

Item 8. Financial Statements and Supplementary Data.

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All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and accompanying notes.

Tilray Brands, Inc.

Consolidated Statements of Financial Position

(In thousands of U.S. dollars)

	May 31, 2023	May 31, 2022
Assets		
Current assets		
Cash and cash equivalents	\$ 206,632	\$ 415,909
Marketable securities	241,897	—
Accounts receivable, net	86,227	95,279
Inventory	200,551	245,529
Prepays and other current assets	37,722	46,786
Total current assets	773,029	803,503
Capital assets	429,667	587,499
Right-of-use assets	5,941	12,996
Intangible assets	973,785	1,277,875
Goodwill	2,008,843	2,641,305
Interest in equity investees	4,576	4,952
Long-term investments	7,795	10,050
Convertible notes receivable	103,401	111,200
Other assets	222	314
Total assets	\$ 4,307,259	\$ 5,449,694
Liabilities		
Current liabilities		
Bank indebtedness	\$ 23,381	\$ 18,123
Accounts payable and accrued liabilities	190,682	157,431
Contingent consideration	16,218	16,007
Warrant liability	1,817	14,255
Current portion of lease liabilities	2,423	6,703
Current portion of long-term debt	24,080	67,823
Current portion of convertible debentures payable	174,378	—
Total current liabilities	432,979	280,342
Long - term liabilities		
Contingent consideration	10,889	—
Lease liabilities	7,936	11,329
Long-term debt	136,889	117,879
Convertible debentures payable	221,044	401,949
Deferred tax liabilities	167,364	196,638
Other liabilities	215	191
Total liabilities	977,316	1,008,328
Commitments and contingencies (see to Note 27)		
Stockholders' equity		
Common stock (\$0.0001 par value; 990,000,000 shares authorized; 656,655,455 and 532,674,887 shares issued and outstanding, respectively)	66	53
Additional paid-in capital	5,777,743	5,382,367
Accumulated other comprehensive loss	(46,610)	(20,764)
Accumulated Deficit	(2,415,507)	(962,851)
Total Tilray Brands, Inc. stockholders' equity	3,315,692	4,398,805
Non-controlling interests	14,251	42,561
Total stockholders' equity	3,329,943	4,441,366
Total liabilities and stockholders' equity	\$ 4,307,259	\$ 5,449,694

The accompanying notes are an integral part of these consolidated financial statements

Tilray Brands, Inc.

Consolidated Statements of Loss and Comprehensive Loss

(In thousands of U.S. dollars, except share and per share amounts)

	For the year ended May 31,		
	2023	2022	2021
Net revenue	\$ 627,124	\$ 628,372	\$ 513,085
Cost of goods sold	480,164	511,555	389,903
Gross profit	146,960	116,817	123,182
Operating expenses:			
General and administrative	165,159	162,801	111,575
Selling	34,840	34,926	26,576
Amortization	93,489	115,191	35,221
Marketing and promotion	30,937	30,934	17,539
Research and development	682	1,518	830
Change in fair value of contingent consideration	855	(44,650)	—
Impairments	934,000	378,241	—
Other than temporary change in fair value of convertible notes receivable	246,330	—	—
Litigation (recovery) costs	(505)	16,518	3,251
Restructuring costs	9,245	795	—
Transaction costs	1,613	30,944	60,361
Total operating expenses	1,516,645	727,218	255,353
Operating loss	(1,369,685)	(610,401)	(132,171)
Interest expense, net	(13,587)	(27,944)	(27,977)
Non-operating income (expense), net	(66,909)	197,671	(184,838)
Loss before income taxes	(1,450,181)	(440,674)	(344,986)
Income tax benefits, net	(7,181)	(6,542)	(8,972)
Net loss	\$ (1,443,000)	\$ (434,132)	\$ (336,014)
Total net income (loss) attributable to:			
Stockholders of Tilray Brands, Inc.	(1,452,656)	(476,801)	(367,421)
Non-controlling interests	9,656	42,669	31,407
Other comprehensive income (loss), net of tax			
Foreign currency translation gain (loss)	(83,533)	(125,306)	156,649
Unrealized gain (loss) on convertible notes receivable	75,177	(71,428)	(3,824)
Total other comprehensive income (loss), net of tax	(8,356)	(196,734)	152,825
Comprehensive loss	\$ (1,451,356)	\$ (630,866)	\$ (183,189)
Total comprehensive income (loss) attributable to:			
Stockholders of Tilray Brands, Inc.	(1,478,502)	(650,233)	(214,596)
Non-controlling interests	27,146	19,367	31,407
Weighted average number of common shares - basic	617,982,589	481,219,130	269,549,852
Weighted average number of common shares - diluted	617,982,589	481,219,130	269,549,852
Net loss per share - basic	\$ (2.35)	\$ (0.99)	\$ (1.36)
Net loss per share - diluted	\$ (2.35)	\$ (0.99)	\$ (1.36)

The accompanying notes are an integral part of these consolidated financial statements

Tilray Brands, Inc.

Consolidated Statements of Changes in Equity

(In thousands of U.S. dollars, except share amounts)

	Number of common shares	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated Deficit	Non- controlling interests	Total
Balance at May 31, 2020	240,132,635	\$ 24	\$ 1,366,736	\$ (5,434)	\$ (113,352)	\$ 26,957	\$ 1,274,931
Share issuance - legal settlement	1,893,858	—	10,454	—	—	—	10,454
Share issuance - equity financing	14,610,496	2	103,535	—	—	—	103,537
Share issuance - SweetWater acquisition	8,232,810	1	65,888	—	—	—	65,889
Share issuance - contract settlement	1,165,861	1	21,370	—	—	(40,266)	(18,895)
Share issuance - Arrangement	179,635,973	18	3,204,888	—	—	—	3,204,906
Share issuance - options exercised	318,299	—	144	—	—	—	144
Share issuance - RSUs exercised	450,709	—	—	—	—	—	—
Stock-based payments	—	—	19,391	—	—	—	19,391
Settlement of convertible notes receivable	—	—	—	5,277	(5,277)	—	—
Dividends paid to non-controlling interests	—	—	—	—	—	(11,855)	(11,855)
Comprehensive income (loss) for the year	—	—	—	152,825	(367,421)	31,407	(183,189)
Balance at May 31, 2021	446,440,641	\$ 46	\$ 4,792,406	\$ 152,668	\$ (486,050)	\$ 6,243	\$ 4,465,313
Third party contribution to Superhero Acquisition LP	—	—	—	—	—	52,995	52,995
Share issuance - Superhero Acquisition LP	9,817,061	—	117,804	—	—	—	117,804
Share issuance - Breckenridge Acquisition	12,540,479	2	114,066	—	—	—	114,068
Share issuance - equity financing	51,741,710	5	262,504	—	—	—	262,509
Share issuance - Double Diamond Holdings note	2,677,596	—	28,560	—	—	(36,044)	(7,484)
Share issuance - legal settlement	2,959,386	—	22,170	—	—	—	22,170
Share issuance - purchase of capital and intangible assets	1,289,628	—	12,146	—	—	—	12,146
Share issuance - options exercised	719,031	—	5,403	—	—	—	5,403
Share issuance - RSUs exercised	4,489,355	—	—	—	—	—	—
Shares effectively repurchased for employee withholding tax	—	—	(8,686)	—	—	—	(8,686)
Stock-based compensation	—	—	35,994	—	—	—	35,994
Comprehensive income (loss) for the year	—	—	—	(173,432)	(476,801)	19,367	(630,866)
Balance at May 31, 2022	532,674,887	\$ 53	\$ 5,382,367	\$ (20,764)	\$ (962,851)	\$ 42,561	\$ 4,441,366
Share issuance -Montauk Acquisition	1,708,521	—	6,422	—	—	—	6,422
Share issuance - equity financing	32,481,149	3	129,590	—	—	—	129,593
Share issuance- purchase of HEXO convertible note receivable	33,314,412	3	107,269	—	—	—	107,272
HTI Convertible Note - conversion feature	—	—	9,055	—	—	—	9,055
Share issuance - Double Diamond Holdings note	16,114,406	3	60,062	—	—	(47,598)	12,467
Share issuance - options exercised	7,960	—	—	—	—	—	—
Share issuance - RSUs exercised	1,854,120	—	—	—	—	—	—
Share issuance - convertible notes share lending agreement	38,500,000	4	26,157	—	—	—	26,161
Equity component related to issuance of convertible debt, net of issuance costs	—	—	18,415	—	—	—	18,415
Shares effectively repurchased for employee withholding tax	—	—	(1,189)	—	—	—	(1,189)
Stock-based compensation	—	—	39,595	—	—	—	39,595
Dividends declared to non-controlling interests	—	—	—	—	—	(7,858)	(7,858)
Comprehensive income (loss) for the year	—	—	—	(25,846)	(1,452,656)	27,146	(1,451,356)
Balance at May 31, 2023	656,655,455	\$ 66	\$ 5,777,743	\$ (46,610)	\$ (2,415,507)	\$ 14,251	\$ 3,329,943

The accompanying notes are an integral part of these consolidated financial statements

Tilray Brands, Inc.

Consolidated Statements of Cash Flows

(In thousands of U.S. dollars, except share amounts)

	For the year ended May 31,		
	2023	2022	2021
Cash provided by (used in) operating activities:			
Net loss	\$ (1,443,000)	\$ (434,132)	\$ (336,014)
Adjustments for:			
Deferred income tax recovery	(31,953)	(27,538)	(24,873)
Unrealized foreign exchange loss	17,768	18,001	49,342
Amortization	130,149	154,592	67,832
Gain on sale of capital assets	(48)	(682)	—
Inventory valuation write down	55,000	67,000	19,919
Impairments	934,001	378,240	—
Other than temporary change in fair value of convertible notes receivable	246,330	—	—
Other non-cash items	11,406	(9,647)	1,502
Stock-based compensation	39,595	35,994	17,351
Loss on long-term investments & equity investments	2,190	4,914	1,624
Loss (gain) on derivative instruments	31,213	(227,583)	169,537
Change in fair value of contingent consideration	855	(44,650)	—
Transaction costs associated with business acquisitions	—	—	59,917
Change in non-cash working capital:			
Accounts receivable	4,168	(5,842)	(23,512)
Prepays and other current assets	3,122	4,472	(6,772)
Inventory	(12,934)	(45,749)	(55,205)
Accounts payable and accrued liabilities	20,044	(44,652)	14,635
Net cash provided by (used in) operating activities	7,906	(177,262)	(44,717)
Cash provided by (used in) investing activities:			
Investment in capital and intangible assets	(20,800)	(34,064)	(38,874)
Proceeds from disposal of capital and intangible assets	4,304	12,205	6,608
Promissory notes advances	—	—	(2,419)
Repayment of notes receivable	—	—	5,752
Change in marketable securities	(241,897)	—	—
Proceeds from disposal of long-term investments and equity investees	—	—	8,430
Net cash (paid for) acquired in business acquisition	(26,718)	326	66,608
Net cash (used in) provided by investing activities	(285,111)	(21,533)	46,105
Cash provided by (used in) financing activities:			
Share capital issued, net of cash issuance costs	129,593	262,509	102,550
Proceeds from warrants and options exercised	—	5,403	144
Shares effectively repurchased for employee withholding tax	(1,189)	(8,686)	—
Proceeds from convertible debentures issuance	145,052	—	—
Repayment of convertible debentures	(187,394)	(88,026)	—
Proceeds from long-term debt	1,288	—	102,798
Repayment of long-term debt	(21,336)	(40,254)	(64,559)
Repayment of lease liabilities	(1,114)	(4,672)	(1,058)
Net increase in bank indebtedness	5,258	9,406	8,328
Dividend paid to NCI	—	(7,484)	(23,895)
Net cash provided by financing activities	70,158	128,196	124,308
Effect of foreign exchange on cash and cash equivalents	(2,230)	(1,958)	2,124
Net (decrease) increase in cash and cash equivalents	(209,277)	(72,557)	127,820
Cash and cash equivalents, beginning of period	415,909	488,466	360,646
Cash and cash equivalents, end of period	\$ 206,632	\$ 415,909	\$ 488,466

The accompanying notes are an integral part of these consolidated financial statements

Tilray Brands, Inc.

Notes to the Consolidated Financial Statements

(In thousands of U.S. dollars, except share and per share amounts)

1. Description of business

Tilray Brands, Inc., and its wholly owned subsidiaries (collectively “Tilray”, the “Company”, “we”, or “us”) is a leading global cannabis-lifestyle and consumer packaged goods company headquartered in Leamington, Ontario, Canada, with operations in Canada, the United States, Europe, Australia, New Zealand and Latin America. Tilray’s mission is to be the trusted partner for its patients and consumers by providing them with a cultivated experience and health and wellbeing through high-quality, differentiated brands and innovative products. A pioneer in cannabis research, cultivation and distribution, Tilray’s production platform supports over 20 brands in over 20 countries, including comprehensive cannabis offerings, hemp-based foods, and alcoholic beverages.

On April 30, 2021, Tilray acquired all of the issued and outstanding common shares of Aphria Inc. (“Aphria”), an international organization focused on building a global cannabis-lifestyle consumer packaged goods company in addition to its businesses in the marketing and manufacturing beverage alcohol products in the United States, and in the distribution of (non-Cannabis) pharmaceutical products in Germany and Argentina, pursuant to a plan of arrangement (the “Arrangement”) under the Business Corporations Act (Ontario).

On January 10, 2022, Tilray, Inc. changed its corporate name to Tilray Brands, Inc., pursuant to a second certificate of amendment of the amended and restated certificate of incorporation filed with the Delaware Secretary of State (the “Name Change”), and amended and restated its bylaws on that same date to reflect the Name Change.

2. Basis of preparation

The policies applied in these consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”).

Based on the determination that Aphria was the accounting acquirer in the Arrangement, Aphria’s historical financial statements became the historical financial statements of the Company. The results of Tilray’s operations and cash flows are included in the Company’s consolidated statement of loss and comprehensive loss and cash flows for periods beginning after April 30, 2021. In conjunction with the reverse acquisition, the Company elected to adopt Aphria’s fiscal year end of June 1 to May 31. Accordingly, comparisons between the Company’s results for the years ended May 31, 2023 and May 31, 2022 with prior periods may not be meaningful, as the reported results do not include the operations of legacy-Tilray and its subsidiaries on and prior to April 30, 2021.

These consolidated financial statements have been prepared on the going concern basis which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due, under the historical cost convention except for certain financial instruments that are measured at fair value, as detailed in the Company’s accounting policies.

Foreign currency

These consolidated financial statements are presented in U.S. dollars (“USD”), which is the Company’s reporting currency; however, the functional currency of the entities in these financial statements are their respective local currencies, including Canadian dollar, USD, Euro, Australian dollar, and Great Britain pound.

Foreign currency transactions are remeasured to the respective functional currencies of the Company’s entities at the exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are remeasured to the functional currency at the foreign exchange rate applicable at the statement of financial position date. Non-monetary items carried at historical cost denominated in foreign currencies are remeasured to the functional currency at the date of the transactions. Non-monetary items carried at fair value denominated in foreign currencies are remeasured to the functional currency at the date when the fair value was determined. Realized and unrealized exchange gains and losses are recognized through profit and loss.

On consolidation, the assets and liabilities of foreign operations reported in their functional currencies are translated into USD, the Group’s presentation currency, at period-end exchange rates. Income and expenses, and cash flows of foreign operations are translated into USD using average exchange rates. Exchange differences resulting from translating foreign operations are recognized in other comprehensive income (loss) and accumulated in equity.

Basis of consolidation

The consolidated financial statements of the Company, include the accounts of the company, its wholly-owned subsidiaries and majority owned subsidiaries see Note 21 (Non-controlling interests). All significant intercompany transactions are eliminated.

Equity method investments

In accordance with ASC 323, *Investments – Equity Method and Joint Ventures*, investments in entities over which the Company does not have a controlling financial interest but has significant influence are accounted for using the equity method, with the Company’s share of earnings or losses reported in earnings or losses from equity method investments on the statements of net loss and comprehensive loss. Equity method investments are recognized initially at cost, which includes transaction costs. After initial recognition, the consolidated financial statements include the Company’s share of undistributed earnings or losses, and impairment, if any, until the date on which significant influence ceases.

If the Company’s share of losses in an equity investment equals or exceeds its interest in the entity, including any net advances, the group does not recognize further losses, unless it has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee.

Unrealized gains on transactions between the Company and its equity-method investees are eliminated only to the extent of the Company’s interest in these entities. Unrealized losses are also eliminated, except to the extent that the underlying asset is impaired.

