

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

TILRAY BRANDS, INC.
Consolidated Statements of Financial Position
(in thousands of United States dollars, unaudited)

	August 31, 2024	May 31, 2024
Assets		
Current assets		
Cash and cash equivalents	\$ 205,186	\$ 228,340
Marketable securities	74,869	32,182
Accounts receivable, net	104,037	101,695
Inventory	264,295	252,087
Prepays and other current assets	44,960	31,332
Assets held for sale	32,536	32,074
Total current assets	725,883	677,710
Capital assets	555,136	558,247
Operating lease, right-of-use assets	17,176	16,101
Intangible assets	908,768	915,469
Goodwill	2,009,714	2,008,884
Long-term investments	7,853	7,859
Convertible notes receivable	32,000	32,000
Other assets	5,337	5,395
Total assets	\$ 4,261,867	\$ 4,221,665
Liabilities		
Current liabilities		
Bank indebtedness	\$ 18,134	\$ 18,033
Accounts payable and accrued liabilities	236,146	241,957
Contingent consideration	15,000	15,000
Warrant liability	2,557	3,253
Current portion of lease liabilities	5,640	5,091
Current portion of long-term debt	16,072	15,506
Current portion of convertible debentures payable	—	330
Total current liabilities	293,549	299,170
Long - term liabilities		
Lease liabilities	60,657	60,422
Long-term debt	155,268	158,352
Convertible debentures payable	132,650	129,583
Deferred tax liabilities, net	136,230	130,870
Other liabilities	99	90
Total liabilities	778,453	778,487
Commitments and contingencies (refer to Note 19)		
Stockholders' equity		
Common stock (\$0.0001 par value; 1,198,000,000 common shares authorized; 875,444,828 and 831,925,373 common shares issued and outstanding, respectively)	88	83
Preferred shares (\$0.0001 par value; 10,000,000 preferred shares authorized; nil and nil preferred shares issued and outstanding, respectively)	—	—
Additional paid-in capital	6,217,533	6,146,810
Accumulated other comprehensive loss	(39,877)	(43,499)
Accumulated deficit	(2,699,653)	(2,660,488)
Total Tilray Brands, Inc. stockholders' equity	3,478,091	3,442,906
Non-controlling interests	5,323	272
Total stockholders' equity	3,483,414	3,443,178
Total liabilities and stockholders' equity	\$ 4,261,867	\$ 4,221,665

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

TILRAY BRANDS, INC.
Consolidated Statements of Loss and Comprehensive Loss
(in thousands of United States dollars, except for share and per share data, unaudited)

	Three months ended August 31,	
	2024	2023
Net revenue	\$ 200,044	\$ 176,949
Cost of goods sold	140,338	132,753
Gross profit	59,706	44,196
Operating expenses:		
General and administrative	44,113	40,516
Selling	11,690	6,859
Amortization	21,804	22,225
Marketing and promotion	11,566	8,535
Research and development	105	79
Change in fair value of contingent consideration	—	(11,107)
Litigation costs, net of recoveries	1,595	2,034
Restructuring costs	4,247	915
Transaction costs (income), net	1,156	8,502
Total operating expenses	96,276	78,558
Operating loss	(36,570)	(34,362)
Interest expense, net	(9,842)	(9,835)
Non-operating income (expense), net	12,646	(4,402)
Loss before income taxes	(33,766)	(48,599)
Income tax expense, net	886	7,264
Net loss	\$ (34,652)	\$ (55,863)
Total net income (loss) attributable to:		
Stockholders of Tilray Brands, Inc.	(39,165)	(71,525)
Non-controlling interests	4,513	15,662
Other comprehensive gain (loss), net of tax		
Foreign currency translation gain (loss)	4,160	3,209
Total other comprehensive gain (loss), net of tax	4,160	3,209
Comprehensive loss	\$ (30,492)	\$ (52,654)
Total comprehensive income (loss) attributable to:		
Stockholders of Tilray Brands, Inc.	(35,543)	(68,476)
Non-controlling interests	5,051	15,822
Weighted average number of common shares - basic	875,444,828	691,189,382
Weighted average number of common shares - diluted	875,444,828	691,189,382
Net loss per share - basic	\$ (0.04)	\$ (0.10)
Net loss per share - diluted	\$ (0.04)	\$ (0.10)

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

TILRAY BRANDS, INC.
Consolidated Statements of Stockholders' Equity
(in thousands of United States dollars, except for share data, unaudited)

	Number of common shares	Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated Deficit	Non- controlling interests	Total
Balance at May 31, 2023	656,655,455	\$ 66	\$ 5,777,743	\$ (46,610)	\$ (2,415,507)	\$ 14,251	\$ 3,329,943
Share issuance - HEXO acquisition	39,705,962	4	65,158	—	—	—	65,162
Share issuance - settlement of contractual change of control severance incurred from HEXO acquisition	865,426	—	1,500	—	—	—	1,500
Share issuance - Double Diamond Holdings dividend settlement	5,004,735	—	8,146	—	—	—	8,146
Share issuance - HTI convertible note	17,148,541	2	49,998	—	—	—	50,000
Share issuance - RSUs exercised	3,912,481	—	—	—	—	—	—
Shares effectively repurchased for employee withholding tax	—	—	(4,860)	—	—	—	(4,860)
Equity component related to issuance of convertible debt, net of issuance costs	—	—	3,953	—	—	—	3,953
Stock-based compensation	—	—	8,257	—	—	—	8,257
Dividends declared to non-controlling interests	—	—	—	—	—	(7,891)	(7,891)
Comprehensive income (loss) for the period	—	—	—	3,049	(71,525)	15,822	(52,654)
Balance at August 31, 2023	723,292,600	72	5,909,895	(43,561)	(2,487,032)	22,182	3,401,556
Balance at May 31, 2024	831,925,373	83	6,146,810	(43,499)	(2,660,488)	272	3,443,178
Share issuance - At-the-Market ("ATM") program	36,693,307	4	66,468	—	—	—	66,472
Share issuance - RSUs exercised	6,823,140	1	(1)	—	—	—	—
Share issuance - options exercised	3,008	—	—	—	—	—	—
Shares effectively repurchased for employee withholding tax	—	—	(2,661)	—	—	—	(2,661)
Stock-based compensation	—	—	6,917	—	—	—	6,917
Comprehensive income (loss) for the period	—	—	—	3,622	(39,165)	5,051	(30,492)
Balance at August 31, 2024	875,444,828	88	6,217,533	(39,877)	(2,699,653)	5,323	3,483,414

