, net

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

(in thousands of US dollars)	For the three months ended		Change	% Change	For the six months ended		Change	% Change
	November 30, 2024	November 30, 2023			November 30, 2024	November 30, 2023		
Change in fair value of convertible debenture payable	\$ —	\$ (3,894)	\$ 3,894	(100)%	\$ —	\$ (6,041)	\$ 6,041	(100)%
Change in fair value of warrant liability	862	6,247	(5,385)	(86)%	1,558	(1,951)	3,509	(180)%
Foreign exchange gain (loss)	(33,797)	(1,024)	(32,773)	3,200%	(21,916)	5,243	(27,159)	(518)%
Loss on long-term investments	(27)	459	(486)	(106)%	(66)	350	(416)	(119)%
Other non-operating (losses) gains, net	(293)	(967)	674	(70)%	(185)	(1,182)	997	(84)%
Total non-operating income (expense)	\$ (33,255)	\$ 821	\$ (34,076)	(4,151)%	\$ (20,609)	\$ (3,581)	\$ (17,028)	476%

For the three and six months ended November 30, 2024, the Company recognized a change in fair value of its convertible debentures payable of \$0.0 million and \$0.0 million compared to (\$3.9) million and (\$6.0) million in the prior year period. The change was driven primarily by the exchange of APHA 24 convertible debenture prior to and upon maturity. Additionally, for the three and six months ended November 30, 2024, the Company recognized a change in fair value of its warrants, resulting in a gain of \$0.9 million and \$1.6 million compared to a gain of \$6.2 million and a loss of (\$2.0) million as a result of the change in our share price and the exercise price of the instrument. For the three and six months ended November 30, 2024, the Company recognized a loss of (\$33.8) million and (\$21.9) million resulting from the changes in foreign exchange rates during the period compared to a loss of (\$1.0) million and a gain of \$5.2 million for the prior period. The non-operating (losses) gains were (\$0.3) million and \$(0.2) million for the three and six months ended November 30, 2024, compared to (\$1.0) million and (\$1.2) million, for the prior period, and was mainly comprised of a gain of \$0.7 million resulting from the exchange transaction of the TLRV 27 Note, see Note 17 (Convertible debentures payable) and a loss of (\$1.0) million to settle outstanding notes with the non-controlling interest shareholder.

Reconciliation of Non-GAAP Financial Measures to GAAP Measures

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure that does not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. The Company calculates adjusted EBITDA as net loss/net income before income taxes, net interest expense, depreciation and amortization, equity in net loss of equity-method investees, purchase price accounting step-up on inventory, stock-based compensation, impairments, other than temporary change in fair value of convertible notes receivable, restructuring costs, transaction (income) costs net, litigation costs net of recoveries, change in fair value of contingent consideration, unrealized currency gains and losses and other adjustments.

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

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

For three and six months ended November 30, 2024, adjusted EBITDA decreased to \$9.0 million and \$18.4 million compared to \$10.1 million and \$20.8 million for the prior year period as we continue to integrate our recent craft beverage acquisitions.

	For the three months ended				For the six months ended			
	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change	November 30, 2024	November 30, 2023	Change 2024 vs. 2023	% Change
Adjusted EBITDA reconciliation:								
Net loss	\$ (85,275)	\$ (46,183)	\$ (39,092)	85%	\$ (119,927)	\$ (102,046)	\$ (17,881)	18%
Income tax expense (recovery), net	2,036	(3,380)	5,416	(160)%	2,922	3,884	(962)	(25)%
Interest expense, net	7,766	8,625	(859)	(10)%	17,608	18,460	(852)	(5)%
Non-operating income (expense), net	33,255	(821)	34,076	(4,151)%	20,609	3,581	17,028	476%
Amortization	34,050	31,552	2,498	8%	65,864	62,341	3,523	6%
Stock-based compensation	7,237	8,201	(964)	(12)%	14,154	16,458	(2,304)	(14)%
Change in fair value of contingent consideration	—	300	(300)	(100)%	—	(10,807)	10,807	(100)%
Purchase price accounting step- up	1,376	4,701	(3,325)	(71)%	1,551	9,807	(8,256)	(84)%
Facility start-up and closure costs	—	300	(300)	(100)%	—	900	(900)	(100)%
Litigation costs, net of recoveries	901	3,042	(2,141)	(70)%	2,496	5,076	(2,580)	(51)%
Restructuring costs	6,869	2,655	4,214	159%	11,116	3,570	7,546	211%
Transaction costs (income), net	802	1,094	(292)	(27)%	1,958	9,596	(7,638)	(80)%
Adjusted EBITDA	\$ 9,017	\$ 10,086	\$ (1,069)	(11)%	\$ 18,351	\$ 20,820	\$ (2,469)	(12)%