3. Significant accounting policies

The significant accounting policies used by the Company are as follows:

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and highly liquid investments that are both readily convertible into known amounts of cash with original maturities of three months or less. Cash and cash equivalents include amounts held in United States dollar, Canadian dollar, Euro, Australian dollar, Great Britain pound, Colombian peso, Argentine peso, and corporate bonds, commercial paper, treasury bills and money market funds.

Marketable Securities

The Company classifies term deposits and other investments that have maturities of greater than three months but less than one year as marketable securities. The fair value of marketable securities is based on quoted market prices for publicly traded securities. Marketable securities are carried at fair value with changes in fair value recorded in the statement of net loss and comprehensive loss, within the line, “Non-operating income (expense)”.

Accounts receivable

The Company maintains an allowance for credit losses at an amount sufficient to absorb losses inherent in its accounts receivable portfolio as of the reporting dates based on the projection of expected credit losses. The Company applies the aging method to estimate the allowance for expected credit losses. The aging method is applied to accounts receivables at the business unit level to reflect shared risk characteristics, such as receivable type, customer type and geographical location. The aging method assigns accounts receivables to a level of delinquency and applies loss rates to each class based on historical loss experience. The Company also considers relevant qualitative and quantitative factors to assess whether historical loss experience should be adjusted to better reflect the risk characteristics of the current classes and the expected future loss. This assessment incorporates all available information relevant to considering the collectability of its current classes, including considering economic and business conditions, default trends, changes in its class composition, among other internal and external factors. The expected credit loss estimates are adjusted for current conditions and reasonable supportable forecasts.

As part of the Company's analysis of expected credit losses, it may analyze contracts on an individual basis in situations where such accounts receivables exhibit unique risk characteristics and are not expected to experience similar losses to the rest of their class.

Inventory

Inventory is valued at the lower of cost and net realizable value, determined using weighted average cost. All direct and indirect costs related to inventory are capitalized as they are incurred, and they are subsequently recorded in cost of goods sold on the statements of loss and comprehensive loss at the time inventory is sold. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. 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.

Capital assets

Capital assets are recorded at cost and amortized on a straight-line basis over the estimated useful lives or lease term, whichever is shorter. The Company's capital assets are reviewed when impairment indicators are present by analyzing underlying cash flow projections. Maintenance and repairs are charged to expenses as incurred. The Company uses the following ranges of asset lives:

Asset type	Depreciation method	Depreciation term (estimated useful life)
Production facility	Straight-line	20 – 30 years
Equipment	Straight-line	3 – 25 years
Leasehold improvements	Straight-line	Lesser of estimated useful life or lease term
Finance lease right-of-use assets	Straight-line	Lesser of the lease term and the useful life of the leased asset

Intangible assets

Intangible assets are recorded at cost and amortized on a straight-line basis over the estimated useful lives. The Company uses the following ranges of asset lives:

Asset type	Amortization term
Customer relationships & distribution channel	14 – 16 years
Licences, permits & applications	90 months – indefinite
Intellectual property, trademarks & brands	15 months – 25 years
Non-compete agreements	Over term of non-compete
Know how	5 years

Impairment of long-lived assets

The Company reviews long-lived assets, including capital assets and definite life intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In order to determine if assets have been impaired, assets are grouped and tested at the lowest level for which identifiable independent cash flows are available ("asset group"). An impairment loss is recognized when the sum of projected undiscounted cash flows is less than the carrying value of the asset group. The measurement of the impairment loss to be recognized is based on the difference between the fair value and the carrying value of the asset group. Fair value may be determined using a market approach or income approach.

Business combinations and goodwill

The Company accounts for business combinations using the acquisition method in accordance with Accounting Standards Codification, ASC 805, *Business Combinations* which requires recognition of assets acquired and liabilities assumed, including contingent assets and liabilities, at their respective fair values on the date of acquisition.

Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as a liability is remeasured at subsequent reporting dates, with the corresponding gain or loss recognized in profit or loss.

Non-controlling interests in the acquiree are measured at fair value on acquisition date. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements).

Purchase price allocations may be preliminary and, during the measurement period not to exceed one year from the date of acquisition, changes in assumptions and estimates that result in adjustments to the fair value of assets acquired and liabilities assumed are recorded in the period the adjustments are determined.

Goodwill represents the excess of the consideration transferred for the acquisition of subsidiaries over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment of goodwill and indefinite-lived intangible assets

Goodwill is allocated to the reporting unit in which the business that created the goodwill resides. A reporting unit is an operating segment, or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. We operate in four operating segments which are our reporting units, and goodwill is allocated at the operating segment level. The Company reviews goodwill and indefinite-lived intangible assets annually for impairment in the fourth quarter, or more frequently, if events or circumstances indicate that the carrying amount of an asset may not be recoverable.

Leases

Arrangements containing leases are evaluated as an operating or finance lease at lease inception. For operating leases, the Company recognizes an operating lease right-of-use ("ROU") asset and operating lease liability at lease commencement based on the present value of lease payments over the lease term. With the exception of certain finance leases, an implicit rate of return is not readily determinable for the Company's leases. For these leases, an incremental borrowing rate is used in determining the present value of lease payments and is calculated based on information available at the lease commencement date.

The incremental borrowing rate is determined using a portfolio approach based on the rate of interest the Company would have to pay to borrow funds on a collateralized basis over a similar term. The Company references market yield curves which are risk-adjusted to approximate a collateralized rate in the currency of the lease. These rates are updated on a quarterly basis for measurement of new lease obligations.

The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Leases with an initial term of 12 months or less are not recognized on the Company's consolidated statements of financial position. Operating lease assets are presented as right-of-use assets, and corresponding operating lease liabilities are presented within lease liabilities, on the Company's consolidated statements of financial position. Finance lease assets are included in capital assets, and corresponding finance lease liabilities are included within current lease liabilities, on the Company's consolidated statements of financial position.

Convertible notes receivable

Convertible notes receivables include various investments in which the Company has the right, or potential right see Note 11 (Convertible notes receivable) to convert the instrument into common stock shares of the investee are classified as available-for-sale ("AFS") and are recorded at fair value. Unrealized gains and losses during the year, net of the related tax effect, are excluded from income and reflected in other comprehensive income (loss), and the cumulative effect is reported as a separate component of shareholders' equity until realized. The Company assesses its convertible notes receivables classified as AFS for impairment at each measurement date. Convertible notes receivables are impaired when a decline in fair value is determined to be other-than-temporary. If the cost of an investment exceeds its fair value, the Company evaluates, among other factors, general market conditions, credit quality of debt instrument issuers, and the duration and extent to which the fair value is less than cost. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in the statements of loss and comprehensive loss and a new cost basis for the investment is established. The Company also evaluates whether there is a plan to sell the security or it is more likely than not that the Company will be required to sell the security before recovery. If neither of the conditions exist, then only the portion of the impairment loss attributable to credit loss is recorded in the statements of net loss and the remaining amount is recorded in other comprehensive income (loss).

Long-term investments

Long-term investments include investments in equity securities of entities over which the Company does not have a controlling financial interest, joint control or significant influence and are accounted for at fair value. Equity investments without readily determinable fair values are measured at cost with adjustments for observable changes in price or impairments (referred to as the "measurement alternative"). In applying the measurement alternative, the Company performs a qualitative assessment on a quarterly basis and recognizes an impairment if there are sufficient indicators that the fair value of the equity investments is less than carrying values. Changes in value are recorded in non-operating income (loss).

Equity method investments

Investments in entities over which the Company does not have a controlling financial interest but has significant influence, are accounted for using the equity method, with the Company's share of losses reported in loss from equity method investments on the statements of loss and comprehensive loss. Equity method investments are recorded at cost, plus the Company's share of undistributed earnings or losses, and impairment, if any, within interest in equity investees on the statements of financial position.

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.

Warrants

Warrants are accounted for in accordance with applicable accounting guidance provided in ASC 815 *Derivatives and Hedging – Contracts in Entity's Own Equity*, as either liabilities or as equity instruments depending on the specific terms of the warrant agreement. Warrants classified as liabilities are recorded at fair value and are remeasured at each reporting date until settlement. Changes in fair value is recognized as a component of change in fair value of warrant liability in the statements of loss and comprehensive loss. Transaction costs allocated to warrants that are presented as a liability are immediately expensed in the statements of loss and comprehensive loss. Warrants classified as equity instruments are initially recognized at fair value and are not subsequently remeasured.

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying values of accounts receivable, prepaids and other current assets, bank indebtedness and accounts payable and accrued liabilities approximate their fair values due to their short periods to maturity. The Company calculates the estimated fair value of financial instruments, including convertible notes receivable, long-term investments, warrant liability, contingent consideration, and convertible debentures, using quoted market prices when available. When quoted market prices are not available, fair value is determined based on valuation techniques using the best information available and may include quoted market prices, market comparables, and discounted cash flow projections.

Income taxes

Income taxes are recognized in the consolidated statements of loss and comprehensive loss and are comprised of current and deferred taxes. Current tax is recognized in connection with income for tax purposes, unrealized tax benefits and the recovery of tax paid in a prior period and measured using enacted tax rates and laws applicable to the taxation period during which the income for tax purposes arose. Deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Management makes an assessment of the likelihood that a deferred tax asset will be realized, and a valuation allowance is provided to the extent that it is more likely than not that all or a portion of a deferred tax asset will not be realized.

The Company recognizes uncertain income tax positions at the largest amount that is more likely than not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. A change in the recognition or measurement of an unrealized tax benefit is reflected in the period during which the change occurs.

Revenue

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.

Cost of goods sold

Cost of goods sold represents costs directly related to manufacturing and distribution of the Company's products. Primary costs include raw materials, packaging, direct labor, overhead, shipping and handling, the amortization of manufacturing equipment and production facilities and tariffs. Manufacturing overhead and related expenses include salaries, wages, employee benefits, utilities, maintenance and property taxes. Cost of goods sold also includes inventory valuation adjustments.

General and administrative

General and administrative expenses are comprised primarily of (i) personnel related costs such as salaries, benefits, annual employee bonus expense and stock-based compensation costs; (ii) legal, accounting, consulting and other professional fees; and (iii) corporate insurance and other facilities costs associated with our corporate and administrative locations.

Selling

Selling expenses are comprised of direct selling costs which primarily consist of (i) commissions paid to our third-party workforce, (ii) patient acquisition and maintenance fees, (iii) Health Canada's cannabis fees and (iv) freight.

Marketing and promotion

Marketing and promotion expenses are comprised primarily of marketing and advertising expenses.

Research and development

Research and development costs are expensed as incurred. Research and development are comprised primarily of costs for clinical study costs, contracted research, consulting services, materials, supplies and other expenses incurred to sustain our overall research and development programs.

Stock-based compensation

The Company has an omnibus plan which includes issuances of stock options, restricted stock units (“RSUs”) and stock appreciation rights (“SARs”). The Company estimates the fair value of stock options on the date of grant using the Black-Scholes option pricing model. The fair value of RSUs is based on the share price as at date of grant and no SARs were issued to date. The share-based compensation expense is based on the fair value of the stock-based awards at the grant date and the expense is recognized over the related service period following a straight-line vesting expense schedule. The Company estimates forfeitures at the time of grant and revises these estimates in subsequent periods if actual forfeitures differ from those estimates. Any revisions are recognized in the consolidated statements of loss and comprehensive loss such that the cumulative expense reflects the revised estimate.

For performance-based stock options and RSUs, the Company records compensation expense over the estimated service period adjusted for a probability factor of achieving the performance-based milestones. At each reporting date, the Company assesses the probability factor and records compensation expense accordingly, net of estimated forfeitures.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing reported net income (loss) by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is computed by dividing reported net income (loss) by the sum of the weighted average number of common shares and the number of dilutive potential common share equivalents outstanding during the period. Potential dilutive common share equivalents consist of the incremental common shares issuable upon the exercise of vested share options, warrants, and RSUs and the incremental shares issuable upon conversion of the convertible debentures and similar instruments. Shares of common stock outstanding under the share lending arrangement entered into in conjunction with the TLRY 27 notes, see Note 17 (Convertible debentures payable) are excluded from the calculation of basic and diluted earnings per share because the borrower of the shares is required under the share lending.

In computing diluted earnings (loss) per share, common share equivalents are not considered in periods in which a net loss is reported, as the inclusion of the common share equivalents would be anti-dilutive.

Critical accounting estimates and judgments

The preparation of the Company’s financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses. These estimates and judgements are subject to change based on experience and new information which could result in outcomes that require a material adjustment to the carrying amounts of assets or liabilities affecting future periods. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Financial statement areas that require significant judgement and estimates are as follows:

Long-term investments and convertible notes receivable – The determination of fair value of the Company’s long-term investments and convertible notes receivable at other than initial cost is subject to certain limitations. Financial information for private companies in which the Company has investments may not be available and, even if available, that information may be limited and/or unreliable.

Use of the valuation approach described below may involve uncertainties and determinations based on the Company’s judgment and any value estimated from these techniques may not be realized or realizable.

Company-specific information is considered when determining whether the fair value of a long-term investment or convertible notes receivable should be adjusted upward or downward at the end of each reporting period. In addition to company-specific information, the Company will consider trends in general market conditions and the share performance of comparable publicly traded companies when valuing long-term investments and convertible notes receivable.

The fair value of long-term investments and convertible notes receivable may need to be adjusted if:

- There has been a significant subsequent equity financing provided by outside investors at a valuation different than the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place;
- There have been significant corporate, political, or operating events affecting the investee company that, in management's opinion, have a material impact on the investee company's prospects and therefore its fair value. In these circumstances, the adjustment to the fair value of the investment will be based on management's judgment and any value estimated may not be realized or realizable;
- The investee company is placed into receivership or bankruptcy;
- Based on financial information received from the investee company, it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern;
- Important positive or negative management changes by the investee company that the Company's management believes will have a positive or negative impact on the investee company's ability to achieve its objectives and build value for shareholders.

Adjustment to the fair value of a long-term investment and convertible notes receivable will be based upon management's judgment and any value estimated may not be realized or realizable. The resulting values for non-publicly traded investments may differ from values that would be realized if a ready market existed.

Estimated useful lives, impairment considerations and amortization of capital and intangible assets – Amortization of capital and intangible assets is dependent upon estimates of useful lives based on management's judgment.

Goodwill and indefinite-lived intangible asset impairment testing require management to make estimates in the impairment testing model. On at least an annual basis, the Company tests whether goodwill and indefinite-lived intangible assets are impaired. Impairment of definite long-lived assets is influenced by judgment in defining a reporting unit and determining the indicators of impairment, and estimates used to measure impairment losses

The reporting unit's fair value is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

Stock-based compensation – The fair value of stock-based compensation expenses are estimated using the Black-Scholes option pricing model and rely on a number of assumptions including the fair value of common shares on the grant date, risk-free rate, volatility rate, annual dividend yield, the expected term, and the estimated rate of forfeiture of options granted. Volatility is estimated by using the historical volatility of the Company.

Business combinations – Judgement is used in determining a) whether an acquisition is a business combination or an asset acquisition. We use judgement in applying the acquisition method of accounting for business combinations and estimates to value identifiable assets and liabilities at the acquisition date. Estimates are used to determine cash flow projections, including the period of future benefit, and future growth and discount rates, among other factors. The values allocated to the acquired assets and liabilities assumed affect the amount of goodwill recorded on acquisition. Fair value of assets acquired and liabilities assumed is typically estimated using an income approach, which is based on the present value of future discounted cash flows. Significant estimates in the discounted cash flow model include the discount rate, rate of future revenue growth and profitability of the acquired business and working capital effects. The discount rate considers the relevant risk associated with the business-specific characteristics and the uncertainty related to the ability to achieve projected cash flows. These estimates and the resulting valuations require significant judgment. Management engages third party experts to assist in the valuation of material acquisitions.

Convertible debentures – The fair value of Convertible Debentures where the Company had elected the fair value option are determined using the Black-Scholes option pricing model. Assumptions and estimates are made in determining an appropriate conversion price, volatility, dividend yield, and the fair value of common stock. There is judgement in assessing what portion of the gain or loss, if any, relates to the change in the instrument-specific credit risk.

Warrant liability – The fair value of the warrant liability is measured using a Black-Scholes pricing model. Assumptions and estimates are made in determining an appropriate risk-free interest rate, volatility, term, dividend yield, discount due to exercise restrictions, and the fair value of common stock. Any significant adjustments to the unobservable inputs would have a direct impact on the fair value of the warrant liability.