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

TILRAY BRANDS, INC.
Consolidated Statements of Cash Flows
(in thousands of United States dollars, unaudited)

	For the three months ended	
	August 31, 2024	August 31, 2023
Cash provided by (used in) operating activities:		
Net loss	\$ (34,652)	\$ (55,863)
Adjustments for:		
Deferred income tax expense, net	382	59
Unrealized foreign exchange (gain) loss	(5,602)	(3,127)
Amortization	31,814	30,789
Accretion of convertible debt discount	3,067	5,544
Other non-cash items	729	(6,357)
Stock-based compensation	6,917	8,257
(Gain) loss on long-term investments & equity investments	(499)	47
Loss on derivative instruments	(696)	10,345
Change in fair value of contingent consideration	—	(11,107)
Change in non-cash working capital:		
Accounts receivable	(2,342)	13,044
Prepays and other current assets	(13,570)	(4,654)
Inventory	(12,383)	3,650
Accounts payable and accrued liabilities	(8,472)	(6,469)
Net cash used in operating activities	<u>(35,307)</u>	<u>(15,842)</u>
Cash provided by (used in) investing activities:		
Investment in capital and intangible assets	(6,736)	(4,152)
Proceeds from disposal of capital and intangible assets	28	342
Disposal (purchase) of marketable securities, net	(42,687)	(45,436)
Business acquisitions, net of cash acquired	—	22,956
Net cash provided by (used in) investing activities	<u>(49,395)</u>	<u>(26,290)</u>
Cash provided by (used in) financing activities:		
Share capital issued, net of cash issuance costs	66,472	—
Proceeds from long-term debt	—	7,621
Repayment of long-term debt	(4,791)	(6,369)
Proceeds from convertible debt	—	21,553
Repayment of convertible debt	(330)	—
Repayment of lease liabilities	(862)	—
Net increase (decrease) in bank indebtedness	101	(8,787)
Net cash provided by (used in) financing activities	<u>60,590</u>	<u>14,018</u>
Effect of foreign exchange on cash and cash equivalents	958	614
Net decrease in cash and cash equivalents	<u>(23,154)</u>	<u>(27,500)</u>
Cash and cash equivalents, beginning of period	228,340	206,632
Cash and cash equivalents, end of period	<u>\$ 205,186</u>	<u>\$ 179,132</u>

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

TILRAY BRANDS, INC.
Notes to Consolidated Financial Statements

Note 1. Basis of presentation and summary of significant accounting policies

The accompanying unaudited condensed interim consolidated financial statements (the “Financial Statements”) reflect the accounts of the Company for the quarterly period ended August 31, 2024. The financial statements were prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information and pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, they do not include all of the information and notes required by U.S. GAAP and should be read in conjunction with the audited consolidated financial statements (the “Annual Financial Statements”) included in the Company’s Annual Report on Form 10-K for the fiscal year ended May 31, 2024 (the “Annual Report”). These Financial Statements reflect all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full fiscal year.

These Financial Statements have been prepared on a 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.

All amounts in the Financial Statements, notes and tables have been rounded to the nearest thousand, except par values and per share amounts, and unless otherwise indicated.

Certain items of the comparative figures have been changed to conform to the presentation adopted in the current period.

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company either has a controlling voting interest or is the primary beneficiary of a variable interest entity. The financial statements of all subsidiaries are included in the Financial Statements from the date that control commences until the date that control ceases. All intercompany balances and transactions have been eliminated on consolidation. A complete list of our subsidiaries that existed as of our most recent fiscal year end is included in the Annual Report.

Convertible notes receivable

Convertible notes receivable includes various investments in which the Company has the right, or potential right to convert the indenture into common stock of the investee and are classified as available-for-sale and are recorded at fair value. Unrealized gains and losses during the year, net of the related tax effect, are excluded from income and reflected in other comprehensive income (loss), and the cumulative effect is reported as a separate component of shareholders' equity until realized. We use judgement to assess convertible notes receivables for impairment at each measurement date. Convertible notes receivables are impaired when a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in the consolidated statements of loss and comprehensive loss and a new cost basis for the investment is established. We also evaluate whether there is a plan to sell the security, or it is more likely than not that we will be required to sell the security before recovery. If neither of the conditions exist, then only the portion of the impairment loss attributable to credit loss is recorded in the statements of loss and the remaining amount is recorded in other comprehensive income (loss).

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing reported net income (loss) attributable to stockholders of Tilray Brands, Inc. 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) attributable to stockholders of Tilray Brands, Inc. 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 TLR 27 Notes, see Note 13 (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 arrangement to refund any dividends paid on the shares lent.

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. For the three months ended August 31, 2024 and August 31, 2023, the dilutive potential common share equivalents outstanding consisted of the following: 23,411,577 and 21,202,933 common shares from RSUs, 3,359,144 and 6,325,348 common shares from share options, 6,210,000 and 7,847,219 common shares for warrants and 64,971,746 and 77,819,141 common shares for convertible debentures, respectively.

New accounting pronouncements not yet adopted

In August 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-05, *Business Combination - Joint Venture Formations* (Subtopic 805-60) Recognition and Initial Measurement ("ASU 2023-05"), which is intended to address the accounting for contributions made to a joint venture. ASU 2023-05 is effective for the Company beginning June 1, 2026. 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.

In October 2023, the FASB issued ASU 2023-06, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, which amends the disclosure or presentation requirements related to various subtopics in the FASB Accounting Standards Codification (the "Codification"). The effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. If by June 30, 2027, the SEC has not removed the applicable requirement from Regulation S-X or Regulation S-K, the pending content of the related amendment will be removed from the Codification and will not become effective for any entity. The Company is currently evaluating the effect of adopting this ASU.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740) Improvements to Income Tax Disclosures*, which requires public entities to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold on an annual basis. ASU 2023-09 is effective for the Company beginning with the fiscal year ended June 1, 2025. The Company is currently evaluating the effect of adopting this ASU.

