

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, 2024	May 31, 2023
Assets		
Current assets		
Cash and cash equivalents	\$ 228,340	\$ 206,632
Marketable securities	32,182	241,897
Accounts receivable, net	101,695	86,227
Inventory	252,087	200,551
Prepays and other current assets	31,332	37,722
Assets held for sale	32,074	—
Total current assets	677,710	773,029
Capital assets	558,247	429,667
Operating lease, right-of-use assets	16,101	5,941
Intangible assets	915,469	973,785
Goodwill	2,008,884	2,008,843
Interest in equity investees	—	4,576
Long-term investments	7,859	7,795
Convertible notes receivable	32,000	103,401
Other assets	5,395	222
Total assets	\$ 4,221,665	\$ 4,307,259
Liabilities		
Current liabilities		
Bank indebtedness	\$ 18,033	\$ 23,381
Accounts payable and accrued liabilities	241,957	190,682
Contingent consideration	15,000	16,218
Warrant liability	3,253	1,817
Current portion of lease liabilities	5,091	2,423
Current portion of long-term debt	15,506	24,080
Current portion of convertible debentures payable	330	174,378
Total current liabilities	299,170	432,979
Long - term liabilities		
Contingent consideration	—	10,889
Lease liabilities	60,422	7,936
Long-term debt	158,352	136,889
Convertible debentures payable	129,583	221,044
Deferred tax liabilities, net	130,870	167,364
Other liabilities	90	215
Total liabilities	778,487	977,316
Commitments and contingencies (refer to Note 28)		
Stockholders' equity		
Common stock (\$0.0001 par value; 1,198,000,000 common shares authorized; 831,925,373 and 656,655,455 common shares issued and outstanding, respectively)	83	66
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	6,146,810	5,777,743
Accumulated other comprehensive loss	(43,499)	(46,610)
Accumulated Deficit	(2,660,488)	(2,415,507)
Total Tilray Brands, Inc. stockholders' equity	3,442,906	3,315,692
Non-controlling interests	272	14,251
Total stockholders' equity	3,443,178	3,329,943
Total liabilities and stockholders' equity	\$ 4,221,665	\$ 4,307,259

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,		
	2024	2023	2022
Net revenue	\$ 788,942	\$ 627,124	\$ 628,372
Cost of goods sold	565,591	480,164	511,555
Gross profit	223,351	146,960	116,817
Operating expenses:			
General and administrative	167,358	165,159	162,801
Selling	37,233	34,840	34,926
Amortization	84,752	93,489	115,191
Marketing and promotion	41,933	30,937	30,934
Research and development	635	682	1,518
Change in fair value of contingent consideration	(15,790)	855	(44,650)
Impairments	—	934,000	378,241
Other than temporary change in fair value of convertible notes receivable	42,681	246,330	—
Litigation costs, net of recoveries	8,251	(505)	16,518
Restructuring costs	15,581	9,245	795
Transaction costs (income), net	15,462	1,613	30,944
Total operating expenses	398,096	1,516,645	727,218
Operating loss	(174,745)	(1,369,685)	(610,401)
Interest expense, net	(36,433)	(13,587)	(27,944)
Non-operating income (expense), net	(37,842)	(66,909)	197,671
Loss before income taxes	(249,020)	(1,450,181)	(440,674)
Income tax (recovery) expense	(26,616)	(7,181)	(6,542)
Net loss	\$ (222,404)	\$ (1,443,000)	\$ (434,132)
Total net income (loss) attributable to:			
Stockholders of Tilray Brands, Inc.	(244,981)	(1,452,656)	(476,801)
Non-controlling interests	22,577	9,656	42,669
Other comprehensive gain (loss), net of tax			
Foreign currency translation gain (loss)	3,121	(83,533)	(125,306)
Unrealized gain (loss) on convertible notes receivable	—	75,177	(71,428)
Total other comprehensive gain (loss), net of tax	3,121	(8,356)	(196,734)
Comprehensive loss	\$ (219,283)	\$ (1,451,356)	\$ (630,866)
Total comprehensive income (loss) attributable to:			
Stockholders of Tilray Brands, Inc.	(241,870)	(1,478,502)	(650,233)
Non-controlling interests	22,587	27,146	19,367
Weighted average number of common shares - basic	742,649,477	617,982,589	481,219,130
Weighted average number of common shares - diluted	742,649,477	617,982,589	481,219,130
Net loss per share - basic	\$ (0.33)	\$ (2.35)	\$ (0.99)
Net loss per share - diluted	\$ (0.33)	\$ (2.35)	\$ (0.99)