New accounting pronouncements not yet adopted

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Subtopic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* (“ASU 2021-08”), which is intended to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency. ASU 2021-08 is effective for the Company beginning June 1, 2023. This update will be applied prospectively on or after the effective date of the amendments. The Company is currently evaluating the effect of adopting this ASU.

New accounting pronouncements recently adopted

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity* (“ASU 2020-06”), which amends and simplifies existing guidance in an effort to reduce the complexity of accounting for convertible instruments and to provide financial statement users with more meaningful information. The Company adopted ASU 2020-06 beginning June 1, 2022 and the adoption did not have material retrospective impacts on our consolidated financial statements.

In May 2021, the FASB issued ASU 2021-04, *Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40)* (“ASU 2021-04”), which amends existing guidance for earnings per share (EPS) in accordance with Topic 260. The Company adopted the ASU beginning June 1, 2022 and the adoption of ASU 2021-04 did not have an impact on our consolidated financial statements.

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832), Disclosures by Business Entities about Government Assistance*, which is intended to increase the transparency of government assistance including the disclosure of (1) the types of assistance, (2) an entity’s accounting for the assistance, and (3) the effect of the assistance on an entity’s financial statements. The Company adopted the ASU beginning June 1, 2022 and the adoption of ASU 2021-04 did not have an impact on the disclosure in our consolidated financial statements.

4. Inventory

Inventory is comprised of:

	May 31, 2023	May 31, 2022
Plants	\$ 10,884	\$ 14,521
Dried cannabis	89,801	116,739
Cannabis trim	322	592
Cannabis derivatives	9,229	24,685
Cannabis vapes	1,173	542
Packaging and other inventory items	19,997	21,691
Wellness inventory	11,164	13,275
Beverage alcohol inventory	27,837	27,840
Distribution inventory	30,144	25,644
Total	<u>\$ 200,551</u>	<u>\$ 245,529</u>

Inventory is written down for any obsolescence, spoilage and excess inventory or when the net realizable value of inventory is less than the carrying value. During the year ended May 31, 2023, the Company recorded charges for inventory and inventory-related write downs as a component of cost of sales. Cannabis inventory was written down by \$55,000 for the year ended May 31, 2023, and by \$59,500 for the year ended May 31, 2022. This charge was driven by the decision of management to repurpose a portion of our existing supply of dried cannabis inventory. There were no write downs for Distribution inventory for the year ended May 31, 2023, however in the year ended May 31, 2022 Distribution inventory was written down by \$7,500. Included in cost of goods sold for the year ended May 31, 2023 is \$4,482 fair value step up adjustment under purchase accounting (PPA) for beverage alcohol inventory sold in the year and \$2,214 for the year ended May 31, 2022.

5. Related party transactions

In the normal course of business, the Company enters into related party transactions with certain entities under common control and joint ventures as detailed below.

RIKI Ventures, LLC

The Company entered into a strategic partnership on December 12, 2022, with RIKI Ventures, LLC in which the Company has a joint venture arrangement with a 50% ownership and voting interest. This venture is held by our craft beverage company Breckenridge. During the year there were no transactions with this entity.

Docklight LLC (“Docklight”) royalty and management services

The Company previously paid Docklight a royalty fee pursuant to a brand licensing agreement which provided the Company with exclusive rights in Canada for the use of certain adult-use brands up until the Company returned the brand to Docklight. The Company has since terminated the agreement Docklight see Note 27 (Commitments and contingencies). During the year ended May 31, 2023, 2022 and 2021 royalty fees of \$nil, \$1,430 and \$125, respectively were recorded within selling expenses in the statements of loss and comprehensive loss. While historically Docklight was considered a related party, as of May 31, 2023, Docklight is no longer a defined related party.

The Company has a joint venture arrangement with a 50% ownership and voting interest in Cannfections. During the year, the Company terminated the Supply Agreement with Cannfections and will not be transacting with them in future periods despite the joint venture arrangement remaining active. The Company is currently in arbitration with the other party that has an ownership interest in Cannfections in association with this termination. During the year ended May 31, 2023, 2022 and 2021, co-manufacturing fees on edible cannabis products were \$1,377, \$2,560, and \$1,370 respectively and were recorded within cannabis costs of goods sold in the statements of loss and comprehensive loss.

6. Capital assets

Capital asset consisted of the following:

	May 31, 2023	May 31, 2022
Land	\$ 30,635	\$ 31,882
Production facility	344,627	453,412
Equipment	185,422	254,486
Leasehold improvement	7,753	7,455
Construction in progress	8,048	7,505
	<u>\$ 576,485</u>	<u>\$ 754,740</u>
Less: accumulated amortization	(146,818)	(167,241)
Total	<u>\$ 429,667</u>	<u>\$ 587,499</u>

The Company recorded non-cash impairments of \$81,500 on its production facility in Canada and \$22,500 on its equipment for the year ended May 31, 2023, which the Company has temporarily made idle in order to reduce cultivation costs and right-size the Company's production to align with current and projected demand. The impairment was calculated based on the excess of carrying value over fair value which was determined using a market approach. 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.

7. Leases

The Company has operating leases for facilities, office spaces, production equipment and vehicles.

Leases have varying terms with remaining lease terms of up to approximately 20 years. Certain of our lease arrangements provide us with the option to extend or to terminate the lease early.

The table below presents the lease-related assets and liabilities recorded on the balance sheet.

	Classification on Balance Sheet	May 31, 2023	May 31, 2022
Assets			
Total Operating right-of-use asset	Right of use assets	\$ 5,941	\$ 12,996
Liabilities			
Current:			
Operating lease liability	Accrued lease obligations - current	\$ 2,423	\$ 6,703
Non-current:			
Operating lease liability	Accrued lease obligations - non-current	7,936	11,329
Total lease liabilities		<u>\$ 10,359</u>	<u>\$ 18,032</u>

For the year ended May 31, 2023 the Company had \$3,140 of operating lease expenses which included an offset of \$662 for sublease income compared to \$3,499 and \$553 respectively for the year ended May 31, 2022.

The following table presents the future undiscounted payment associated with lease liabilities as of May 31, 2023:

	Operating leases
2024	\$ 4,106
2025	3,295
2026	3,486
2027	3,412
Thereafter	4,012
Total minimum lease payments	\$ 18,311
Imputed interest	(7,952)
Obligations recognized	\$ 10,359

8. Intangible assets

Intangible assets are comprised of the following items

	May 31, 2023	May 31, 2022
Customer relationships & distribution channel	\$ 614,062	\$ 617,437
Licenses, permits & applications	366,793	377,897
Non-compete agreements	12,394	12,512
Intellectual property, trademarks, knowhow & brands	583,468	634,997
	<u>1,576,717</u>	<u>1,642,843</u>
Less: accumulated amortization	(187,088)	(154,124)
Less: impairments	(415,844)	(210,844)
Total	<u>\$ 973,785</u>	<u>\$ 1,277,875</u>

The Company recorded non-cash impairments of \$110,000 of its customer relationships & distribution channel, \$55,000 of its licenses, permits & applications, which were considered indefinite-lived intangible assets and \$40,000 of its intellectual property, trademarks, knowhow & brands during the Company's third quarter ended February 28, 2023, as a result of the decline in market share in its Canadian cannabis with certain product lines and customers. For the year ended May 31, 2022, as a result of delays in product registrations in Latin America and changes in market opportunities, causing a shift in our strategic priorities, management recorded a non-cash impairment of \$110,033 of licenses, permits and applications and \$85,471 of intellectual property, trademarks, knowhow & brands, representing all of the intangible asset values related to those entities, and discounted cash flows.

As of May 31, 2023, included in licenses, permits & applications is \$181,093 of indefinite-lived intangible assets. As of May 31, 2022, there was \$248,411 of indefinite-lived intangible assets included in Licenses, permits & applications.

In calculating the 2023 impairment amount, using an income approach, the Company used a discount rate of 13.50%, increased from 11.21% used in the May 31, 2022 annual assessment, a terminal growth rate of 2%-5% consistent with the rate used in the May 31, 2022 annual assessment, and an average revenue growth rate of 0%-40% over 5 years to correlate with the cash flows anticipated with the individual intangible assets that were assessed, while these assets have not been assessed individually in the past the associated cash flows were included in the May 31, 2022 goodwill annual assessment which used an average growth rate of 46%. 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.

The Company performed the annual impairment test during the fourth quarter ended May 31, 2023, and determined there was no additional impairments. The Company used a discount rate of 13.50%, a terminal growth rate of 2%-5% and an average revenue growth rate of 0%-40% over 5 years. 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.

Estimated amortization expense for each of the five succeeding fiscal years and thereafter is as follows:

	Amortization
2024	\$ 74,169
2025	72,502
2026	72,502
2027	72,502
2028	72,502
Thereafter	428,515
Total	\$ 792,692

9. Business Acquisitions

Acquisition of Double Diamond Distillery LLC (d/b/a Breckenridge Distillery)

On December 7, 2021, the Company through its wholly-owned subsidiary Four Twenty Corporation, completed the purchase of all the membership interests of Double Diamond Distillery LLC (d/b/a Breckenridge Distillery), a Colorado limited liability company and distilled spirits brand located in Breckenridge, Colorado (the “Breckenridge Acquisition”). As consideration for the Breckenridge Acquisition, the Company paid a purchase price in an aggregate amount equal to \$114,068, which purchase price was satisfied through the issuance of 12,540,479 shares of Tilray’s common shares.

The table below summarizes the fair value of the assets acquired and the liabilities assumed at the effective acquisition date.

	Amount
Consideration	
Shares	\$ 114,068
Net assets acquired	
Current assets	
Cash and cash equivalents	326
Accounts receivable	2,128
Prepays and other current assets	367
Inventory	20,351
Long-term assets	
Capital assets	11,179
Customer relationships (15 years)	9,800
Intellectual property, trademarks & brands (15 years)	69,950
Goodwill	2,797
Total Assets	116,898
Current liabilities	
Accounts payable and accrued liabilities	2,228
Long-term liabilities	
Deferred tax liability	602
Total liabilities	2,830
Total net assets acquired	\$ 114,068

The goodwill of \$2,797 is primarily related to factors such as synergies and market opportunities and is reported under the Company’s Beverage alcohol segment. Revenue for the Company would have been higher by approximately \$12,000 for the year ended May 31, 2022, if the acquisition had taken place on June 1, 2021. Net loss and comprehensive net loss would have increased by approximately \$3,000 for the year ended May 31, 2022, if the acquisition had taken place on June 1, 2021, primarily as a result of amortization of the intangible assets acquired.

Acquisition of Montauk Brewing Company, Inc.

On November 7, 2022, Tilray acquired Montauk Brewing Company, Inc. (“Montauk”), a leading craft brewer company based in Montauk, New York. As consideration for the acquisition of Montauk, and after giving effect to post-closing adjustments, the Company paid an aggregate amount equal to \$35,123. This purchase price was satisfied through payment of \$28,701 in cash and \$6,422 from the issuance of 1,708,521 shares of Tilray's common stock. In the event that Montauk achieves certain volume and/or EBITDA targets on or before December 31, 2025, the stockholders of Montauk shall be eligible to receive additional contingent cash consideration of up to \$18,000. The Company determined that the closing date fair value of this contingent consideration was \$10,245 based on the inputs disclosed in Note 28 (Financial risk management and financial instruments). In connection with this transaction, the Company is leveraging SweetWater’s existing nationwide infrastructure and Montauk’s northeast influence to significantly expand our distribution network and drive profitable growth in our beverage-alcohol segment. This distribution network is part of Tilray’s strategy to leverage our growing portfolio of CPG brands and ultimately to launch THC-based product adjacencies upon federal legalization in the U.S.

The Company is in the process of assessing the fair value of the net assets acquired and, as a result, the fair value of the net assets acquired may be subject to adjustments pending completion of final valuations and post-closing adjustments. The table below summarizes preliminary estimated fair value of the assets acquired and the liabilities assumed at the effective acquisition date. During the six months ended May 31, 2023, the Company recorded measurement period adjustments to its initial allocation of purchase price as a result of ongoing valuation procedures on assets and liabilities assumed, included: (i) an increase in the cash consideration of \$13, related to finalized working capital calculations; (ii) an increase to customer relationships of \$1,970; (iii) an increase to intellectual property, trademarks & brand of \$1,220; (iii) a decrease to non-compete agreements of \$1,240; (ii) an increase in other liabilities of \$3,750, related to identified unfavorable contracts with third party production companies; (ii) a decrease in deferred tax liability of \$1,617; and (iii) an increase to goodwill of \$196 due to the incremental period adjustments. The impact of measurement period adjustments to the results of operations was immaterial.

	<u>Amount</u>
Consideration	
Cash	\$ 28,701
Shares	6,422
Contingent consideration	10,245
Net assets acquired	
Current assets	
Cash and cash equivalents	1,983
Accounts receivable	1,116
Prepays and other current assets	467
Inventory	1,570
Long-term assets	
Capital assets	420
Customer relationships (15 years)	18,540
Intellectual property, trademarks & brands (15 years)	13,650
Goodwill	17,803
Total Assets	<u>55,549</u>
Current liabilities	
Accounts payable and accrued liabilities	1,580
Long-term liabilities	
Deferred tax liability	4,851
Other liabilities	3,750
Total liabilities	<u>10,181</u>
Total net assets acquired	<u>\$ 45,368</u>

The goodwill of \$17,803 is primarily related to factors such as synergies and market opportunities and is reported under the Company’s Beverage alcohol segment. Revenue for the Company would have been higher by approximately \$9,000 and \$15,000 for the years ended May 31, 2023 and 2022 respectively, if the acquisition had taken place on June 1, 2021. Net loss and comprehensive net loss would have increased by approximately \$1,700 for the year ended May 31, 2023, and 2022 if the acquisition had taken place on June 1, 2021, primarily as a result of amortization of the intangible assets acquired. This unaudited pro forma financial information does not reflect the realization of any expected ongoing synergies relating to the integration of Montauk.

10. Goodwill

The following table shows the carrying amount of goodwill:

Reporting Unit	May 31, 2023	May 31, 2022
Cannabis	\$ 2,640,669	\$ 2,640,669
Distribution	4,458	4,458
Beverage alcohol	120,802	102,999
Wellness	77,470	77,470
Effect of foreign exchange	7,875	39,640
Impairments	(842,431)	(223,931)
Total	<u>\$ 2,008,843</u>	<u>\$ 2,641,305</u>

As of February 28, 2023, based upon a combination of factors including a sustained decline in the Company's market capitalization below the Company's carrying value, coupled with challenging macro-economic conditions, most particularly the rising interest rate environment and slower than anticipated progress in global cannabis legalization, the Company concluded that it is more likely than not, that the fair value of our reporting units was less than their carrying amounts. Accordingly, the Company valued the fair value of each reporting segment by using the income approach, which estimates the fair value of each reporting unit based on the future discounted cash flows. Upon updating the Company's forecasted cash flows there were no impairments identified from changes in management's forecasts, however, due to the increased borrowing rates and the decline of the company's market capitalization, the Company adjusted the Company specific risk premium which resulted in the non-cash impairment charges of \$603,500 of cannabis goodwill and \$15,000 of wellness goodwill for the year ended May 31, 2023. The non-cash charge has no impact on the Company's compliance with debt covenants, its cash flows or available liquidity.

In the Company's cannabis goodwill assessment the Company used a discount rate of 13.50%, increased from 11.21% used in the May 31, 2022 annual assessment, a terminal growth rate of 5% consistent with the rate used in the May 31, 2022 annual assessment, and an average revenue growth rate of 40% over 5 years as a result of anticipated federal legalization in various countries, decreased from 46% used in the May 31, 2022 annual assessment. A 1% increase in the discount rate would result in an additional \$300,000 in impairment, a 1% decrease in the terminal growth rate would result in an additional \$250,000 in impairment and a 5% decrease in the average growth rate would result in an additional \$200,000 in impairment.

In the Company's wellness goodwill assessment the Company used a discount rate of 11.80%, increased from 10% used in the May 31, 2022 annual assessment, a terminal growth rate of 3% consistent with the rate used in the May 31, 2022 annual assessment, and an average revenue growth rate of 10% over 5 years, consistent with the rate used in the May 31, 2022 annual assessment. A 1% increase in the discount rate would result in an additional \$14,000 in impairment, a 1% decrease in the terminal growth rate would result in an additional \$10,000 in impairment and a 5% decrease in the average growth rate would result in an additional \$5,000 in impairment.