New accounting pronouncements recently adopted

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280) Improvements to Reportable Segment Disclosures*, which requires public entities to disclose information about their reportable segments' significant expenses on an interim and annual basis. ASU 2023-07 is effective for the Company beginning with the fiscal year ended May 31, 2025 and will be disclosed retrospectively in the Annual Report on Form 10-K.

On March 21, 2024, the FASB issued ASU 2024-01, *Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards*, which adds illustrative examples that demonstrate how the scoping guidance in ASC 718-10-15-3 applies to profits interest or similar awards. The Company adopted ASU 2024-01 beginning with the fiscal year ended June 1, 2024 with no material impacts.

Note 2. Inventory

Inventory consisted of the following:

	August 31, 2024	May 31, 2024
Beverage alcohol inventory	58,784	\$ 52,831
Plants	16,333	13,828
Dried cannabis	107,290	108,721
Cannabis derivatives	7,306	4,504
Cannabis vapes	4,858	4,132
Packaging and other inventory items	20,270	22,115
Distribution inventory	38,202	35,645
Wellness inventory	11,252	10,311
Total	\$ 264,295	\$ 252,087

Note 3. Capital assets

Capital assets consisted of the following:

	August 31, 2024	May 31, 2024
Land	\$ 45,165	\$ 45,577
Production facilities	375,345	369,630
Equipment	262,876	258,532
Leasehold improvements	19,463	19,377
Finance lease, right-of-use assets	43,429	43,993
Construction in progress	12,516	10,713
	\$ 758,794	\$ 747,822
Less: accumulated amortization	(203,658)	(189,575)
Total	\$ 555,136	\$ 558,247

Assets held for sale consisted of the following:

	August 31, 2024	May 31, 2024
Land	\$ 970	\$ 954
Production facility	25,010	24,682
Equipment	6,556	6,438
	\$ 32,536	\$ 32,074

During the fiscal year ended May 31, 2024, the Company classified the following assets from its Cannabis reporting segment as held for sale, including its Quebec cultivation facility, the Fort Collins, CO partially vacant warehouse facility, and the Broken Coast former cultivation facility located in Duncan, B.C.. Following an assessment of facility capacity utilization, it was determined that these facilities would be exited and held for sale. It is expected that the sale of these assets will be completed within twelve months from the period in which they were classified as held for sale. Assets held for sale are measured at the lower of carrying amount and their fair value less costs to sell, and are no longer depreciated. Disposition of assets held for sale are recorded in the consolidated statement of net loss and comprehensive loss, within the line, "Non-operating income (expense), net".

Note 4. Leases

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

	Classification on Balance Sheet	August 31, 2024	May 31, 2024
Assets			
Finance lease, right-of-use assets	Capital assets	\$ 43,429	\$ 43,993
Operating lease, right-of-use assets	Operating lease, right-of-use assets	17,176	16,101
Total right-of-use asset		<u>\$ 60,605</u>	<u>\$ 60,094</u>
Liabilities			
Current:			
Current portion of finance lease liabilities	Current portion of lease liabilities	\$ 1,116	\$ 1,092
Current portion of operating lease liabilities	Current portion of lease liabilities	4,524	3,999
Non-current:			
Finance lease liabilities	Lease liabilities	43,737	43,948
Operating lease liabilities	Lease liabilities	16,920	16,474
Total lease liabilities		<u>\$ 66,297</u>	<u>\$ 65,513</u>

The following table presents the future undiscounted payments associated with lease liabilities as of August 31, 2024:

	Operating leases	Finance leases
2025	\$ 4,775	\$ 3,299
2026	6,089	4,398
2027	5,439	4,398
2028	4,540	4,398
Thereafter	6,139	78,781
Total minimum lease payments	\$ 26,982	\$ 95,274
Imputed interest	(5,538)	(50,421)
Obligations recognized	<u>\$ 21,444</u>	<u>\$ 44,853</u>

Note 5. Intangible Assets

Intangible assets consisted of the following items:

	August 31, 2024	May 31, 2024
Customer relationships & distribution channel	\$ 609,728	\$ 603,939
Licenses, permits & applications	371,507	368,057
Non-compete agreements	12,441	12,403
Intellectual property, trademarks, knowhow & brands	616,721	608,672
	1,610,397	\$ 1,593,071
Less: accumulated amortization	(285,785)	(261,758)
Less: impairments	(415,844)	(415,844)
Total	<u>\$ 908,768</u>	<u>\$ 915,469</u>

Included in Licenses, permits & applications was \$185,636 of indefinite-lived intangible assets as of August 31, 2024, compared to \$182,851 as of May 31, 2024.

Expected future amortization expense for intangible assets as of August 31, 2024 is as follows:

	Amortization
2025 (remaining nine months)	\$ 55,822
2026	74,430
2027	74,430
2028	74,430
2029	74,430
Thereafter	369,590
Total	<u>\$ 723,132</u>

Note 6. Goodwill

The following table shows the carrying amount of goodwill by reporting units:

Reporting Unit	August 31, 2024	May 31, 2024
Cannabis	\$ 2,640,669	\$ 2,640,669
Distribution	4,458	4,458
Beverage alcohol	120,802	120,802
Wellness	77,470	77,470
Effect of foreign exchange	8,746	7,916
Impairments	(842,431)	(842,431)
Total	\$ 2,009,714	\$ 2,008,884

Note 7. Business acquisitions

Acquisition of Craft Beverage Business Portfolio

On September 29, 2023, Tilray acquired a portfolio of craft brands, assets and businesses comprising eight beer and beverage brands from Anheuser-Busch Companies, LLC, ("AB") including breweries and brewpubs associated with them (the "Craft Acquisition"). The acquired businesses/brands include Shock Top, Breckenridge Brewery, Blue Point Brewing Company, 10 Barrel Brewing Company, Redhook Brewery, Widmer Brothers Brewing, Square Mile Cider Company, and HiBall Energy. The Company paid a total purchase price equivalent of \$83,658 in cash, net of a working capital adjustment at closing of \$1,342.