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

- Non-cash amortization expenses and, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future;
- Stock-based compensation expenses, a non-cash expense and are an important part of our compensation strategy;
- Non-cash impairment charges, as the charges are not expected to be a recurring business activity;
- Non-cash other than temporary write-down of convertible notes receivable, as the charges are not expected to be a recurring business activity;
- Non-cash foreign exchange gains or losses, which accounts for the effect of both realized and unrealized foreign exchange transactions. Unrealized gains or losses represent foreign exchange revaluation of foreign denominated monetary assets and liabilities;
- Non-cash change in fair value of warrant liability;
- Interest expense, net;
- Costs incurred to start up new facilities, and to fund emerging market operations;
- Transaction (income) costs, net which includes acquisition related income and expenses, related legal, financial advisor and due diligence cost and expenses and transaction related compensation, which vary significantly by transaction and are excluded to evaluate ongoing operating results;
- Restructuring charges;
- Litigation costs, net of favorable recoveries and the third party fees associated with defending these claims, includes costs related to legacy and non-operational litigation matters, legal settlements and recoveries;
- Amortization of purchase accounting fair value step-up in inventory value included in costs of goods sold; and
- Current and deferred income tax expenses and recoveries, which could be a significant recurring expense or recovery in our business in the future and reduce or increase cash available to us.

Adjusted Gross Profit and Adjusted Gross Margin

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

Liquidity and Capital Resources

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

For the Company's short-term liquidity requirements, we are focused on generating positive cash flows from operations and being free cash flow positive. As a result of delays in legalization across multiple markets, management continues to optimize our operating structure, headcount, as well as the elimination of other discretionary operational costs. Additionally, the Company continues to invest our excess cash in the short-term in marketable securities which are comprised of U.S. treasury bills 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 ("TD Securities") and Jefferies LLC ("Jefferies") in connection with an aggregate offering value of up to \$250 million from time to time through an at-the-market equity program ("ATM Program"). During the three and six months ended November 30, 2024, the Company issued 67,210,864 shares under the ATM program generating gross proceeds of \$114.3 million. The Company paid \$2.8 million in commissions and other fees associated with these issuances generating net proceeds of \$111.5 million. See Note 27 (Subsequent events) for additional transactions. 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.

Additionally, we are committed to optimizing our capital structure and enhancing financial flexibility as we intend to continue to opportunistically purchase or exchange equity for the TLRY 27 Notes prior to their underlying maturity date in June 2027, subject to market conditions.

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

	For the three months ended		For the six months ended	
	November 30, 2024	November 30, 2023	November 30, 2024	November 30, 2023
Net cash provided by (used in) operating activities	\$ (40,724)	\$ (30,409)	\$ (76,031)	\$ (46,251)
Net cash provided by (used in) investing activities	(10,725)	81,497	(60,120)	55,207
Net cash provided by financing activities	38,203	(85,366)	98,793	(71,348)
Effect on cash of foreign currency translation	(2,242)	95	(1,284)	709
Cash and cash equivalents, beginning of period	205,186	179,132	228,340	206,632
Cash and cash equivalents, end of period	\$ 189,698	\$ 144,949	\$ 189,698	\$ 144,949
Marketable securities	62,551	116,418	62,551	116,418
Less: Restricted cash	—	(1,576)	—	(1,576)
Cash and marketable securities(1)	\$ 252,249	\$ 259,791	\$ 252,249	\$ 259,791

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

Cash flows from operating activities

The change in net cash used in operating activities was (\$40.7) million and (\$76.0) million for three and six months ended November 30, 2024 compared to (\$30.4) million and (\$46.3) million for the prior year period and was a result of additional working capital requirements as we continued to scale up our operations, including the Craft Acquisition II in September 2024.

Cash flows from investing activities

The change in net cash used in investing activities was (\$10.7) million and (\$60.1) million for three and six months ended November 30, 2024 compared to \$81.5 million and \$55.2 million for the prior period, and was a result of the purchase of marketable securities in the current 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 year compared to HEXO, Truss and the Craft Acquisition in the prior period.

Cash flows from financing activities

The change in cash provided by financing activities was \$38.2 million and \$98.8 million for three and six months ended November 30, 2024 compared to (\$85.4) million and (\$71.3) million for the prior year period. In the current period, cash was provided by funds from the ATM program that did not occur in the prior period. In the prior period ended November 30, 2023, the Company received proceeds of \$21.6 million for the overallotment issuance of 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 and APHA 24 Notes.

Subsequent Events

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

Contingencies

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

Critical Accounting Estimates

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

Recently Issued Accounting Pronouncements

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