As of May 31, 2023, the Company completed its annual test for impairment, the Company used discount rates between 11.80% and 14.50%, terminal growth rates 2% and 5%, and average revenue growth rates between 2% and 40%. Based on the discounted cash flows there was no further impact from the February 28, 2023 assessment, and determined there were no additional impairments. A 1% increase in the discount rates would result in an additional \$200,000 in impairment, a 1% decrease in the terminal growth rates would result in an additional \$100,000 in impairment and a 5% decrease in the average growth rates would result in an additional \$300,000 in impairment.

For the year ended May 31, 2022, the Company recognized impairment charges of \$182,736 in cannabis goodwill. This impairment charge was related to changes in market opportunities, causing a shift in our strategic priorities, and market conditions inclusive of higher rates of borrowing and lower foreign exchange rates.

11. Convertible notes receivable

Convertible notes receivable is comprised of the following investments:

	May 31, 2023	May 31, 2022
HEXO Convertible Note	\$ 28,720	\$ —
MedMen Convertible Note	74,681	111,200
Total convertible notes receivable	103,401	111,200
Less - current portion	—	—
Total convertible notes receivable, non current portion	\$ 103,401	\$ 111,200

HEXO Corp. ("HEXO")

On July 12, 2022, the Company closed a strategic alliance with HEXO, pursuant to which the Company acquired the HEXO Convertible Note from HTI Investments MA LLC ("HTI"). At the time of closing, the HEXO Convertible Note had a principal balance of \$173,700, which is to be repaid and or redeemed at 110% of the outstanding principal balance. The purchase price paid to HTI for the HEXO Convertible Note was \$157,272. The purchase price paid to HTI was satisfied by Tilray's issuance of (i) a newly-issued \$50,000 convertible promissory note ("HTI Convertible Note"), see Note 17 (Convertible debentures payable) and (ii) the remaining balance was paid through the issuance of 33,314,412 shares of Tilray's common stock, par value \$0.0001 (collectively, the "HTI Share Consideration"). The HEXO Convertible Note bears interest at a rate of 5.0% per annum, calculated daily, which is payable to Tilray on a semi-annual basis. Interest payments made under the HEXO Convertible Note will be paid in cash until July 12, 2023 and, thereafter, such interest shall accrue but be added to the principal amount. The HEXO Convertible Note has a maturity date of May 1, 2026. Subject to certain limitations and adjustments, the HEXO Convertible Note was convertible into HEXO Common Shares at Tilray's option at any time prior to the second scheduled trading day prior to the maturity date, at a conversion price of CAD\$5.60 per HEXO Common share as determined the day before exercise, including all capitalized interest. HEXO has the ability to force the conversion if the daily VWAP per common share is equal to or exceeds \$42.00 per share for twenty consecutive trading days. The conversion price was updated on December 19, 2022, from CAD\$0.40 to CAD\$5.60 to reflect HEXO's 14:1 reverse stock split. Under the HEXO Convertible Note, the Company held a first-priority security interest on substantially all of HEXO's assets. In the event of a default on the HEXO Convertible Note, the Company would be entitled to exercise its rights as a secured creditor, and the Note would become redeemable at 115% of the outstanding principal balance.

All third-party transaction costs associated with the acquisition of these notes were reimbursed by HEXO. During year ended May 31, 2023, in connection with the HEXO Convertible Note, the Company recognized interest income of \$7,720, and an other-than-temporary change in fair value of the HEXO Convertible Note, which resulted in a loss of \$128,552 for the year ended May 31, 2023. Due to changes in HEXO's share price and operations, which culminated in HEXO's assessment of a going concern issue regarding HEXO's ability to meet their minimum liquidity covenant, resulting in the Company increasing the forfeiture rate to 75% on the HEXO Convertible Note.

The HTI Share Consideration included a purchase price derivative, where the consideration paid is adjusted based on the sum of the VWAP of the Company's common stock for the 44 trading days after the issuance of the shares. The purchase price derivative is settled through the issuance of additional shares of the Company if the share price declined, or a cash payment back to the Company if the share price increased over the applicable period. On issuance this was valued at \$nil. The subsequent change in fair value resulted in a gain of \$18,256 due to the share price increasing, which was recorded in Transaction (income) costs, and was collected in cash by the Company during the period ended May 31, 2023.

The fair value of the HEXO Convertible Note was determined using the Black-Scholes model using the following assumptions: the risk-free rate of 3.50%; expected life of the convertible note; volatility of 90% based on comparable companies; forfeiture rate of 75%; dividend yield of nil and the exercise price of the respective conversion feature.

Concurrent with the aforementioned purchase of the HEXO Convertible Note, the Company and HEXO also entered into various commercial transaction agreements as described in Note 29 (Segment reporting). On April 10, 2023, we entered into an Arrangement Agreement with HEXO to acquire all of the issued and outstanding common shares of HEXO, upon closing this transaction, these convertible notes receivable were converted into shares of HEXO, as described in Note 30 (Subsequent events).

MedMen Enterprises Inc. ("MedMen")

On August 31, 2021, the Company issued 9,817,061 shares valued at \$117,804 to acquire 68% interest in Superhero Acquisition L.P. ("SH Acquisition"), which purchased a senior secured convertible note (the "MedMen Convertible Note"), together with certain associated warrants to acquire Class B subordinate voting shares of MedMen, in the principal amount of \$165,799. The total purchase price including non-controlling interests contribution was \$170,799, the MedMen Convertible Note bears interest at the Secured overnight financing rate ("SOFR") plus 6%, with a SOFR floor of 2.5% and, any accrued interest is added to the outstanding principal amount, and is to be paid at maturity of the MedMen Convertible Note. SH Acquisition was also granted "top-up" rights enabling it (and its limited partners) to maintain its percentage ownership (on an "as-converted" basis) in the event that MedMen issues equity securities upon conversion of convertible securities that may be issued by MedMen. The Company's ability to convert the MedMen Convertible Note and exercise the Warrants is dependent upon U.S. federal legalization of cannabis (a "Triggering Event") or Tilray's waiver of such requirement as well as any additional regulatory approvals. The MedMen Convertible Note has a maturity date of August 17, 2028.

During the year ended May 31, 2023, in connection with the MedMen Convertible Note, the Company recognized an other-than-temporary change in fair value, which resulted in a non-cash impairment expense of \$117,778 which includes the reversal of the fair value adjustments which were previously recorded in accumulated other comprehensive loss. As a result, of the deterioration of capital market conditions from increased interest rates and recent delays in US Federal cannabis legalization, the Company increased the forfeiture rate to 35% on the MedMen Convertible Note and recorded the aforementioned loss on the MedMen Convertible Notes through impairments.

The Company recognized interest income, which is included as part of the convertible debentures in the amount of \$10,480 for the year ended May 31, 2023. The Company also recognized an unrealized gain (loss) on convertible notes receivable in other comprehensive income of \$70,779 and (\$70,779) for the year ended May 31, 2023 and May 31, 2022 respectively.

The fair value of the MedMen Convertible Note was determined using the Black-Scholes model using the following assumptions: the risk-free rate of 3.50%; expected life of the convertible note; volatility of 70% based on comparable companies; forfeiture rate of 35%; dividend yield of nil; probability of legalization between 0% and 60%; and, the exercise price of the respective conversion feature.

12. Long-term investments

Long-term investments are comprised of the following items:

	May 31, 2023	May 31, 2022
Equity investments measured at fair value	\$ 2,144	\$ 4,347
Equity investments under measurement alternative	5,651	5,703
Total	\$ 7,795	\$ 10,050

The Company's equity investments at fair value consist of publicly traded shares, equity interest in non-traded companies and warrants held by the Company. The Company's equity investments under measurement alternative include equity investments without readily determinable fair values. For the year ended May 31, 2023 the Company received proceeds of \$nil on the sale of investments (2022-\$nil, 2021-\$8,430) and recognized \$2,366 in unrealized losses due to the change in fair value of investments (2022-\$6,731 2021-\$1,567), the remaining change in long-term investments is a result of currency translation recognized in other comprehensive income.

13. Income taxes and deferred income taxes

Loss before income taxes includes the following components:

	For the year ended May 31,		
	2023	2022	2021
United States	\$ (506,984)	\$ (233,697)	\$ (7,814)
Canada	(912,717)	(81,772)	(323,964)
Other countries	(30,480)	(125,205)	(13,208)
	\$ (1,450,181)	\$ (440,674)	\$ (344,986)

The (recoveries) expense for income taxes consists of:

	For the year ended May 31,		
	2023	2022	2021
Current:			
United States	\$ 226	262	\$ —
Canada	26,290	23,268	15,227
Other countries	(62)	479	697
	\$ 26,454	\$ 24,009	\$ 15,924
Deferred:			
United States	\$ (4,055)	520	\$ 1,517
Canada	(24,364)	(17,154)	(30,111)
Other countries	(5,216)	(13,917)	3,698
	\$ (33,635)	\$ (30,551)	\$ (24,896)
Income tax benefits, net	\$ (7,181)	\$ (6,542)	\$ (8,972)

A reconciliation of income taxes at the statutory rate with the reported taxes is as follows:

	For the year ended May 31,		
	2023	2022	2021
Loss before net income taxes:	\$ (1,450,181)	\$ (440,674)	\$ (344,986)
Income tax benefits at statutory rate	(304,538)	(92,542)	(72,408)
Tax impact of foreign operations	(25,857)	81,316	(19,016)
Foreign exchange and other	13,434	14,941	1,011
Non-deductible expenses	3,982	6,404	(1,347)
Non-deductible (taxable) losses	23,150	748	45,230
Changes in enacted rates	(816)	—	135
Change in fair value of warrant liability	(2,612)	(13,359)	(259)
Stock based and other compensation	—	994	2,902
Change in valuation allowance	285,698	17,255	46,007
Non deductible dividend	—	—	(755)
Impact on convertible debenture and other differences	378	(22,299)	—
Effect of transaction	—	—	(10,472)
Income tax benefits, net	\$ (7,181)	\$ (6,542)	\$ (8,972)

The following table summarizes the components of deferred tax:

	May 31,	
	2023	2022
Deferred assets		
Operating loss carryforwards - United States	\$ 85,259	\$ 77,868
Operating loss carryforwards - Canada	145,111	132,293
Operating loss carryforwards - Other Countries	18,787	15,606
Capital loss carryforwards	34,355	38,087
Intangible assets	244,227	150,543
Property and equipment	46,400	20,592
Currently nondeductible interest	2,812	7,165
Investments and convertible notes receivable	66,718	19,055
Investment tax credits and related pool balance	22,054	21,590
Other	50,074	26,976
Total Deferred tax assets	715,797	509,775
Less valuation allowance	(625,368)	(354,071)
Net deferred tax assets	90,429	155,704
Deferred tax liabilities		
Property and equipment	(18,129)	(38,387)
Intangible assets	(225,460)	(305,577)
Convertible Senior Notes Due 2023	(14,204)	(8,378)
Total deferred tax liabilities	(257,793)	(352,342)
Net deferred tax liability	\$ (167,364)	\$ (196,638)

The Tax Cuts and Jobs Act (2017 Tax Act) was enacted on December 22, 2017 and reduced the U.S. statutory federal corporate tax rate from 35% to 21%. The Tax Act also contains additional provisions that are effective for the company in 2018, including a new tax on Global Intangible Low-Taxed Income ("GILTI"). Under GAAP, we are allowed to make an accounting policy choice to either (i) treat taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method"); or (ii) factor in such amounts into the measurement of our deferred taxes (the "deferred method"). The Company has made a policy decision to record GILTI tax as a current-period expense when incurred.

Deferred income taxes have not been recorded on the basis differences for investments in consolidated subsidiaries as these basis differences are indefinitely reinvested or will reverse in a non-taxable manner. Quantification of the deferred income tax liability, if any, associated with indefinitely reinvested basis differences is not practicable. Deferred income taxes have been recorded on the basis differences for investments in nonconsolidated entities.

At May 31, 2023, the Company had United States net operating loss carry-forwards of approximately \$405,994 that can be carried forward indefinitely and generally limited in annual use to 80% of the current year taxable income starting 2021. The Company has Canadian net operating loss carry-forwards of approximately \$545,712 that can be carried forward 20 years and begin to expire in 2028. Management believes that it is more-likely-than-not that the benefit from certain United States and foreign net operating loss carry-forwards will not be realized. In recognition of this risk, the Company has provided a valuation allowance on the deferred tax assets relating to these carry-forwards. The net change in the total valuation allowance was an increase of \$271,297 and \$88,131 for the years ended May 31, 2023 and 2022, respectively. The net change in the total valuation allowance was primarily a result of finalization of the purchase accounting related to the reverse acquisition transaction with Aphria Inc. during the prior year and certain current year losses.

The Company recognizes the financial statement impact of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest impact that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The total amount of gross unrecognized tax benefits ("GUTB") was \$0, \$0, and \$0 as of May 31, 2023, 2022 and 2021 respectively. There is a reasonable possibility that the Company's unrecognized tax benefits will change within twelve months due to audit settlements or the expiration of statute of limitations, but the Company does not expect the change to be material to the financial statements.

The Company recognizes interest and, if applicable, penalties for any uncertain tax positions. Interest and penalties are recorded as a component of income tax expenses. In the years ended May 31, 2023, 2022 and 2021, the Company recorded approximately \$0, \$0 and \$0, respectively, of interest and penalty expenses related to uncertain tax positions. As of May 31, 2023, and 2022, the Company had a cumulative balance of accrued interest and penalties on unrecognized tax positions of \$0 and \$0, respectively.

The Company and its subsidiaries are subject to United States federal income tax as well as the income tax of multiple state and foreign jurisdictions. The Company is not currently under audit in any jurisdiction for any period. Major jurisdictions where there are wholly owned subsidiaries of Tilray Brands, Inc. which require income tax filings include the Canada, Portugal, Germany, and Australia. The earliest periods open for review by local taxing authorities are fiscal years 2018 for Canada, 2019 for Portugal, 2018 for Germany, 2019 for Australia, and 2019 for United States.

14. Bank indebtedness

Aphria Inc., a subsidiary of the Company, has an operating line of credit in the amount of C\$1,000 which bears interest at the lender's prime rate plus 75 basis points. As of May 31, 2023, the Company has not drawn on the line of credit. The operating line of credit is secured by a security interest on that certain real property at 265 Talbot St. West, Leamington, Ontario.

CC Pharma GmbH, a subsidiary of the Company, has three operating lines of credit for €5,000, €3,500, and €500 each, which bear interest at Euro Over Night Index Average plus 1.79% and Euro Interbank Offered Rate ("EURIBOR") plus 3.682% respectively. As of May 31, 2023, a total of €7,833 (\$8,381) was drawn down from the available credit of €9,000. The operating lines of credit for €5,000 and €3,500 are secured by an interest in the inventory of CC Pharma GmbH and the property where the Densborn facility is located as well as the building. The operating line of credit for €500 is unsecured.

Four Twenty Corporation ("420"), a subsidiary of the Company, has a revolving credit facility of \$30,000 which bears interest at EURIBOR plus an applicable margin. As of May 31, 2023, the Company has drawn \$15,000 on the revolving line of credit. The revolving credit facility is secured by all of 420's assets and includes a corporate guarantee by a subsidiary of the Company.

15. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprised of:

	May 31, 2023	May 31, 2022
Trade payables	\$ 70,819	\$ 68,604
Accrued liabilities	82,240	57,497
Accrued payroll and employment related taxes	18,772	17,736
Income taxes payable	14,934	6,150
Accrued interest	3,869	6,772
Other accruals	48	672
Total	<u>\$ 190,682</u>	<u>\$ 157,431</u>

16. Long-term debt

The following table sets forth the net carrying amount of long-term debt instruments:

	May 31, 2023	May 31, 2022
Credit facility - C\$66,000 - Canadian prime interest rate plus an applicable margin, 3-year term, with a 10-year amortization, repayable in blended monthly payments, due in November 2025	\$ 45,260	\$ 53,720
Term loan - C\$25,000 - Canadian prime plus 1.00%, compounded monthly, 5-year term, with a 15-year amortization, repayable in equal monthly installments of C\$194 including interest, due in July 2023	10,959	12,750
Term loan - C\$25,000 - Canadian prime plus 1.50%, compounded monthly, 5-year term with a 15-year amortization, repayable in equal monthly installments of C\$190 including interest, due in April 2032	13,092	15,050
Term loan - C\$1,250 - Canadian prime plus 1.50%, 5-year term, with a 10-year amortization, repayable in equal monthly installments of C\$12 including interest, due in August 2026	346	462
Mortgage payable - C\$3,750 - Canadian prime plus 1.50%, 5-year term, with a 20-year amortization, repayable in equal monthly installments of C\$23 including interest, due in August 2026	2,104	2,327
Term loan - €5,000 - EURIBOR plus 1.79%, 5-year term, repayable in quarterly installments of €250 plus interest, due in December 2023	803	1,878
Term loan - €1,200 - EURIBOR plus 1.79%, 1-year term, repayable in monthly installments of €100 plus interest, due in December 2023	755	—
Term loan - €5,000 - EURIBOR plus 2.68%, 5-year term, repayable in quarterly installments of €250 plus interest, due in December 2023	803	1,878
Term loan - €1,500 - EURIBOR plus 2.00%, 5-year term, repayable in quarterly installments of €92 including interest, due in April 2025	819	1,219
Term loan - €1,500 - EURIBOR plus 2.00%, 5-year term, repayable in quarterly installments of €94 including interest, due in June 2025	903	1,307
Mortgage payable - \$22,635 - EURIBOR rate plus 1.5%, 10-year term, with a 10-year amortization, repayable in monthly installments of \$57 plus interest, due in October 2030	20,863	21,561
Term loan - \$65,000 - SOFR rate plus an applicable margin, 5-year term, repayable in quarterly installments, due in June 2028	65,000	75,000
Carrying amount of long-term debt	161,707	187,152
Unamortized financing fees	(738)	(1,450)
Net carrying amount	160,969	185,702
Less principal portion included in current liabilities	(24,080)	(67,823)
Total noncurrent portion of long-term debt	\$ 136,889	\$ 117,879

On November 28, 2022, the Company, through its 51% owned subsidiary Aphria Diamond, entered into an Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement") amending and restating the existing credit facility in the aggregate principal amount of C\$66,000. The Amended and Restated Credit Agreement extended the term of the existing credit facility to November 28, 2025. The principal amount of loans outstanding at the time of the amendment was C\$66,000 and is secured by the property at 620 Country Road 14, Leamington, Ontario, owned by Aphria Diamond and a guarantee from Aphria Inc.

The term loan of C\$25,000 was entered into on July 27, 2018 and is secured by the property at 223, 231, 239, 265, 269, 271 and 275 Talbot Street West, Leamington Ontario, a first position on a general security agreement, and an assignment of fire insurance to the lender.

The term loan of C\$25,000 was entered into on May 9, 2017 and is secured by the property at 265 Talbot Street West, Leamington Ontario, a first position on a general security agreement, and an assignment of fire insurance to the lender.

The term loan of C\$1,250 and mortgage payable of C\$3,750 were entered into on July 22, 2016 and are secured by the property at 265 Talbot Street West, Leamington, Ontario and a first position on a general security agreement.

The Company entered into term loans between December 2019 and November 2023 for €14,200 through wholly owned subsidiary CC Pharma. These term loans are secured against the distribution inventory held by CC Pharma and by the land where the facility is located and the building.

During the year ended May 31, 2022, the Company acquired all the membership interests in Cheese Grits, LLC, a Georgia limited liability company that owns the SweetWater Brewing Company brewery and taproom in Atlanta, Georgia, which facility was previously leased to the Company. Cheese Grits, LLC, was owned by certain former equity holders of SweetWater and current employees. As part of this purchase, the Company through subsidiary Cheese Grits, LLC, acquired the mortgage payable which is secured against the brewery and taproom.

The Company, entered into a secured credit agreement on March 31, 2021 for a term loan of \$100,000 through wholly owned subsidiary Four Twenty Corporation ("420"). 420 provided all of its and its subsidiaries' assets as security for the loan and Aphria Inc. provided a corporate guarantee. Subsequent to year end, the Company refinanced this debt which amended the interest rates to lower the applicable margins, extended the maturity to June 2028, provided a new repayment schedule and amended the corporate guarantee from Aphria Inc. to Tilray Brands, Inc. See Note 30 (Subsequent Events) for additional details.

The Company maintains, certain financial covenants or minimum balances in certain Canadian cash operating accounts, as at May 31, 2023, the Company was in compliance with all the long-term debt covenants.

17. Convertible debentures payable

The following table sets forth the net carrying amount of the convertible debentures:

	May 31, 2023	May 31, 2022
5.20% Convertible Notes ("TLRY 27")	\$ 100,476	\$ —
HTI Convertible Note	47,834	—
5.25% Convertible Notes ("APHA 24")	120,568	216,753
5.00% Convertible Notes ("TLRY 23")	126,544	185,196
Total	395,422	401,949
Less - current portion	174,378	-
Total convertible debentures payable, non current portion	\$ 221,044	\$ 401,949

HTI Convertible Note

	May 31, 2023	May 31, 2022
4.00% Contractual debenture	\$ 50,000	\$ —
Unamortized discount	(2,166)	—
Net carrying amount	\$ 47,834	\$ —

On July 12, 2022, the Company issued a \$50,000 convertible promissory note to HTI ("HTI Convertible Note"), bearing a 4% interest rate payable on a quarterly basis and having a maturity date of September 1, 2023. The fair value of the conversion feature was determined to be \$9,055, recorded in additional paid in capital. Refer to Note 11 (Convertible notes receivable) for additional details on this transaction. HTI may convert the HTI Convertible Note, in whole or in part, at any time prior to the second trading day immediately preceding the maturity date, into shares of Common Stock at a conversion price equal to \$4.03, which is calculated as 125% of the closing sale price as of the closing date (July 12, 2022). In no event will HTI be allowed to effect a conversion of the HTI Convertible Note if such conversion, along with all other shares of Common Stock beneficially owned by HTI and its affiliates, would exceed 9.99% of the outstanding Common Stock (the "Beneficial Ownership Limitation") of the Company. If HTI does not elect or is unable to elect to convert under the Beneficial Ownership Limitation or if the share price on the immediately preceding Trading Day is not equal to or greater than \$2.00, the Company will be responsible for repaying the HTI Convertible Note in cash.

TLRY 27

	May 31, 2023	May 31, 2022
5.20% Contractual debenture	\$ 150,000	\$ —
Unamortized discount	(49,524)	—
Net carrying amount	<u>\$ 100,476</u>	<u>\$ —</u>

The TLRY 27 convertible debentures, were entered into on May 30, 2023, in the principal amount of \$150,000, bears interest at a rate of 5.20% per annum, payable semi-annually in arrears on June 15 and December 15 of each year, and matures on June 15, 2027, unless earlier converted. The TLRY 27 is an unsecured obligation and ranks senior in right of payment to all indebtedness that is expressly subordinated in right of payment to TLRY 27. The TLRY 27 will rank equal in right of payment with all liabilities that are not subordinated. The TLRY 27 is effectively junior to any secured indebtedness to the extent of the value of the assets securing such indebtedness. Noteholders will have the right to convert their TLRY 27 Notes into shares of Tilray's common stock at their option, at any time, until the close of business on the second scheduled trading day immediately before June 15, 2027. The initial conversion rate is 376.6478 shares per \$1,000 principal amount of TLRY 27 Notes, which represents an initial conversion price of approximately \$2.66 per share. The conversion rate and conversion price will be subject to adjustment upon the occurrence of certain events.

The TLRY 27 Notes will be redeemable, in whole and not in part, at Tilray's option at any time on or after June 20, 2025 at a cash redemption price equal to the principal amount of the notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, but only if the last reported sale price of Tilray's common stock exceeds 130% of the conversion price for a specified period of time. If certain corporate events that constitute a fundamental change occur, then, subject to a limited exception, noteholders may require Tilray to repurchase their TLRY 27 Notes for cash. The repurchase price will be equal to the principal amount of the notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the applicable repurchase date. In connection with the Company's offering of the TLRY 27 Notes, the Company entered into a share lending agreement with an affiliate of Jefferies LLC (the "Share Borrower"), under which it lent to the Share Borrower 38,500,000 shares of the Company's common stock. The borrowed shares were newly-issued shares, issued in connection with the offering of the TLRY 27 Notes and will be held as treasury shares until the expiration or early termination of the share lending agreement. Purchasers of the TLRY 27 Notes may separately sell up to 38,500,000 shares of the Company's common stock that they may borrow through the Share Borrower. The fair value of the share lending agreement has been recorded as part of the unamortized discount on the debenture. The Company expects that the selling stockholders will use their position created by such sales to establish their initial hedge with respect to their investments in the TLRY 27 Notes. The Company did not receive any proceeds from the sale of the borrowed shares from the Note purchasers. See Note 30 (Subsequent Events) for additional details of transactions related to this security that occurred after period end.

As at May 31, 2023, there was \$150,000 principal outstanding (2022 - \$nil).

APHA 24

	May 31, 2023	May 31, 2022
5.25% Contractual debenture	\$ 350,000	\$ 350,000
Principal amount paid	(213,260)	(90,760)
Fair value adjustment	(16,172)	(42,487)
Net carrying amount	<u>\$ 120,568</u>	<u>\$ 216,753</u>

The APHA 24 convertible debentures, were entered into in April 2019, in the principal amount of \$350,000, bears interest at a rate of 5.25% per annum, payable semi-annually in arrears on June 1 and December 1 of each year, and matures on June 1, 2024, unless earlier converted. The APHA 24 is an unsecured obligation and ranks senior in right of payment to all indebtedness that is expressly subordinated in right of payment to APHA 24. The APHA 24 ranks equal in right of payment with all liabilities that are not subordinated. The APHA 24 is effectively junior to any secured indebtedness to the extent of the value of the assets securing such indebtedness.

Holders of the APHA 24 may convert all or any portion of their Notes, in multiples of one thousand dollars principal amount, at their option at any time between December 1, 2023 to the maturity date. The initial conversion rate for the APHA 24 will be 89.31162364 shares of common stock per one thousand dollars principal amount of Notes, which will be settled in cash, common shares of Aphria or a combination thereof, at Tilray's election. This is equivalent to an initial conversion price of approximately \$11.20 per common share, subject to adjustments in certain events. In addition, holders of the APHA 24 may convert all or any portion of their Notes, in multiples of one thousand dollars principal amount, at their option at any time preceding December 1, 2023, if any of the following:

- (a) the last reported sales price of the common shares for at least 20 trading days during a period of 30 consecutive trading days immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- (b) during the five-business day period after any five consecutive trading day period (the "measurement period") in which the trading price per one thousand dollars principal amount of the APHA 24 for each trading day of the measurement period is less than 98% of the product of the last reported sale price of the Company's common shares and the conversion rate on each such trading day;
- (c) the Company calls any or all of the APHA 24 for redemption or;
- (d) upon occurrence of specified corporate event.

The Company was not able to redeem the APHA 24 prior to June 6, 2022, except upon the occurrence of certain changes in tax laws. On or after June 6, 2022, the Company may redeem for cash all or part of the APHA 24, at its option, if the last reported sale price of the Company's common shares has been at least 130% of the conversion price then in effect for at least 20 trading days during any 30 consecutive trading day period ending on and including trading day immediately preceding the date on which the Company provides notice of redemption. The redemption of the APHA 24 will be equal to 100% of the principal amount plus accrued and unpaid interest to, but excluding, the redemption date.

The Company elected the fair value option under ASC 825 *Fair Value Measurements* for the APHA 24. The APHA 24 was initially recognized at fair value on the balance sheet. 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. The changes in fair value related to instrument-specific credit risk is recorded through other comprehensive income (loss).

The Company may from time to time seek to retire or purchase its APHA 24, in open market purchases, privately negotiated transactions or otherwise. Such purchases or exchanges, if any, will depend on prevailing market conditions, the company's liquidity requirements, contractual restrictions and other factors. During the year, the Company purchased \$122,500 principal of APHA 24.

The overall change in fair value of the APHA 24 during the year ended May 31, 2023 increased by \$26,315, this was comprised of \$43,733 of fair value changes which was offset by the decrease in foreign exchange of \$17,418 (2022 – decrease of \$163,670 and \$19,021, 2021 – increase of \$170,453 and \$32,586).

The aggregate change in fair value of convertible debenture payable of \$43,651 recorded in Note 24 (Other non-operating (expense) income) is comprised of the increase from APHA 24 of \$43,733 less the decrease of \$82 in fair value on the repurchased TRLY 23 debentures noted below.

As at May 31, 2023, there was \$136,740 principal outstanding (2022 - \$259,400).

During the year ended May 31, 2023, the Company recognized total interest expense of \$13,610 (2022 – \$13,600, 2021 – \$13,600).

TLRY 23

	May 31, 2023	May 31, 2022
5.00% Contractual debenture	\$ 277,856	\$ 277,856
Principal amount paid	(150,526)	(88,026)
Unamortized discount	(786)	(4,634)
Net carrying amount	<u>\$ 126,544</u>	<u>\$ 185,196</u>

The TLRY 23 bears interest at a rate of 5.00% per annum, payable semi-annually in arrears on April 1 and October 1 of each year. Additional interest may accrue on the TLRY 23 in specified circumstances. The TLRY 23 will mature on October 1, 2023, unless earlier repurchased, redeemed or converted. There are no principal payments required over the five-year term of the TLRY 23, except in the case of redemption or events of defaults.

The TLRY 23 is an unsecured obligation and ranks senior in right of payment to all of the Company's indebtedness that is expressly subordinated in right of payment to the TLRY 23; equal in right of payment with any of the Company's unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables but excluding intercompany obligations) of the Company's current or future subsidiaries.

The TLRY 23 includes customary covenants and sets forth certain events of default after which the convertible notes may be declared immediately due and payable, including certain types of bankruptcy or insolvency involving the Company. To the extent the Company so elects, the sole remedy for an event of default relating to certain failures by the Company to comply with certain reporting covenants, for the first 365 days after such event of default, consist exclusively of the right to receive additional interest on the notes. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of the Company's common stock, at the Company's election (the "cash conversion option"). The initial conversion rate for the convertible notes is 5.9735 shares of common stock per one thousand dollar principal amount of notes, which is equivalent to an initial conversion price of approximately \$167.41 per share of common stock, which represents approximately 760,588 shares of common stock, based on the \$127,330 aggregate principal amount of convertible notes outstanding as of May 31, 2023 (2022 - shares of 1,133,923 based on principal of \$189,830. Throughout the term of the TLRY 23, the conversion rate may be adjusted upon the occurrence of certain events.

Prior to the close of business on the business day immediately preceding April 1, 2023, the TLR Y 23 will be convertible only under the specified circumstances. On or after April 1, 2023 until the close of business on the business day immediately preceding the maturity date, holders may convert all or any portion of their TLR Y 23, in multiples of one thousand dollars principal amount, at the option of the holder regardless of the aforementioned circumstances.

The Company may from time to time seek to retire or purchase its TLR Y 23, in open market purchases, privately negotiated transactions or otherwise. Such purchases or exchanges, if any, will depend on prevailing market conditions, the company's liquidity requirements, contractual restrictions and other factors. During the year, the Company purchased \$62,500 of principal of its TLR Y 23 reducing the carrying value to \$126,544. This repurchase resulted in a loss of \$82 which was recorded in change in fair value of convertible debentures payable Note 24 (Other non-operating (expense) income).

As of May 31, 2023, the TLR Y 23 is not yet convertible. The convertible notes will become convertible upon the satisfaction of the above circumstances. The remaining unamortized debt discount related to the convertible notes as of May 31, 2023 will be accreted over the remaining term of the TLR Y 23, which is approximately 4 months.

As of May 31, 2023, the Company was in compliance with all the covenants set forth under the TLR Y 23.

During the year ended May 31, 2023, the Company recognized total interest expense on TLR Y 23 of \$12,120 (2022 – \$18,860, 2021 – \$1,585), which included contractual interest coupon of \$9,303 (2022 - \$14,684, 2021 – 1,158) and amortization of the discount of \$2,817 (2022 - \$4,176, 2021 – \$427).

18. Warrants

During the year ended May 31, 2022, 5,994,651 warrants expired with exercise prices between \$3.08 and \$9.08. As of May 31, 2023, there are 6,209,000 warrants outstanding, with an original exercise price of \$5.95 per warrant, expiring March 17, 2025. Each warrant is exercisable for one common share of the Company.

The warrants contain anti-dilution price protection features, which adjust the exercise price of the warrants if the Company subsequently issues common stock at a price lower than the exercise price of the warrants. In the event additional warrants or convertible debt are issued with a lower and/or variable exercise price, the exercise price of the warrants will be adjusted accordingly. During the year ended May 31, 2023, the Company issued shares which triggered the anti-dilution price protection feature lowering the exercise price to \$2.66. These warrants are classified as liabilities as they are to be settled in registered shares, and the registration statement is required to be active, unless such shares may be subject to an applicable exemption from registration requirements. The holders, at their sole discretion, may elect to affect a cashless exercise, and be issued exempt securities in accordance with Section 3(a)(9) of the 1933 Act. In the event the Company does not maintain an effective registration statement, the Company may be required to pay a daily cash penalty equal to 1% of the number of shares of common stock due to be issued multiplied by any trading price of the common stock between the exercise date and the share delivery date, as selected by the holder. Alternatively, the Company may deliver registered common stock purchased by the Company in the open market. The Company may also be required to pay cash if it does not have sufficient authorized shares to deliver to the holders upon exercise.