The Company is in the process of assessing the fair value of the net assets acquired and, as a result, the fair value may be subject to adjustments pending completion of final valuations and post-closing adjustments. The table below summarizes the preliminary estimated fair value of the assets acquired and the liabilities assumed for the Craft Acquisition at the effective acquisition date as follows:

	<u>Amount</u>
Consideration	
Cash consideration	\$ 83,658
Net assets acquired	
Current assets	
Cash and cash equivalents	77
Inventory	21,493
Prepays and other current assets	573
Long-term assets	
Capital assets	76,114
Finance lease, right-of-use assets	45,496
Operating lease, right-of-use assets	7,677
Other assets	108
Total assets	<u>151,538</u>
Current liabilities	
Accounts payable and accrued liabilities	14,706
Current portion of finance lease liabilities	1,031
Current portion of operating lease liabilities	1,408
Long - term liabilities	
Finance lease liabilities	44,465
Operating lease liabilities	6,270
Total liabilities	<u>67,880</u>
Total net assets acquired	<u><u>83,658</u></u>

In the event that the Craft Acquisition had occurred on June 1, 2022, the Company would have had, on an unaudited proforma basis, additional net revenue of approximately \$nil and \$41,000 for the three months ended August 31, 2024 and 2023, respectively, and its consolidated net loss and comprehensive net income would have increased by approximately \$nil and \$3,000 for the three months ended August 31, 2024 and 2023, respectively. This unaudited pro forma financial information does not reflect the realization of any expected ongoing synergies relating to the integration of the Craft Acquisition.

Note 8. Convertible notes receivable

Convertible notes receivable is comprised of the following:

	<u>August 31,</u> <u>2024</u>	<u>May 31,</u> <u>2024</u>
MedMen Convertible Note	32,000	32,000
Deduct - current portion	—	—
Total convertible notes receivable, non current portion	<u>\$ 32,000</u>	<u>\$ 32,000</u>

MedMen Convertible Note

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 issued by MedMen (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 MedMen Convertible Note bears interest at the Secured Overnight Financing Rate ("SOFR") plus 6%, with a SOFR floor of 2.5% with any accrued interest being added to the outstanding principal amount. The outstanding principal amount, together with accrued interest is to be paid on August 17, 2028, the maturity date 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. SH Acquisition's ability to convert the MedMen Convertible Note and exercise the Warrants is dependent upon U.S. federal legalization of cannabis or Tilray's waiver of such requirement as well as any additional regulatory approvals.

During the year ended May 31, 2024, the Company recognized an other-than-temporary change in fair value, which resulted in a non-cash expense of \$42,681. The MedMen Convertible Note was valued based upon the fair value of the collateral assets net of disposal costs and has been reduced to reflect recent events, including the appointment of a chief restructuring officer on January 23, 2024 to facilitate MedMen's anticipated recapitalization and restructuring of operations, filing for insolvency protection in Canada and in California and pending asset sales. There are no additional changes in fair value for the three months ended August 31, 2024.

The Company did not derive any revenue or cash from MedMen's operations, and fully complies with all limitations imposed by applicable U.S. law and regulations in connection with its ownership of the MedMen Convertible Note. In addition, since the fiscal year ended May 31, 2024, the Company has not recognized any interest income on the MedMen Convertible Note, nor did the Company recognize any interest income for the three months ended August 31, 2024, which would have increased its value.

Note 9. Long term investments

Long term investments consisted of the following:

	August 31, 2024	May 31, 2024
Equity investments measured at fair value	\$ 2,353	\$ 2,359
Equity investments under measurement alternative	5,500	5,500
Total	\$ 7,853	\$ 7,859

Note 10. 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 August 31, 2024, the Company has not drawn on the line of credit. The operating line of credit is secured by a security interest on certain real property located at 265 Talbot St. West, Leamington, Ontario.

CC Pharma GmbH, a subsidiary of the Company, has two operating lines of credit in the amounts of €7,000 and €500. These lines bear interest at Euro Short-Term Rate ("ESTR") plus 2.50% and Euro Interbank Offered Rate ("EURIBOR") plus 4.00%, respectively. As of August 31, 2024, a total of €7,395 (\$8,134) was drawn down from the total available credit of €7,500. The operating line of credit for €7,000 is secured by an interest in the inventory of CC Pharma GmbH as well as the Densborn facility and underlying real property. The operating line of credit for €500 is unsecured.

American Beverage Crafts Group Inc. ("ABC Group"), a subsidiary of the Company, has a revolving credit facility of \$30,000, which bears interest at SOFR plus an applicable margin. As of August 31, 2024, the Company has drawn down \$10,000 on the revolving line of credit. The revolving credit facility is secured by ABC Group's assets and includes a corporate guarantee by a subsidiary of the Company.

Note 11. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of:

	August 31, 2024	May 31, 2024
Trade payables	\$ 101,868	\$ 105,392
Accrued liabilities	90,899	92,424
Litigation accrual	24,413	24,378
Accrued payroll and employment related taxes	10,279	6,154
Income taxes payable	973	4,092
Accrued interest	3,359	4,217
Sales taxes payable	4,355	5,300
Total	<u>\$ 236,146</u>	<u>\$ 241,957</u>

Note 12. Long-term debt

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

	August 31, 2024	May 31, 2024
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	\$ 38,480	\$ 39,420
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\$181 including interest, due in July 2033	10,154	10,212
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\$196 including interest, due in July 2033	12,406	12,422
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	245	263
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	2,111	2,089
Term loan - €1,500 - at 2.00%, 5-year term, repayable in quarterly installments of €94 plus interest, due in April 2025	320	417
Term loan - €3,500 - at 4.59%, 5-year term, repayable in monthly installments of €52 plus interest, due in August 2028	3,030	3,151
Mortgage payable - \$22,635 - EURIBOR rate plus 1.5%, 10-year term, repayable in monthly installments of \$57 including interest, due in October 2030	19,969	20,066
Term loan - \$90,000 - SOFR plus an applicable margin, 5-year term, repayable in quarterly installments of \$875 to \$1,750 due in June 2028	85,500	86,626
Carrying amount of long-term debt	172,215	174,666
Unamortized financing fees	(875)	(808)
Net carrying amount	171,340	173,858
Less principal portion included in current liabilities	(16,072)	(15,506)
Total noncurrent portion of long-term debt	<u>\$ 155,268</u>	<u>\$ 158,352</u>

Note 13. Convertible debentures payable

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

	August 31, 2024	May 31, 2024
5.20% Convertible Notes ("TLRY 27")	\$ 132,650	\$ 129,583
5.25% Convertible Notes ("APHA 24")	—	330
Total	132,650	129,913
Deduct - current portion	—	330
Total convertible debentures payable, non current portion	\$ 132,650	\$ 129,583

TLRY 27 Notes

	August 31, 2024	May 31, 2024
5.20% Contractual debenture	\$ 172,500	\$ 172,500
Unamortized discount	(39,850)	(42,917)
Net carrying amount	\$ 132,650	\$ 129,583

The TLRY 27 convertible debentures were issued on May 30, 2023 and on June 9, 2023 by way of overallotment, in the principal amount of \$172,500 (the "TLRY 27 Notes"). The TLRY 27 Notes bear interest at a rate of 5.20% per annum, payable semi-annually in arrears on June 15 and December 15 of each year, and mature on June 15, 2027, unless earlier converted. The TLRY 27 Notes are Tilray's general unsecured obligations and rank senior in right of payment to all of Tilray's indebtedness that is expressly subordinated in right of payment to the notes; equal in right of payment with any of Tilray's unsecured indebtedness that is not so subordinated, including TLRY 23 and APHA 24, effectively junior in right of payment to any of Tilray'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 Tilray's current or future subsidiaries. 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 a 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"), pursuant to which it lent to the Share Borrower 38,500,000 shares of the Company's common stock (the "Borrowed Shares"). The Borrowed Shares were newly-issued shares, will be held as treasury shares until the expiration or early termination of the share lending agreement and may be used by purchasers of the TLRY 27 Notes to sell up to 38,500,000 shares of the Company's common stock. 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. See Note 27 (Subsequent Events), which discloses the repurchase of \$7,500 of TLRY 27 Notes in an exchange transaction.

During the three months ended August 31, 2024, the Company recognized interest expense and accretion of amortized discount of \$2,243 and \$3,067 respectively. During the three months ended August 31, 2023, the Company recognized interest expense and accretion of amortized discount of \$2,243 and \$2,795 respectively.

APHA 24 Notes

	August 31, 2024	May 31, 2024
5.25% Contractual debenture	\$ —	\$ 350,000
Debt settlement	—	(349,670)
Fair value adjustment	—	—
Net carrying amount	\$ —	\$ 330

The APHA 24 convertible debentures, were entered into in April 2019, in the principal amount of \$350,000, bore interest at a rate of 5.25% per annum, and were payable semi-annually in arrears on June 1 and December 1 of each year, and matured on June 1, 2024 (the "APHA 24 Notes"). On June 1, 2024, the Company repaid the remaining principal of the APHA 24 Notes in cash upon maturity.

Note 14. Warrant liability

As of August 31, 2024 and May 31, 2024, there were 6,209,000 warrants outstanding, with an original exercise price of \$5.95 per warrant, expiring September 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 nine months ended August 31, 2024, the Company issued shares which triggered the anti-dilution price protection feature lowering the exercise price to \$1.61. 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 warrants outstanding as of August 31, 2024 at \$0.412 per warrant using the Black Scholes pricing model (Level 3) with the following assumptions: Risk-free interest rate of 3.23%, expected volatility of 50%, expected term of 1.05 years, strike price of \$1.61 and fair value of common stock of \$1.71.

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

Note 15. Stockholders' equity

Issued and outstanding

As of August 31, 2024, the Company had 1,198,000,000 common shares and 10,000,000 preferred shares authorized to be issued, with 875,444,828 common shares and nil preferred shares issued and outstanding. Historically, the Company has issued shares of its common stock as consideration for business acquisitions, settlement of convertible notes, settlement of litigation claims, in connection with public offerings and as payment of dividends to non-controlling interests for profit distributions.

During the three months ended August 31, 2024, the Company issued the following common shares:

- a) 36,693,307 shares under its At-the-Market ("ATM") program generating gross proceeds of \$68,279. The Company paid \$1,807 in commissions and other fees associated with these issuances, with net proceeds of \$66,472.
- b) 6,826,148 shares in connection with the exercise of previously awarded stock-based compensation awards.

During the three months ended August 31, 2024 the Company granted 13,054,906 time-based RSUs, and \$nil performance-based RSUs. During the three months ended August 31, 2023 the Company granted 11,559,549 time-based RSUs and 7,566,146 performance based RSUs. The 7,566,146 performance based RSUs issued contain certain performance conditions that will not be set until a future date and, therefore, the grant date has not been met for accounting purposes. The Company's total stock-based compensation expense recognized for the three months ended August 31, 2024 and August 31, 2023 are as follows:

	For the three months ended	
	August 31, 2024	August 31, 2023
RSUs	6,917	8,257
Total	<u>\$ 6,917</u>	<u>\$ 8,257</u>

Note 16. Accumulated other comprehensive income (loss)

Accumulated other comprehensive loss includes the following components:

	Foreign currency translation gain (loss)	Total
Balance May 31, 2023	\$ (46,610)	\$ (46,610)
Other comprehensive loss	3,049	3,049
Balance August 31, 2023	<u>\$ (43,561)</u>	<u>\$ (43,561)</u>
Balance May 31, 2024	\$ (43,499)	\$ (43,499)
Other comprehensive loss	3,622	3,622
Balance August 31, 2024	<u>\$ (39,877)</u>	<u>\$ (39,877)</u>

Note 17. Non-controlling interests

The following tables summarize the information relating to the following subsidiaries of the Company in which there is non-controlling interest; SH Acquisition (68%), CC Pharma Nordic ApS (75%), Aphria Diamond (51%), and ColCanna S.A.S. (90%) before intercompany eliminations.