The Company estimated the fair value of the warrant liability at May 31, 2023 at \$0.49 per warrant using the Black Scholes pricing model (Level 3) with the following assumptions: Risk-free interest rate of 3.84%, expected volatility of 70%, expected term of 2.3 years, strike price of \$2.66 and fair value of common stock of \$1.67.

Expected volatility is based on both historical and implied volatility of the Company's common stock.

19. Stockholders' equity

On March 16, 2023, Tilray's stockholders formally approved a proposal to amend its certificate of incorporation (the "Charter Amendment"), which modified Tilray's existing certificate of incorporation by canceling its Class 1 Common Stock and re-allocating such authorized shares to Class 2 Common Stock. In addition, the Charter Amendment reclassified each issued and outstanding share of Class 2 Common Stock as one share of Common Stock of Tilray.

Issued and outstanding

At May 31, 2023, the Company had 990,000,000 shares authorized to be issued with 656,655,455 shares issued and outstanding, at May 31, 2022 – 743,333,333 and 532,674,887 respectively.

During the year-ended May 31, 2023, the Company issued the following shares:

- a) 32,481,149 shares under its At-the-Market ("ATM") program for gross proceeds of \$132,238. The Company paid \$2,645 in commissions and other fees associated with these issuances for net proceeds of \$129,593.
- b) 33,314,412 shares to purchase the HEXO convertible notes receivable.
- c) 16,114,406 shares to settle amounts owed to the non-controlling shareholders of Aphria Diamond in the amount of \$60,062.
- d) 1,862,080 shares for the exercise of various stock-based compensation awards.
- e) 1,708,521 shares issued to acquire Montauk Brewing Company Inc.
- e) 38,500,000 shares issued as part of a share lending agreement with an affiliate of Jefferies LLC in connection with the registered offering of \$150 Million of unsecured convertible senior notes (TLRY 27).

Stock-based compensation

For the year ended May 31, 2023, the total stock-based compensation expense was \$39,595 (2022 - \$35,994 and 2021- \$17,351). The Company operates multiple stock-based award plans as follows:

Tilray 2018 Equity Incentive Plan and Original Plan

The 2018 Equity Incentive Plan (EIP) authorizes the award of stock options, restricted stock units ("RSUs") and stock appreciation rights ("SARs") to employees, including officers, non-employee directors and consultants and the employees and consultants of our affiliates. Shares subject to awards granted under the EIP that expire or terminate without being exercised in full, or that are paid out in cash rather than in shares, do not reduce the number of shares available for issuance under the EIP. Additionally, shares become available for future grant under the EIP if they were issued under the EIP and if the Company repurchases them or they are forfeited. This includes shares used to pay the exercise price of an award or to satisfy the tax withholding obligations related to an award. The maximum number of shares of common stock subject to stock awards granted under the EIP or otherwise during any one calendar year to any non-employee director, taken together with any cash fees paid by the Company to such non-employee director during such calendar year for service on the Board of Directors, will not exceed five hundred thousand dollars in total value, calculating the value of any such stock awards based on the grant date fair value of such stock awards for financial reporting purposes, or, with respect to the calendar year in which a nonemployee director is first appointed or elected to our Board of Directors, one million dollars.

Stock options represent the right to purchase shares of our common stock on the date of exercise at a stated exercise price. The exercise price of a stock option generally must be at least equal to the fair market value of our shares of common stock on the date of grant. The Company's compensation committee may provide for stock options to be exercised only as they vest or to be immediately exercisable with any shares issued on exercise being subject to the Company's right of repurchase that lapses as the shares vest. The maximum term of stock options granted under the EIP is ten years.

RSUs represent a right to receive common stock or their cash equivalent for each RSU that vests, which vesting may be based on time or achievement of performance conditions. Unless otherwise determined by our compensation committee at the time of grant, vesting will cease on the date the participant no longer provides services to the Company and unvested shares will be forfeited. If an RSU has not been forfeited, then on the date specified in the RSUs, the Company will deliver to the holder a number of whole shares of common stock, cash or a combination of shares of our common stock and cash. Additionally, dividend equivalents may be credited in respect of shares covered by the RSUs. Any additional shares covered by the RSU credited by reason of such dividend equivalents will be subject to all of the same terms and conditions of the underlying RSU agreement to which they relate. The RSUs generally vest over a 3-or-4 year period. The fair value of RSUs are based on the share price as at date of grant.

SARs provide for a payment, or payments, in cash or shares of common stock to the holder based upon the difference between the fair market value of shares of our common stock on the date of exercise and the stated exercise price. The maximum term of SARs granted under the EIP is ten years. No SARs were issued to date.

The EIP permits the grant of performance-based stock and cash awards. The performance goals may be based on company-wide performance or performance of one or more business units, divisions, affiliates or business segments and may be either absolute or relative to the performance of one or more comparable companies or the performance of one or more relevant indices. The length of any performance period, the performance goals to be achieved during the performance period, and the measure of whether and to what degree such performance goals have been attained will be conclusively determined by the Board of Directors.

As of April 30, 2021, 9,806,851 shares of common stock had been reserved for issuance under the EIP. The number of shares of common stock reserved for issuance under the 2018 EIP will automatically increase on January 1 of each calendar year, for a period of not more than ten years, starting on January 1, 2019 and ending on and including January 1, 2027, in an amount equal to 4% of the total number of shares of our common stock outstanding on December 31 of the prior calendar year, or a lesser number of shares determined by our Board of Directors. The shares reserved include only the outstanding shares related to stock options and RSUs and excludes stock options outstanding under the Original Plan.

Certain employees and other service providers of the Company participate in the equity-based compensation plan of Privateer Holdings, Inc (the "Original Plan") under the terms and valuation method detailed below. The expected life of the stock options represented the period of time stock options were expected to be outstanding and was estimated considering vesting terms and employees' historical exercise and post-vesting employment termination behavior. Expected volatility was based on historical volatilities of public companies operating in a similar industry to Privateer Holdings. The risk-free rate is based on the United States Treasury yield curve in effect at the time of grant. The expected dividend yield was determined based on the stock option's exercise price and expected annual dividend rate at the time of grant.

No stock options were granted under the EIP during the year ended May 31, 2023 and 2022. For the year ended May 31, 2021, the fair value of each stock option granted is estimated on grant date using the Black-Scholes option pricing model using the following assumptions: risk-free rate for 2.10% on the date of grant; expected life of 8.97 years; volatility of 61.33% based on comparable companies; dividend yield of \$nil; and, the exercise price of the respective option. The expected life of the award is estimated using the simplified method since the Company does not have adequate historical exercise data to estimate the expected term.

Stock-based activity under the EIP and Original Plan for the year ended May 31, 2023 is as follows:

EIP Time-based stock option activity

	Stock Options	Weighted- average exercise price	Weighted- average remaining contractual term (years)	Aggregate intrinsic value
Balance, May 31, 2022	2,881,749	\$ 14.93	6.0	\$ —
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Cancelled	(72,551)	11.37	—	—
Balance, May 31, 2023	<u>2,809,198</u>	<u>\$ 14.88</u>	<u>5.0</u>	<u>\$ —</u>

Original plan time-based stock option activity

	Stock Options	Weighted- average exercise price	Weighted- average remaining contractual term (years)	Aggregate intrinsic value
Balance, May 31, 2022	92,777	\$ 3.52	3.8	\$ 117
Exercised	(7,853)	3.27	—	—
Forfeited	—	—	—	—
Cancelled	(20,955)	4.80	—	—
Balance, May 31, 2023	<u>63,969</u>	<u>\$ 3.27</u>	<u>3.8</u>	<u>\$ 7.68</u>

EIP Time-based RSU activity

	Time-based RSUs	Weighted- average grant-date fair value per share	Weighted- average remaining contractual term (years)	Aggregate intrinsic value
Balance, May 31, 2022	6,710,780	\$ 11.76	2.6	\$ 25,894
Granted	8,639,739	3.39	—	—
Vested	(2,081,268)	11.15	—	—
Forfeited	(1,130,559)	5.43	—	—
Cancelled	—	—	—	—
Balance, May 31, 2023	<u>12,138,692</u>	<u>\$ 6.04</u>	<u>1.7</u>	<u>\$ 24,857</u>

Predecessor Plan - Aphria

Aphria had established the Aphria Omnibus Incentive Plan (the “Predecessor Plan”). Following stockholder approval of the EIP, no new awards have been granted under the Predecessor Plan. In connection with the reverse acquisition Aphria stock options, Aphria RSUs and DSUs issued under the Predecessor Plan were exchanged for options, RSUs under the EIP. As a result of the modification, all grantees were affected, and the Company recognized nil incremental compensation cost.

The fair value of each stock option granted under the Predecessor Plan is estimated on grant date using the Black-Scholes option pricing model using the following assumptions: risk-free rate for 2021 of 0.39% and 2020 of 1.20 – 1.56% on the date of grant; expected life for 2021 of 5 years and 2020 of 5 years; volatility for 2021 of 70% and 2020 of 70%) based on comparable companies; forfeiture rate for 2021 of 35% and 2020 of 20%; dividend yield for 2021 of \$nil and 2020 of \$nil); and, the exercise price of the respective option. The expected life of the award is estimated using the simplified method since the Company does not have adequate historical exercise data to estimate the expected term.

Stock option, RSU and DSU activity for the Company under the Predecessor Plan is as follows:

Time-based stock option activity

	May 31, 2023				
	Number of options	Weighted average exercise price	Weighted average grant date fair value	Weighted average remaining contractual term (years)	Aggregate Intrinsic Amount
Balance, May 31, 2022	1,839,028	\$ 11.29	\$ 64.44	1.8	—
Exercised	—	—	—	N/A	N/A
Granted	—	—	—	N/A	N/A
Forfeited	(396)	8.95	112.24	N/A	N/A
Expired	(132,005)	13.07	41.93	N/A	N/A
Balance, May 31, 2023	1,706,627	\$ 11.16	\$ 60.75	1.0	—
Vested and exercisable, May 31, 2023	1,706,627	\$ 11.16	\$ 60.75	1.0	—

Time-based and Performance-based RSU activity

	May 31, 2023	
	Time- based RSUs	Weighted average grant - date fair value per share
Balance, May 31, 2022	777,112	\$ 11.09
Granted	—	—
Vested	(390,419)	\$ 14.55
Forfeited	(15,511)	\$ 8.75
Balance, May 31, 2023	371,182	\$ 11.37

20. Accumulated other comprehensive loss

Accumulated other comprehensive loss includes the following components:

	Foreign currency translation gain (loss)	Unrealized loss on convertible notes receivables	Total
Balance May 31, 2020	\$ (232)	\$ (5,202)	\$ (5,434)
Settlement of convertible notes receivable	—	5,277	5,277
Other comprehensive loss	156,649	(3,824)	152,825
Balance May 31, 2021	156,417	(3,749)	152,668
Other comprehensive loss	(102,004)	(71,428)	(173,432)
Balance May 31, 2022	54,413	(75,177)	(20,764)
Other comprehensive (loss) reversal	(101,023)	75,177	(25,846)
Balance May 31, 2023	\$ (46,610)	\$ -	\$ (46,610)

21. Non-controlling interests

The following tables summarize the information relating to the Company's majority-owned subsidiaries, CC Pharma Nordic ApS (75%), Aphria Diamond (51%), ColCanna S.A.S. (90%), and SH Acquisition (68%) before intercompany eliminations.

Summarized balance sheet information of the entities in which there is a non-controlling interest as at May 31, 2023:

	SH Acquisition	CC Pharma Nordic ApS	Aphria Diamond	ColCanna S.A.S.	May 31, 2023
Current assets	\$ —	\$ 114	\$ 127,689	\$ 224	\$ 128,027
Non-current assets	74,681	—	135,085	3,307	213,073
Current liabilities	—	(1,166)	(142,554)	(6,697)	(150,417)
Non-current liabilities	—	—	(53,197)	(1,428)	(54,625)
Net assets	<u>\$ 74,681</u>	<u>\$ (1,052)</u>	<u>\$ 67,023</u>	<u>\$ (4,594)</u>	<u>\$ 136,058</u>

Summarized balance sheet information of the entities in which there is a non-controlling interest as at May 31, 2022:

	SH Acquisition	CC Pharma Nordic ApS	Aphria Diamond	ColCanna S.A.S.	May 31, 2022
Current assets	\$ —	\$ 485	\$ 20,546	\$ 193	\$ 21,224
Non-current assets	111,200	158	152,786	93,738	357,882
Current liabilities	—	(642)	(63,196)	(53)	(63,891)
Non-current liabilities	—	(410)	(29,653)	(6,537)	(36,600)
Net assets	<u>\$ 111,200</u>	<u>\$ (409)</u>	<u>\$ 80,483</u>	<u>\$ 87,341</u>	<u>\$ 278,615</u>

Summarized income statement information of the entities in which there is a non-controlling interest for the year ended May 31, 2023:

	SH Acquisition	CC Pharma Nordic ApS	Aphria Diamond	ColCanna S.A.S.	May 31, 2023
Revenue	\$ —	\$ 126	\$ 161,453	\$ 1	\$ 161,580
Total expenses	107,297	748	85,460	57,293	250,798
Net (loss) income	(107,297)	(622)	75,993	(57,292)	(89,218)
Other comprehensive (loss) income	70,778	(21)	(961)	(34,643)	35,153
Net comprehensive (loss) income	<u>\$ (36,519)</u>	<u>\$ (643)</u>	<u>\$ 75,032</u>	<u>\$ (91,935)</u>	<u>\$ (54,065)</u>
Non-controlling interest %	32%	25%	49%	10%	NA
Comprehensive (loss) income attributable to NCI	(11,686)	(161)	36,766	(9,194)	15,725
Additional income attributable to NCI	—	—	11,421	—	11,421
Net comprehensive (loss) income attributable to NCI	<u>\$ (11,686)</u>	<u>\$ (161)</u>	<u>\$ 48,187</u>	<u>\$ (9,194)</u>	<u>\$ 27,146</u>

Summarized income statement information of the entities in which there is a non-controlling interest for the year ended May 31, 2022:

	SH Acquisition	CC Pharma Nordic ApS	Aphria Diamond	ColCanna S.A.S.	May 31, 2022
Revenue	\$ —	\$ 354	\$ 148,323	\$ —	\$ 148,677
Total expenses	(11,180)	470	77,057	35	66,382
Net (loss) income	11,180	(116)	71,266	(35)	82,295
Other comprehensive (loss) income	(70,778)	47	(2,353)	(4,737)	(77,821)
Net comprehensive (loss) income	\$ (59,598)	\$ (69)	\$ 68,913	\$ (4,772)	\$ 4,474
Non-controlling interest %	32%	25%	49%	10%	NA
Net comprehensive (loss) income	\$ (19,071)	\$ (17)	\$ 33,767	\$ (477)	\$ 14,202

Summarized income statement information of the entities in which there is a non-controlling interest for the year ended May 31, 2021:

	CC Pharma Nordic ApS	Aphria Diamond	ColCanna S.A.S.	May 31, 2021
Revenue	\$ 827	\$ 131,381	\$ —	\$ 132,208
Total expenses (recovery)	958	67,030	923	68,911
Net (loss) income	(131)	64,351	(923)	63,297
Other comprehensive (loss) income	—	—	—	—
Net comprehensive (loss) income	\$ (131)	\$ 64,351	\$ (923)	\$ 63,297
Non-controlling interest %	25%	49%	10%	NA
Net comprehensive (loss) income	\$ (33)	\$ 31,532	\$ (92)	\$ 31,407

22. Net revenue

Net revenue is comprised of:

	For the year ended May 31,		
	2023	2022	2021
Cannabis revenue	\$ 284,314	\$ 300,891	\$ 264,334
Cannabis excise taxes	(63,884)	(63,369)	(62,942)
Net cannabis revenue	220,430	237,522	201,392
Beverage alcohol revenue	100,679	74,959	29,661
Beverage alcohol excise taxes	(5,586)	(3,467)	(1,062)
Net beverage alcohol revenue	95,093	71,492	28,599
Distribution revenue	258,770	259,747	277,300
Wellness revenue	52,831	59,611	5,794
Total	\$ 627,124	\$ 628,372	\$ 513,085

23. Cost of goods sold

Cost of goods sold is comprised of:

	For the year ended May 31,		
	2023	2022	2021
Cannabis costs	\$ 162,755	\$ 194,834	\$ 130,511
Beverage alcohol costs	48,770	32,033	12,687
Distribution costs	231,309	243,231	242,472
Wellness costs	37,330	41,457	4,233
Total	\$ 480,164	\$ 511,555	\$ 389,903

24. General and administrative expenses

General and administrative expenses are comprised of the following items:

	For the year ended May 31,		
	2023	2022	2021
Executive compensation	\$ 13,655	\$ 14,128	\$ 8,645
Office and general	27,845	27,153	19,503
Salaries and wages	57,228	51,693	37,126
Stock-based compensation	39,595	35,994	17,351
Insurance	12,033	17,536	12,257
Professional fees	7,166	13,047	11,779
Gain on sale of capital assets	(48)	(682)	—
Insurance proceeds	—	(4,032)	—
Travel and accommodation	4,530	4,203	2,711
Rent	3,155	3,761	2,203
Total	\$ 165,159	\$ 162,801	\$ 111,575

25. Interest expense, net

Interest expense, net is comprised of:

	For the year ended May 31,		
	2023	2022	2021
Interest income	\$ 33,025	\$ 11,736	\$ 2,926
Interest expense	(46,612)	(39,680)	(30,903)
	\$ (13,587)	\$ (27,944)	\$ (27,977)

26. Non-operating (expense) income

Non-operating (expense) income is comprised of:

	For the year ended May 31,		
	2023	2022	2021
Change in fair value of convertible debenture payable	\$ (43,651)	\$ 163,670	\$ (170,453)
Change in fair value of warrant liability	12,438	63,913	1,234
Foreign exchange loss	(25,535)	(28,383)	(22,347)
Loss on long-term investments	(2,190)	(6,737)	(2,352)
Other non-operating (losses) gains, net	(7,971)	5,208	9,080
	<u>\$ (66,909)</u>	<u>\$ 197,671</u>	<u>\$ (184,838)</u>

Other non-operating (losses) gains, net for the year ended May 31, 2023, includes amounts to settle outstanding notes with non-controlling interest shareholders.