Summary of balance sheet information of the entities in which there is a non-controlling interest as of August 31, 2024:

	SH Acquisition	CC Pharma Nordic ApS	Aphria Diamond	ColCanna S.A.S.	August 31, 2024
Current assets	\$ —	\$ 14	\$ 108,030	\$ 11	\$ 108,055
Non-current assets	32,000	—	123,694	3,355	159,049
Current liabilities	—	(17)	(133,014)	(6,993)	(140,024)
Non-current liabilities	—	—	(23,359)	(1,451)	(24,810)
Net assets	<u>\$ 32,000</u>	<u>\$ (3)</u>	<u>\$ 75,351</u>	<u>\$ (5,078)</u>	<u>\$ 102,270</u>

Summary of balance sheet information of the entities in which there is a non-controlling interest as of May 31, 2024:

	SH Acquisition	CC Pharma Nordic ApS	Aphria Diamond	ColCanna S.A.S.	May 31, 2024
Current assets	\$ —	\$ 12	\$ 95,720	\$ 3	\$ 95,735
Non-current assets	32,000	—	124,675	3,637	160,312
Current liabilities	—	(9)	(130,945)	(6,913)	(137,867)
Non-current liabilities	—	—	(24,482)	(1,452)	(25,934)
Net assets	<u>\$ 32,000</u>	<u>\$ 3</u>	<u>\$ 64,968</u>	<u>\$ (4,725)</u>	<u>\$ 92,246</u>

Summary of income statement information of the entities in which there is a non-controlling interest for the three months ended August 31, 2024:

	SH Acquisition	CC Pharma Nordic ApS	Aphria Diamond	ColCanna S.A.S.	August 31, 2024
Revenue	\$ —	\$ —	\$ 18,558	\$ —	\$ 18,558
Total expenses	—	5	9,216	630	9,851
Net (loss) income	—	(5)	9,342	(630)	8,707
Other comprehensive (loss) income	—	(1)	1,041	277	1,317
Net comprehensive (loss) income	\$ —	\$ (6)	\$ 10,383	\$ (353)	\$ 10,024
Non-controlling interest %	32%	25%	49%	10%	NA
Comprehensive (loss) income attributable to NCI	—	(2)	5,088	(35)	5,051
Net comprehensive (loss) income attributable to NCI	\$ —	\$ (2)	\$ 5,088	\$ (35)	\$ 5,051

Summary of income statement information of the entities in which there is a non-controlling interest for the three months ended August 31, 2023:

	SH Acquisition	CC Pharma Nordic ApS	Aphria Diamond	ColCanna S.A.S.	August 31, 2023
Revenue	\$ —	\$ —	\$ 39,230	\$ —	\$ 39,230
Total expenses	—	35	15,636	216	15,887
Net (loss) income	—	(35)	23,594	(216)	23,343
Other comprehensive (loss) income	—	(20)	533	(345)	168
Net comprehensive (loss) income	\$ —	\$ (55)	\$ 24,127	\$ (561)	\$ 23,511
Non-controlling interest %	32%	25%	49%	10%	NA
Comprehensive (loss) income attributable to NCI	—	(14)	11,822	(56)	11,752
Additional income attributable to NCI	—	—	4,070	—	4,070
Net comprehensive (loss) income attributable to NCI	\$ —	\$ (14)	\$ 15,892	\$ (56)	\$ 15,822

Note 18. Income taxes

The determination of the Company's overall effective tax rate requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. The effective tax rate reflects the income earned and taxed in various United States federal, state, and foreign jurisdictions. Tax law changes, increases, and decreases in temporary and permanent differences between book and tax items, valuation allowances against the deferred tax assets, stock compensation, and the Company's change in income in each jurisdiction all affect the overall effective tax rate. It is the Company's practice to recognize interest and penalties related to uncertain tax positions in income tax expense.

The Company reported income tax expense of \$886 for the three months ended August 31, 2024, and income tax expense of \$7,264 for the three months ended August 31, 2023. The income tax benefit in the current period varies from the US statutory income tax rate and prior period primarily due to the geographical mix of earnings and losses with no tax benefit resulting from valuation allowances in certain jurisdictions.

Note 19. Commitments and contingencies

Purchase and other commitments

The Company has payments on long-term debt, refer to Note 12 (Long-term debt), convertible notes, refer to Note 13 (Convertible debentures payable), material purchase commitments and construction commitments as follows:

	<u>Total</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>Thereafter</u>
Long-term debt repayment	\$ 172,215	\$ 16,072	\$ 42,563	\$ 12,604	\$ 66,762	\$ 34,214
Convertible debentures payable	172,500	—	—	172,500	—	—
Material purchase obligations	67,142	39,615	27,527	—	—	—
Construction commitments	431	431	—	—	—	—
Total	\$ 412,288	\$ 56,118	\$ 70,090	\$ 185,104	\$ 66,762	\$ 34,214

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.

There have been no material changes from the legal proceedings since our Annual Report on Form 10-K for the fiscal year ended May 31, 2024, except with respect to the legal proceeding disclosed below that was dismissed with prejudice on September 30, 2024:

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 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 successfully moved to dismiss the second amended complaint on February 2, 2022. In dismissing the second amended complaint, the court granted the Plaintiff leave to amend one final time. On September 27, 2023, the Plaintiff filed its Third Amended Complaint.

On September 30, 2024, the U.S. District Court entered an Opinion & Order granting the Defendants’ motion to dismiss the Third Amended Complaint in the Kasilingam litigation with prejudice.

In the Matter of an Arbitration Between: K. Dickson v. Tilray, Inc.

In 2021, Ms. Dickson, the former President of Manitoba Harvest, a wholly-owned subsidiary of Tilray, commenced an arbitration in Minneapolis, Minnesota against Tilray, alleging that Tilray materially breached her Employment Agreement with Tilray and asserted certain Washington statutory wage claims.

On March 17, 2023, the arbitrator awarded Dickson \$3,734 in damages, plus amounts for pre-judgment, and double damages under a Washington state wage payment statute (the “Arbitration Award”). Tilray’s counterclaim was denied by the Arbitrator. On May 23, 2023, the arbitrator issued a supplemental award which provided that Dickson was entitled to recover attorney fees and costs from Tilray in connection with the arbitration. On February 27, 2024, the U.S. District Court for the Western District of Washington dismissed as moot Tilray’s petition to vacate, modify or correct the Arbitration Award, granting Dickson’s responding motion to dismiss on the basis that the U.S. District Court for the Western District of Washington lacked personal jurisdiction over Dickson. On March 15, 2024, Tilray filed its notice of appeal of the decision of the U.S. District Court for the Western District of Washington to the U.S. Court of Appeals for the Ninth Circuit. On August 8, 2024, the District Court in Minnesota confirmed the Arbitration Award. A judgment on the Award was entered by the Court on August 12, 2024, and, following a motion to correct the judgment, became final on September 27, 2024. Tilray filed a notice of appeal to the U.S. Court of Appeals for the Eighth Circuit, which appeal is still pending. The parties are finalizing a settlement of this matter, pursuant to which Tilray intends to pay the amount of the Arbitration Award in satisfaction of the related judgment.

Summary of litigation accruals

As described in Note 11 (Accounts payable and accrued liabilities), the total litigation expense accrual included in accrued liabilities as of August 31, 2024 was equal to \$24,413. This accrual is intended to cover various ongoing litigation matters that are currently probable and estimable. For the period ended May 31, 2024, the total litigation expense accrual included in accrued liabilities was \$24,378.

Note 20. Net revenue

The Company reports net revenue in four reporting segments: beverage alcohol, cannabis, distribution, and wellness.

Net revenue is comprised of:

	For the three months ended	
	August 31, 2024	August 31, 2023
Beverage alcohol revenue	\$ 59,163	\$ 25,339
Beverage alcohol excise taxes	(3,191)	(1,177)
Net beverage alcohol revenue	55,972	24,162
Cannabis revenue	81,194	96,884
Cannabis excise taxes	(19,945)	(26,551)
Net cannabis revenue	61,249	70,333
Distribution revenue	68,071	69,157
Wellness revenue	14,752	13,297
Total	\$ 200,044	\$ 176,949

Note 21. Cost of goods sold

Cost of goods sold is comprised of:

	For the three months ended	
	August 31, 2024	August 31, 2023
Beverage alcohol costs	\$ 33,050	\$ 11,266
Cannabis costs	37,054	50,517
Distribution costs	60,138	61,468
Wellness costs	10,096	9,502
Total	\$ 140,338	\$ 132,753

Note 22. General and administrative expenses

General and administrative expenses are comprised of:

	For the three months ended	
	August 31, 2024	August 31, 2023
Salaries and wages	\$ 21,567	\$ 16,775
Office and general	9,260	8,168
Stock-based compensation	6,917	8,257
Insurance	2,455	3,849
Professional fees	1,178	1,499
(Gain) loss on sale of capital assets	(26)	3
Travel and accommodation	1,493	1,107
Rent	1,269	858
Total	\$ 44,113	\$ 40,516

Note 23. Restructuring charges

In connection with the execution of our acquisition strategy and strategic transactions, the Company has incurred restructuring and exit costs associated with the integration efforts of these non-recurring transactions. The Company recognized \$4,247 of restructuring charges for the three months ended August 31, 2024 compared to \$915 for the prior year period. All restructuring plans are approved at the executive level and their associated expenses are recognized in the period in which the plan has been committed to. All amounts incurred as of August 31, 2024, have been paid.

Within the Cannabis segment, our restructuring costs predominantly related to the HEXO acquisition, which are expected to be completed within 24 months from the original acquisition date in June 2023. In the three months ended August 31, 2024, we recognized \$2,582 of employee termination benefits and costs related to the conversion from cannabis to produce at HEXO's Quebec cultivation facility (which is currently held for sale), the optimization of our Redecan facilities, and \$255 of restructuring charges related to the remaining costs of exiting the Truss facility following its sale to a third party in the previous fiscal year ended May 31, 2024. Additionally, the Company recognized \$82 of cost associated winding down the Fort Collins warehouse currently held for sale.

Within the Distribution segment, the Company recognized \$121 of restructuring charges for its Argentinean pharmacy business.

Within the beverage alcohol segment, the Company recognized \$123 of employee termination benefits through the integration of the Craft acquisition.

Lastly, for the three months ended August 31, 2024, the Company recognized \$1,084 of cost associated with the investment held in Superhero (SH) as a result of MedMen's ongoing restructuring and/or liquidation undertakings.

Note 24. Non-operating income (expense), net

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

	For the three months ended	
	August 31, 2024	August 31, 2023
Change in fair value of convertible debenture payable	\$ —	\$ (2,147)
Change in fair value of warrant liability	696	(8,198)
Foreign exchange gain (loss)	11,881	6,267
Loss on long-term investments	(39)	(109)
Other non-operating (losses) gains, net	108	(215)
Total	<u>\$ 12,646</u>	<u>\$ (4,402)</u>

Note 25. Fair value measurements

Financial instruments

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

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

On August 31, 2024 and May 31, 2024 the Company had long-term debt of \$3,350 and \$3,568, respectively, and the principal portion of convertible debentures payable of \$172,500 and \$172,830, respectively, subject to fixed interest rates. The Company's long-term debt is valued based on discounting the future cash outflows associated with the long-term debt. The discount rate is based on the incremental premium above market rates for the U.S. Department of the Treasury securities of similar duration. In each period thereafter, the incremental premium is held constant while the U.S. Department of the Treasury security is based on the then current market value to derive the discount rate.

The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of August 31, 2024 and May 31, 2024 and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value:

	Level 1	Level 2	Level 3	August 31, 2024
Financial assets				
Cash and cash equivalents	\$ 205,186	\$ —	\$ —	\$ 205,186
Marketable securities	74,869	—	—	74,869
Convertible notes receivable	—	—	32,000	32,000
Equity investments measured at fair value	891	1,462	5,500	7,853
Financial liabilities				
Warrant liability	—	—	(2,557)	(2,557)
Contingent consideration	—	—	(15,000)	(15,000)
APHA 24 Convertible debenture	—	—	—	—
Total recurring fair value measurements	<u>\$ 280,946</u>	<u>\$ 1,462</u>	<u>\$ 19,943</u>	<u>\$ 302,351</u>
	Level 1	Level 2	Level 3	May 31, 2024
Financial assets				
Cash and cash equivalents	\$ 228,340	\$ —	\$ —	\$ 228,340
Marketable Securities	32,182	—	—	32,182
Convertible notes receivable	—	—	32,000	32,000
Equity investments measured at fair value	919	1,440	5,500	7,859
Financial liabilities				
Warrant liability	—	—	(3,253)	(3,253)
Contingent consideration	—	—	(15,000)	(15,000)
APHA 24 Convertible debenture	—	—	(330)	(330)
Total recurring fair value measurements	<u>\$ 261,441</u>	<u>\$ 1,440</u>	<u>\$ 18,917</u>	<u>\$ 281,798</u>

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, among others, 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 was determined using the Black-Scholes option pricing model and was 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.