27. Commitments and contingencies

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), material purchase commitments and construction commitments as follows:

	Total	2024	2025	2026	2027	Thereafter
Long-term debt repayment	\$ 161,707	\$ 24,080	\$ 14,208	\$ 41,798	\$ 10,522	\$ 71,099
Convertible notes payable	464,070	177,330	136,740	—	—	150,000
Material purchase obligations	24,468	18,726	5,140	602	—	—
Construction commitments	8,410	8,410	—	—	—	—
Total	<u>\$ 658,655</u>	<u>\$ 228,546</u>	<u>\$ 156,088</u>	<u>\$ 42,400</u>	<u>\$ 10,522</u>	<u>\$ 221,099</u>

Legal proceedings

In the ordinary course of business, we are at times subject to various legal proceedings and disputes, including the proceedings specifically discussed below. We assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. These legal reserves may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of loss is not estimable, we do not accrue legal reserves. While the outcome of legal proceedings is inherently uncertain, based on information currently available and available insurance coverage, our management believes that it has established appropriate legal reserves. Any incremental liabilities arising from pending legal proceedings are not expected to have a material adverse effect on our consolidated financial position, consolidated results of operations, or consolidated cash flows. However, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to our consolidated financial position, consolidated results of operations, or consolidated cash flows.

Class Action Suits and Stockholder Derivative Suits

Approved Settlement of Tilray Brands, Inc. Reorganization Litigation (Delaware, New York) – Special Litigation Committee

On February 27, 2020, Tilray stockholders Deborah Braun and Nader Noorian filed a class action and derivative complaint in the Delaware Court of Chancery styled Braun v. Kennedy, C.A. No. 2020-0137-KSJM. On March 2, 2020, Tilray stockholders Catherine Bouvier, James Hawkins, and Stephanie Hawkins filed a class action and derivative complaint in the Delaware Court of Chancery styled Bouvier v. Kennedy, C.A. No. 2020-0154-KSJM.

On March 4, 2020, the Delaware Court of Chancery entered an order consolidating the two cases and designating the complaint in the Braun/Noorian action as the operative complaint. The operative complaint asserts claims for breach of fiduciary duty against Brendan Kennedy, Christian Groh, Michael Blue, and Privateer Evolution, LLC (the “Privateer Defendants”) for alleged breaches of fiduciary duty in their alleged capacities as Tilray’s controlling stockholders and against Kennedy, Maryscott Greenwood, and Michael Auerbach for alleged breaches of fiduciary duties in their capacities as directors and/or officers of Tilray in connection with the prior merger of Privateer Holdings, Inc. with and into a wholly owned subsidiary (the “Downstream Merger”). The complaint alleges that the Privateer Defendants breached their fiduciary duties by causing Tilray to enter into the Downstream Merger and Tilray’s Board to approve that Downstream Merger, and that Defendants Kennedy, Greenwood, and Auerbach breached their fiduciary duties as directors by approving the Downstream Merger. Plaintiffs allege that the Downstream Merger gave the Privateer Defendants hundreds of millions of dollars of tax savings without providing a corresponding benefit to Tilray and its minority stockholders and that the Downstream Merger unfairly transferred and extended Kennedy, Blue, and Groh’s control over Tilray.

In August 2021, the Company’s Board of Directors established a Special Litigation Committee (the “SLC”) of independent directors to re-assert director control and investigate the derivative claims in this litigation matter. The SLC has appointed the law firm Wilson Sonsini to assist the SLC with an ongoing investigation of the underlying claim and determine whether continued prosecution of such claims was in the best interests of the Company.

On May 27, 2022, the SLC informed the Court that it had completed its investigation; determined not to seek dismissal of the Action; and confirmed its determination that the Company had suffered significant damages and that the SLC would pursue claims to recover appropriate amounts for the Company's benefit. Thereafter, the SLC, all of the Defendants, and certain non-parties participated in two mediation sessions before former Chancellor of the Delaware Court of Chancery Andre G. Bouchard.

On July 15, 2022, the SLC reached an agreement in principle with Defendants and certain of the non-parties, and their respective insurers, to resolve the claims asserted in the Action in exchange for an aggregate amount of \$26,900 to be paid to Tilray plus mutual releases. The SLC subsequently reached further agreement with an additional non-party and plaintiffs to settle the entire Action. On December 20, 2022, the parties submitted a Stipulation and Agreement of Compromise, Settlement, and Release (“Settlement Stipulation”) to the Court for approval which provides for, among other things, an aggregate cash amount of \$39,900 to be paid to Tilray and mutual releases. A hearing to approve the Settlement Stipulation was held on February 27, 2023, and was formally approved by the Court shortly thereafter. Tilray received the settlement proceeds following such approval. Plaintiffs' counsel was awarded fees equal to \$6,500. Tilray stockholders did not receive any direct payment from the Settlement Stipulation.

Authentic Brands Group Related Class Action (New York, United States)

On May 4, 2020, Ganesh Kasilingam filed a lawsuit in the United States District Court for the Southern District of New York (“SDNY”), against Tilray Brands, Inc., Brendan Kennedy and Mark Castaneda, on behalf of himself and a putative class, seeking to recover damages for alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Kasilingam litigation”). The complaint alleges that Tilray and the individual defendants overstated the anticipated advantages of the Company’s revenue sharing agreement with Authentic Brands Group (“ABG”), announced on January 15, 2019, and that the plaintiff suffered losses when Tilray’s stock price dropped after Tilray recognized an impairment with respect to the ABG deal on March 2, 2020. On August 6, 2020, SDNY entered an order appointing Saul Kassin as Lead Plaintiff and The Rosen Law Firm, P.A. as Lead Counsel. Lead Plaintiff filed an amended complaint on October 5, 2020, which asserts the same Sections 10(b) and 20(a) claims against the same defendants on largely the same theory, and includes new allegations that Tilray’s reported inventory, cost of sales, and gross margins in its financial reports during the class period were false and misleading because Tilray improperly recorded unsellable “trim” as inventory and understated the cost of sales for its products.

On September 27, 2021, the U.S. District Court entered an Opinion & Order granting the Defendants’ motion to dismiss the complaint in the Kasilingam litigation without prejudice. On December 3, 2021, the lead plaintiff filed a second amended complaint alleging similar claims against Tilray and Brendan Kennedy. The defendants moved to dismiss the amended complaint on February 2, 2022. On September 28, 2022, the Court granted in part and denied in part the defendants’ motion to dismiss the second amended complaint. On October 12, 2022, the Company filed a motion for reconsideration and/or interlocutory appeal of this Court decision which remain pending.

Aphria Inc. Securities Litigation (New York, United States)

On December 5, 2018, a putative securities class action was commenced in SDNY against Aphria and certain current and former officers and directors. The action claims that the defendants misrepresented the value of three cannabis-producing properties Aphria acquired in Jamaica, Colombia, and Argentina (the “LATAM Assets”). On December 3, 2018, two notorious short-sellers issued a report about the acquisitions, claiming the LATAM Assets were non-functional or non-existent, which allegedly caused Aphria’s stock price to fall. On April 15, 2019, Aphria took impairment charges on the LATAM Assets, which also allegedly caused Aphria’s stock price to decline. The putative class action claims that Aphria artificially inflated the price of its publicly-traded stock by making false statements about the LATAM Assets, and when the purported truth was revealed by a short-seller report and write-down, the stock price declined, harming investors.

On September 30, 2020, the Court denied the motion to dismiss the complaint as to Aphria, Vic Neufeld, and Carl Merton, and granted the motion as to Cole Cacciavillani, John Cervini, Andrew DeFrancesco, and SOL Global Investments. On October 1, 2020, Plaintiffs moved for reconsideration of the order dismissing DeFrancesco and SOL or, in the alternative, to amend their complaint. On October 14, 2020, Aphria, Neufeld, and Merton moved for reconsideration of the order denying their motion to dismiss.

On September 29, 2021, the U.S. District Court issued an Order that (i) permitted the plaintiffs to amend their lawsuit to revive the claims against Andy DeFrancesco; and (ii) declined to revisit his decision that claims could proceed against Aphria/Tilray, Vic Neufeld, and Carl Merton. Plaintiffs declined to amend their complaint, however, and so the action is proceeding solely against Aphria/Tilray, Neufeld, and Merton. On December 5, 2022, the parties engaged in a mediation session with an independent mediator. However, no settlement agreement was reached.

It is too early to determine any potential damages from this proceeding. The Company and the individual defendants believe the claims are without merit, and intend to vigorously defend against the claims, but there can be no assurances as to the outcome.

LATAM and Nuuvera Class Actions and Individual Actions (Canada)

On January 29, 2018, Aphria announced the acquisition of Nuuvera Inc. On July 17, 2018, Aphria announced a planned expansion into Latin America and the Caribbean with the acquisition of LATAM Holdings Inc. The following class actions and four individual proceedings have been commenced in Canada against Aphria and several current or former officers relating to the Nuuvera and LATAM transactions:

- (i) a proposed class action (the "Vecchio Action") commenced in the Ontario Superior Court in February 2019, and amended thereafter, alleging statutory and common law misrepresentations and oppression relating to the Nuuvera and LATAM transactions. The Vecchio Action names Aphria, Merton, Neufeld, Cacciavillani and 5 underwriters as defendants;
- (ii) four individual actions (the "Individual Actions") commenced by Wan, Bergerson, Landry, and Profinsys in the Ontario Superior Court alleging statutory and common law misrepresentations relating to the LATAM and Nuuvera transactions. The Individual Actions name Aphria, Merton, Neufeld, and Cacciavillani as defendants.

In the Vecchio Action a motion for certification and leave was heard. For Reasons for Decision released August 6, 2021, and with the consent of Aphria and the individually named Defendants, the Court granted leave to proceed with the secondary market statutory cause of action, and certified the Action on behalf of a defined class of purchasers. Also, on consent, the Court dismissed the claims of oppression and common law misrepresentation against Aphria and the individual defendants, as well as all claims against Carl Merton. The Court granted certification of the primary market statutory cause of action against all remaining Defendants but made it conditional on a successful motion by the Plaintiff to have the Court appoint a second Plaintiff for that aspect of the Claim. The defendant underwriters are appealing one term of that final aspect of the Court's decision. We continue to believe that these claims are without merit and plan to vigorously defend against this action.

Langevin Canada Class Action Regarding Alleged Mislabeled Products (Alberta, Canada)

On June 16, 2020, Lisa Langevin commenced a purported class action against Tilray, Aphria, and Broken Coast Cannabis Ltd. (a subsidiary of Aphria) in the Alberta Court of Queen's Bench, on her behalf and on behalf of a proposed class of all medicinal and recreational users in Canada of the defendants' cannabis products who consumed the products before their expiry date. The plaintiff alleges that the defendants marketed medicinal and recreational cannabis products in circumstances where the defendants misrepresented the amount of Tetrahydrocannabinol or Cannabidiol in certain of their respective products. The plaintiff claims that as a result of the alleged mislabeling, the plaintiff and proposed class members did not receive and consume the product that they believed they had purchased causing them loss, risk of injury and actual injury. The plaintiff seeks \$500,000 in damages and restitution and \$5,000 in punitive damages plus interest and costs collectively from the defendants. On July 20, 2020, plaintiff filed an Amended Statement of Claim, and on December 4, 2020 filed a Third Amended Statement of Claim. The application by the defendants to be relieved from the obligation to file a Statement of Defense was argued before the case management justice on June 1, 2021, and a decision is under reserve. The Company believes the claims are without merit, and intends to vigorously defend against them, but there can be no assurances as to the outcome.

Legal Proceedings Related to Contractual Obligations

420 Investments Ltd. Litigation

On February 21, 2020, 420 Investments Ltd., as Plaintiff ("420 Investments"), filed a lawsuit against Tilray Brands, Inc. and High Park Shops Inc. ("High Park"), as Defendants, in Calgary, Alberta in the Court of Queen's Bench of Alberta. In August 2019, Tilray and High Park entered into an Arrangement Agreement with 420 Investments and others (the "Agreement"). Pursuant to the Agreement, High Park was to acquire the securities of 420 Investments. In February 2020, Tilray and High Park gave notice of termination of the Agreement. 420 Investments alleges that the termination was unlawful and without merit and further alleges that the Defendants had no legal basis to terminate. 420 Investments alleges that the Defendants did not meet their contractual and good faith obligations under the Agreement. 420 Investment seeks damages in the stated amount of C\$110,000, plus C\$20,000 in aggravated damages. The Tilray and High Park Statement of Defense and counterclaim were both filed on March 20, 2020. 420 Investment's Statement of Defense to our counterclaim was filed on April 20, 2020. Respectively, 420 Investments and Tilray / High Park served each other with their Affidavits of Records ("AOR") on August 25, 2020 and November 30, 2020. Tilray and High Park cross-examined the litigation representative of 420 Investments about its AOR with 420 Investments producing supplemental documents in August 2021 and 2022. Additional discovery may take place in the Fall of 2023. In February 2023, Tilray and High Park filed an Application for Summary Judgment to collect an unpaid C\$7,000 bridge loan made to 420 Investments on August 28, 2019, relating to the subject transaction. That debt was repayable in March 2020, but was never repaid. The application is pending and a decision from the Court is expected in September or October 2023. No trial date has been set. The Company denies the Plaintiff's allegations and intends to vigorously defend this litigation matter, although there can be no assurance as to its outcome.

Docklight Litigation

On November 5, 2021 Docklight Brands, Inc. (“Docklight”) filed a complaint against the Company and its wholly-owned subsidiary, High Park Holdings, Ltd. (“High Park”) in Superior Court of the State of Washington, King County. Docklight claimed breach of contract against High Park arising from a 2018 license agreement pursuant to which Docklight licensed certain Bob Marley-related brands to High Park (as amended in 2020 and 2021, the “High Park License”). In addition, Docklight brought a negligent misrepresentation claim against Tilray, alleging that certain individuals at Tilray or Aphria had made false statements to Docklight in order to induce Docklight to waive Docklight’s alleged right to terminate the High Park License for change-of-control on the basis of the 2021 Tilray-Aphria Arrangement Agreement. Docklight seeks injunctive relief as well as unspecified damages. On December 17, 2021, Defendants removed the case to the United States District Court, Federal District of Washington. Defendants’ answer to the complaint was filed January 21, 2022, and discovery is ongoing. Mediation was held April 2023, but the parties were unable to reach a resolution. Tilray and High Park continue to believe that the claims are without merit and we intend to continue to vigorously defend the Docklight suit.

Cannfections Group Inc. / High Park Farms Ltd. and High Park Holdings Ltd. (Canada, Commercial Arbitration)

On December 2, 2022 Cannfections Group Inc., a JV that is 50% owned by High Park, (“Cannfections”) delivered a Request to Arbitrate along with a Statement of Claim to Tilray’s subsidiaries High Park Farms Ltd. and High Park Holdings Ltd. for an arbitration to be held in Toronto, Ontario. Cannfections claims breach of contract against Tilray arising from a 2019 supply agreement pursuant to which Tilray retained Cannfections to manufacture cannabis-infused chocolates and gummies. Cannfections primarily alleges that Tilray failed to meet certain minimum order volumes of products from Cannfections resulting in claimed damages of C\$27,500. Tilray has filed a Statement of Defense denying the allegations and the parties have completed document production and selected an arbitrator to hear this matter in November 2023. Tilray believes these claims are without merit intends to vigorously defend the claims during arbitration proceeding

Included in Litigation (recovery) costs is \$33,400 relating to the SLC Settlement (net of costs) and expense accruals equaling \$25,000 to cover various ongoing litigation matters that are probable and estimable, for the year ended May 31, 2023.

28. Financial risk management and financial instruments

Financial instruments

The Company has classified its financial instruments as described in Note 3 (Significant accounting policies).

The carrying values of accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate their fair values due to their short periods to maturity.

The Company’s long-term debt of \$nil (2022 - \$17,839) and the principal portion of convertible debentures payable of \$464,070 are subject to fixed interest rates.

Fair value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. Cash and cash equivalents are Level 1. The hierarchy is summarized as follows:

Level 1	Quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 2	Inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data
Level 3	Inputs for assets and liabilities not based upon observable market data

The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of May 31, 2023 and 2022 and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value:

	Level 1	Level 2	Level 3	May 31, 2023
Financial assets				
Cash and cash equivalents	\$ 206,632	\$ —	\$ —	\$ 206,632
Marketable securities	241,897	—	—	241,897
Convertible notes receivable	—	—	103,401	103,401
Equity investments measured at fair value	1,056	1,088	5,651	7,795
Financial liabilities				
Warrant liability	—	—	(1,817)	(1,817)
Contingent consideration	—	—	(27,107)	(27,107)
APHA 24 Convertible debenture	—	—	(120,568)	(120,568)
Total recurring fair value measurements	\$ 449,585	\$ 1,088	\$ (40,440)	\$ 410,233

	Level 1	Level 2	Level 3	May 31, 2022
Financial assets				
Cash and cash equivalents	\$ 415,909	\$ —	\$ —	\$ 415,909
Convertible notes receivable	—	—	111,200	111,200
Equity investments measured at fair value	1,878	2,469	5,703	10,050
Financial liabilities				
Warrant liability	—	—	(14,255)	(14,255)
Contingent consideration	—	—	(16,007)	(16,007)
APHA 24 Convertible debenture	—	—	(216,753)	(216,753)
Total recurring fair value measurements	\$ 417,787	\$ 2,469	\$ (130,112)	\$ 290,144

The Company's financial assets and liabilities required to be measured on a recurring basis are its convertible notes receivable, equity investments measured at fair value, convertible debentures measured at fair value, acquisition-related contingent consideration, and warrant liability.

Convertible notes receivable and long-term investments are recorded at fair value. The estimated fair value is determined using the Black Scholes option pricing model, probability of legalization and is classified as Level 3.

Convertible debentures payable are recorded at fair value when elected or required under US GAAP. Specifically, the APHA 24 instrument's estimated fair value is determined using the Black-Scholes option pricing model and is classified as Level 3.

Certain equity investments recorded at fair value have quoted prices in active markets for identical assets and are classified as Level 1. The Company classified securities with observable inputs as level 2 and without a quoted market price as Level 3.

The warrants associated with the warrant liability are classified as Level 3 derivatives. Consequently, the estimated fair value of the warrant liability is determined using the Black-Scholes pricing model. Until the warrants are exercised, expire, or other facts and circumstances lead the warrant liability to be reclassified to stockholders' equity, the warrant liability (which relates to warrants to purchase shares of common stock) is marked-to-market each reporting period with the change in fair value recorded in change in fair value of warrant liability. Any significant adjustments to the unobservable inputs disclosed in the table below would have a direct impact on the fair value of the warrant liability.

The contingent consideration from the acquisitions of SweetWater and Montauk, due in December 2023 and December 2025, respectively and payable in cash, is determined by discounting future expected cash outflows at a discount rate of 5%, and 11.4%, respectively and probability of achievement of 25% and 80%. The unobservable inputs into the future expected cash outflows result in a fair value measurement classified as Level 3.

The balances of assets and liabilities categorized within Level 3 of the fair value hierarchy measured at fair value on a recurring basis are reconciled, as follows:

	Convertible notes receivable	Equity Investments	Warrant Liability	Contingent Consideration	APHA 24 Convertible Debt	Total
Balance, May 31, 2022	\$ 111,200	\$ 5,703	\$ (14,255)	\$ (16,007)	\$ (216,753)	\$ (130,112)
Additions / (repayments)	167,752	—	—	(10,245)	122,500	280,007
Unrealized gain (loss) on fair value	70,779	(52)	12,438	(855)	(26,315)	55,995
Impairments	(246,330)	—	—	—	—	(246,330)
Balance, May 31, 2023	\$ 103,401	\$ 5,651	\$ (1,817)	\$ (27,107)	\$ (120,568)	\$ (40,440)

The unrealized gain (loss) on fair value for the Convertible Debenture, warrant liability, contingent consideration and convertible notes payable are recognized in non-operating income (loss) and other comprehensive income for the convertible notes receivable using the following inputs:

Financial asset / financial liability	Valuation technique	Significant unobservable input	Inputs
APHA Convertible debentures	Black-Scholes	Volatility, expected life (in years)	50% 1.0
Warrant liability	Black-Scholes	Volatility, expected life (in years)	50% 1.8
Contingent consideration	Discounted cash flows	Discount rate, achievement	5% - 11% 25% - 80%
Convertible notes receivable	Black-Scholes	Effective interest rate, forfeiture rate, conversion	17% - 22% 35% - 75% 0% - 60%

Items measured at fair value on a non-recurring basis

The Company's prepayments and other current assets, long lived assets, including property and equipment, goodwill and intangible assets are measured at fair value when there is an indicator of impairment and are recorded at fair value only when an impairment charge is recognized.

Financial risk management

The Company has exposure to the following risks from its use of financial instruments: credit; liquidity; currency rate; interest rate price; equity price risk; and capital management risk.

(a) *Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at May 31, 2023, 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.

The Company evaluates the collectability of its accounts receivable and maintains an allowance for credit losses at an amount sufficient to absorb losses inherent in the existing accounts receivable portfolio as of the reporting dates based on the estimate of expected net credit losses.

Trade receivables included an allowance for doubtful accounts and credit loss provision of \$6,641 at May 31, 2023 (2022-\$5,404) are broken out below as follows:

	Balance at the beginning of period	Movement during the year(1)	Balance at end of period
Fiscal year ended May 31, 2023			
Allowance for doubtful accounts and credit loss provision	\$ 5,404	\$ 1,237	\$ 6,641
Fiscal year ended May 31, 2022			
Allowance for doubtful accounts and credit loss provision	4,571	833	5,404
Fiscal year ended May 31, 2021			
Allowance for doubtful accounts and credit loss provision	2,313	2,258	4,571

(1) *Included in movements for the period is the total movements for foreign exchange, additions to the provisions and utilization of the credit loss provision and allowance for doubtful accounts.*

(b) Liquidity risk

As at May 31, 2023, 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 have contractual maturities over the next five years.

The Company maintains a minimum deposit on certain Canadian cash operating accounts tied to loans secured by its Aphria One and SweetWater facilities. The Company maintains debt service charge and leverage covenants on certain loans secured by its Aphria Diamond facilities and 420 that are measured quarterly. The Company believes that it has sufficient operating room with respect to its financial covenants for the next fiscal year and does not anticipate being in breach of any of its financial covenants.

The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company's working capital position at May 31, 2023, management regards liquidity risk to be low.

(c) Currency rate risk

As at May 31, 2023, a portion of the Company's financial assets and liabilities held in Canadian dollars and Euros consist of cash and cash equivalents, convertible notes receivable, and long-term investments. The Company's objective in managing its foreign currency risk is to minimize its net exposure to foreign currency cash flows by transacting, to the greatest extent possible, with third parties in the functional currency. The Company is exposed to currency rate risk in other comprehensive income, relating to foreign subsidiaries which operate in a foreign currency. The Company does not currently 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 price 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.

(e) Capital management

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach in the year. The Company considers its cash and cash equivalents and marketable securities as capital.

29. Segment reporting

Information reported to the Chief Operating Decision Maker ("CODM") for the purpose of resource allocation and assessment of segment performance focuses on the nature of the operations. The Company operates in four segments. 1) cannabis operations, which encompasses the production, distribution, sale, co-manufacturing and advisory services of both medical and adult-use cannabis, 2) beverage alcohol operations, which encompasses the production, marketing and sale of beverage alcohol products, 3) distribution operations, which encompasses the purchase and resale of pharmaceuticals products to customers, and 4) wellness products, which encompasses hemp foods and cannabidiol ("CBD") products. This structure is in line with how our Chief Operating Decision Maker ("CODM") assesses our performance and allocates resources.

Operating segments have not been aggregated and no asset information is provided for the segments because the Company's CODM does not receive asset information by segment on a regular basis.

Segment gross profit from external customers:

	Cannabis	For the year ended May 31,		
		2023	2022	2021
Net revenue		\$ 220,430	\$ 237,522	\$ 201,392
Cost of goods sold		162,755	194,834	130,511
Gross profit		<u>57,675</u>	<u>42,688</u>	<u>70,881</u>
	Distribution			
Net revenue		\$ 258,770	\$ 259,747	\$ 277,300
Cost of goods sold		231,309	243,231	242,472
Gross profit		<u>27,461</u>	<u>16,516</u>	<u>34,828</u>
	Beverage alcohol			
Net revenue		95,093	71,492	28,599
Cost of goods sold		48,770	32,033	12,687
Gross profit		<u>46,323</u>	<u>39,459</u>	<u>15,912</u>
	Wellness			
Net revenue		52,831	59,611	5,794
Cost of goods sold		37,330	41,457	4,233
Gross profit		<u>15,501</u>	<u>18,154</u>	<u>1,561</u>

Channels of cannabis revenue were as follows:

	For the year ended May 31,		
	2023	2022	2021
Revenue from Canadian medical cannabis	\$ 25,000	\$ 30,599	\$ 25,539
Revenue from Canadian adult-use cannabis	214,319	209,501	222,930
Revenue from wholesale cannabis	1,436	6,904	6,615
Revenue from international cannabis	43,559	53,887	9,250
Less excise taxes	(63,884)	(63,369)	(62,942)
Total	<u>\$ 220,430</u>	<u>\$ 237,522</u>	<u>\$ 201,392</u>

On July 12, 2022, Tilray acquired the HEXO Convertible Note from HTI and also entered into a strategic alliance with HEXO Corp. ("HEXO") as discussed in Note 11 (Convertible notes receivable) and Note 17 (Convertible debentures payable). In addition, the Company and HEXO entered into various commercial transaction agreements, including (i) an advisory services agreement regarding Tilray's provision of advisory services to HEXO in exchange for an \$18 million annual advisory fee payable to Tilray; (ii) a co-manufacturing agreement providing for third-party manufacturing services between the parties and setting forth the terms of Tilray's international bulk supply to HEXO; and (iii) a procurement and cost savings agreement for shared savings related to specified optimization activities, procurement, and other similar cost savings realized by the parties as a result of the foregoing commercial arrangements.

Included in revenue from Canadian adult-use cannabis is \$40,377 of advisory services, as well as amendment fees related to modifications to the existing advisory services agreement and procurement services revenue for the year ended May 31, 2023 from the aforementioned HEXO commercial transaction agreements.

Geographic net revenue:

	For the year ended May 31,		
	2023	2022	2021
North America	\$ 324,645	\$ 314,132	\$ 229,120
EMEA	284,567	296,911	279,062
Rest of World	17,912	17,329	4,903
Total	<u>\$ 627,124</u>	<u>\$ 628,372</u>	<u>\$ 513,085</u>

Geographic capital assets:

	May 31, 2023	May 31, 2022
North America	\$ 319,173	\$ 464,370
EMEA	107,131	119,409
Rest of World	3,363	3,720
Total	<u>\$ 429,667</u>	<u>\$ 587,499</u>

Major customers are defined as customers that each individually account for greater than 10% of the Company's annual revenues. For the years ended May 31, 2023, 2022 and 2021 there were no major customers representing greater than 10% of our annual revenues.

30. Subsequent Events

On June 9, 2023, the Company issued \$22,500 of additional convertible debentures payable under TLR Y 27 by way of overallotment.

On June 22, 2023, the Company acquired all shares of HEXO Corp. ("HEXO"), by way of the Arrangement agreement filed on April 10, 2023. As consideration for the HEXO acquisition, the Company issued 39,705,962 of Tilray's common shares and the convertible note receivable due from HEXO was exercised the immediately preceding trading day prior to closing the transaction.

On June 30, 2023, the Company refinanced its term loan of \$100,000 through wholly owned subsidiary Four Twenty Corporation ("420") which amended the interest rates to lower the applicable margins, extended the maturity to June 2028, provided a new repayment schedule and amended the corporate guarantee from Aphria Inc. to Tilray Brands, Inc.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Tilray Brands, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial position of Tilray Brands, Inc. and its subsidiaries (together, the Company) as of May 31, 2023 and 2022, and the related consolidated statements of loss and comprehensive loss, of changes in equity and of cash flows for each of the three years in the period ended May 31, 2023, including the related notes (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of May 31, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of May 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2023 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Controls over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting appearing under Item 9A. based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Management's Report on Internal Controls over Financial Reporting, management has excluded Montauk Brewing Company, Inc. from its assessment of internal control over financial reporting as of May 31, 2023 because it was acquired by the Company in a purchase business combination during the year ended May 31, 2023. Montauk Brewing Company, Inc. is a wholly-owned subsidiary whose total assets and total revenues excluded from management's assessment and our audit of internal control over financial reporting represent 1% and 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended May 31, 2023.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Impairment Assessments of Goodwill and Indefinite-lived Intangible Assets

As described in Notes 3, 8 and 10 to the consolidated financial statements, the Company's consolidated goodwill and indefinite-lived intangible assets balances were \$2,008.8 million and \$181.1 million respectively at May 31, 2023. Management conducts an impairment assessment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the carrying value of goodwill or indefinite-lived intangibles may not be recoverable. Any impairment charges are determined by comparing the fair value of the reporting unit to its carrying value. Fair value amounts are estimated by management using discounted cash flow models. As of February 28, 2023, management concluded that it was more likely than not, that the fair value of the reporting units was less than their carrying amounts. As a result, the Company performed impairment tests which resulted in impairment charges of \$603.5 million of cannabis goodwill, \$15 million of wellness goodwill and \$55 million of cannabis indefinite-lived intangible assets. As at May 31, 2023, management performed the annual impairment tests which resulted in no further impairment to be recorded beyond the charges recorded from the February 28, 2023 assessment. Management's cash flow models included significant judgements and assumptions relating to future cash flows, growth rates and discount rates.

The principal considerations for our determination that performing procedures relating to the impairment assessments of goodwill and indefinite-lived intangible assets is a critical audit matter are (i) the significant judgement required by management when developing the fair values of the assets or reporting units; and (ii) a high degree of auditor judgement, subjectivity and effort in performing procedures to evaluate management's significant assumptions, including future cash flows, growth rates and discount rates.

Addressing the matter involved performing procedures and evaluating audit evidence, in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill and indefinite-lived intangible assets impairment assessments, including controls over the determination of the fair values of the assets or reporting units. These procedures also included, among others, (i) testing management's process for developing the fair value estimates of the assets or reporting units; (ii) evaluating the appropriateness of the underlying discounted cash flow models; (iii) testing the completeness and accuracy of underlying data used in the models; and (iv) evaluating the reasonableness of the significant assumptions used by management, including the future cash flows, growth rates and discount rates. Evaluating management's significant assumptions related to future cash flows, growth rates and the discount rates involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the assets or reporting units; (ii) the consistency with external market and industry data; and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit, as applicable.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Canada

July 26, 2023

We have served as the Company's auditor since 2017.