A portion of the consideration to be paid in connection the Company's acquisition of Montauk Brewing is contingent upon the achievement of certain financial measures as of December 2025, and if achieved, such contingent consideration is payable in cash. The contingent consideration amount was estimated by applying a probability of achievement of 100% on the \$15,000 sales earn-out component and 0% on the remaining criterion, which is not expected to be achieved. The unobservable inputs into the future expected cash outflows result in a fair value measurement classified as Level 3.

During the three months ended August 31, 2024, a decrease in fair value of \$nil was recognized compared to a decrease of fair value of \$11,107 in the period ended August 31, 2023 for the contingent consideration from the SweetWater acquisition as a result of not achieving the incentive targets.

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
Balance, May 31, 2024	\$ 32,000	\$ 5,500	\$ (3,253)	\$ (15,000)	\$ (330)
Additions/(Repayments)	—	—	—	—	330
Redemption	—	—	—	—	—
Unrealized gain (loss) on fair value	—	—	696	—	—
Impairments	—	—	—	—	—
Balance, August 31, 2024	\$ 32,000	\$ 5,500	\$ (2,557)	\$ (15,000)	\$ —

The unrealized gain (loss) on fair value for the convertible debenture, the warrant liability, contingent consideration, and debt securities classified under available-for-sale method is recognized in the consolidated statements of loss and comprehensive loss using the following inputs:

Financial asset / financial liability	Valuation technique	Significant unobservable input	Inputs
Warrant liability	Black-Scholes	Volatility, expected life (in years)	50% 1.0
Contingent consideration	Discounted cash flows	Discount rate, Probability of achievement	11% 100% and 0%

Items measured at fair value on a non-recurring basis

The Company's prepaids 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.

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 period. The Company considers its cash and cash equivalents and marketable securities as capital.

Note 26. 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 reportable segments: (1) beverage alcohol operations, which encompasses the production, marketing and sale of beverage and beverage alcohol products, (2) cannabis operations, which encompasses the cultivation, production, distribution, sale, co-manufacturing and advisory services of both medical and adult-use cannabis, (3) distribution operations, which encompasses the purchase and resale/distribution of pharmaceuticals products to wholesale and pharmacy customers, and (4) wellness products, which encompasses hemp foods and hemp-based cannabidiol ("CBD") consumer 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:

	For the three months ended	
	August 31, 2024	August 31, 2023
Beverage alcohol		
Net beverage alcohol revenue	\$ 55,972	\$ 24,162
Beverage alcohol costs	33,050	11,266
Beverage alcohol gross profit	<u>22,922</u>	<u>12,896</u>
Cannabis		
Net cannabis revenue	61,249	70,333
Cannabis costs	37,054	50,517
Cannabis gross profit	<u>24,195</u>	<u>19,816</u>
Distribution		
Distribution revenue	68,071	69,157
Distribution costs	60,138	61,468
Distribution gross profit	<u>7,933</u>	<u>7,689</u>
Wellness		
Wellness revenue	14,752	13,297
Wellness costs	10,096	9,502
Wellness gross profit	<u>\$ 4,656</u>	<u>\$ 3,795</u>

Channels of Cannabis revenue were as follows:

	For the three months ended	
	August 31, 2024	August 31, 2023
Revenue from Canadian medical cannabis	\$ 6,261	\$ 6,142
Revenue from Canadian adult-use cannabis	57,235	71,195
Revenue from wholesale cannabis	5,507	5,295
Revenue from international cannabis	12,191	14,252
Less excise taxes	(19,945)	(26,551)
Total	<u>\$ 61,249</u>	<u>\$ 70,333</u>

Included in revenue from Canadian adult-use cannabis is \$nil advisory services revenue for the three months ended August 31, 2024 from the previous HEXO commercial transaction agreements in place prior to its acquisition, compared to \$1,500 in the prior period.

Geographic net revenue:

	For the three months ended	
	August 31, 2024	August 31, 2023
USA	\$ 63,880	\$ 31,489
Canada	55,905	62,032
EMEA	77,672	79,704
Rest of World	2,587	3,724
Total	<u>\$ 200,044</u>	<u>\$ 176,949</u>

Geographic capital assets:

	August 31, 2024	May 31, 2024
USA	\$ 140,900	\$ 141,314
Canada	312,432	313,359
EMEA	98,433	99,921
Rest of World	3,371	3,653
Total	<u>\$ 555,136</u>	<u>\$ 558,247</u>

Major customers are defined as customers that are materially significant to the Company's annual revenues. For the three months ended August 31, 2024 and 2023, there were no major customers representing a material contribution to our quarterly revenues.

Note 27. Subsequent Events

Effective September 1, 2024, the Company acquired four craft beer brands and breweries from Molson Coors Beverage Company ("Molson") including Atwater Brewery, Hop Valley Brewing Company, Terrapin Beer Co., and Revolver Brewing for a total purchase consideration of \$23,079. This purchase price amount is subject to certain customary post-closing working capital adjustments.

As part of the Company's ATM Program, from September 1, 2024 to September 10, 2024, the Company issued an additional 10,132,247 shares generating gross proceeds of \$17,059. The Company paid \$341 in commissions and other fees associated with these issuances generating net proceeds of \$16,718.

On September 12, 2024, the Company repurchased \$7,500 of its TLRY 27 Notes for cancellation by issuing 4,484,240 shares and paying \$102 of cash to settle accrued interest. After cancellation, the outstanding principal balance of the TLRY 27 Notes was \$165,000.

On September 17, 2024, the Company entered into an assignment and assumption agreement with Double Diamond Holdings Ltd. ("DDH"), pursuant to which, among other things, Tilray acquired from DDH a promissory note in the amount of \$23,792 (the "Note") payable by Aphria Diamond Inc. ("Aphria Diamond"). DDH is a joint venturer with Aphria Inc., Tilray's direct and wholly-owned subsidiary, in Aphria Diamond. As consideration for the Note, Tilray issued 13,217,588 shares of its common stock, par value \$0.0001 per share (the "Consideration Shares"), to DDH.