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 loss	Accumulated Deficit	Non- controlling interests	Total
Balance at May 31, 2021	<u>446,440,641</u>	<u>\$ 46</u>	<u>\$ 4,792,406</u>	<u>\$ 152,668</u>	<u>\$ (486,050)</u>	<u>\$ 6,243</u>	<u>\$ 4,465,313</u>
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 year ended May 31, 2022	<u>532,674,887</u>	<u>\$ 53</u>	<u>\$ 5,382,367</u>	<u>\$ (20,764)</u>	<u>\$ (962,851)</u>	<u>\$ 42,561</u>	<u>\$ 4,441,366</u>
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 year ended May 31, 2023	<u>656,655,455</u>	<u>\$ 66</u>	<u>\$ 5,777,743</u>	<u>\$ (46,610)</u>	<u>\$ (2,415,507)</u>	<u>\$ 14,251</u>	<u>\$ 3,329,943</u>
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	24,780,994	2	47,702	—	—	(26,217)	21,487
Share issuance - HTI convertible note	18,181,157	2	52,311	—	—	—	52,313
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
Share issuance - Settlement of litigation claims from MediPharm Labs Inc	1,573,152	—	3,477	—	—	—	3,477
Share issuance - Repurchase of TLR Y 23 convertible note	7,000,000	1	20,457	—	—	—	20,458
Share issuance - Settlement of equity component of TLR Y 23 convertible note	—	—	(1,672)	—	—	—	(1,672)
Share issuance - Repurchase of APHA 24 convertible note	73,484,147	8	140,653	—	—	—	140,661
Share issuance - At-the-Market ("ATM") program	5,327,843	—	8,619	—	—	—	8,619
Share issuance - options exercised	4,291	—	—	—	—	—	—
Share issuance - RSUs exercised	4,346,946	—	—	—	—	—	—
Stock-based compensation	—	—	31,769	—	—	—	31,769
Dividends declared to non-controlling interests	—	—	—	—	—	(10,349)	(10,349)
Comprehensive income (loss) for the period	—	—	—	3,111	(244,981)	22,587	(219,283)
Balance at year ended May 31, 2024	<u>831,925,373</u>	<u>\$ 83</u>	<u>\$ 6,146,810</u>	<u>\$ (43,499)</u>	<u>\$ (2,660,488)</u>	<u>\$ 272</u>	<u>\$ 3,443,178</u>

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,		
	2024	2023	2022
Cash provided by (used in) operating activities:			
Net loss	\$ (222,404)	\$ (1,443,000)	\$ (434,132)
Adjustments for:			
Deferred income tax recovery	(38,872)	(31,953)	(27,538)
Unrealized foreign exchange (gain) loss	3,756	17,768	18,001
Amortization	126,913	130,149	154,592
Gain on sale of capital assets	(4,198)	(48)	(682)
Accretion of convertible debt discount	14,459	3,848	5,042
Inventory valuation write down	—	55,000	67,000
Impairments	—	934,001	378,240
Other than temporary change in fair value of convertible notes receivable	42,681	246,330	—
Other non-cash items	13,626	11,406	(9,647)
Stock-based compensation	31,769	39,595	35,994
Loss on long-term investments & equity investments	4,855	2,190	4,914
(Gain) loss on derivative instruments	21,172	27,365	(232,625)
Change in fair value of contingent consideration	(15,790)	855	(44,650)
Change in non-cash working capital:			
Accounts receivable	(6,575)	4,168	(5,842)
Prepays and other current assets	13,069	3,122	4,472
Inventory	(15,578)	(12,934)	(45,749)
Accounts payable and accrued liabilities	212	20,044	(44,652)
Net cash provided by (used in) operating activities	<u>(30,905)</u>	<u>7,906</u>	<u>(177,262)</u>
Cash provided by (used in) investing activities:			
Investment in capital and intangible assets	(29,249)	(20,800)	(34,064)
Proceeds from disposal of capital and intangible assets	8,509	4,304	12,205
Disposal (purchase) of marketable securities, net	209,715	(241,897)	—
Business acquisitions, net of cash acquired	(60,626)	(26,718)	326
Net cash provided by (used in) investing activities	<u>128,349</u>	<u>(285,111)</u>	<u>(21,533)</u>
Cash provided by (used in) financing activities:			
Share capital issued, net of cash issuance costs	8,619	129,593	262,509
Proceeds from warrants and options exercised	—	—	5,403
Shares effectively repurchased for employee withholding tax	—	(1,189)	(8,686)
Proceeds from long-term debt	32,621	1,288	—
Repayment of long-term debt	(22,402)	(21,336)	(40,254)
Proceeds from convertible debt	21,553	145,052	—
Repayment of convertible debt	(107,330)	(187,394)	(88,026)
Repayment of lease liabilities	(2,900)	(1,114)	(4,672)
Net increase (decrease) in bank indebtedness	(5,348)	5,258	9,406
Dividend paid to NCI	—	—	(7,484)
Net cash provided by (used in) financing activities	<u>(75,187)</u>	<u>70,158</u>	<u>128,196</u>
Effect of foreign exchange on cash and cash equivalents	<u>(549)</u>	<u>(2,230)</u>	<u>(1,958)</u>
Net decrease in cash and cash equivalents	21,708	(209,277)	(72,557)
Cash and cash equivalents, beginning of period	206,632	415,909	488,466
Cash and cash equivalents, end of period	<u>\$ 228,340</u>	<u>\$ 206,632</u>	<u>\$ 415,909</u>

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 products company headquartered in Leamington, Ontario, Canada, and New York 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 alcoholic beverages, comprehensive cannabis offerings, and hemp-based foods.

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”).

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 British Pound Sterling.

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

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 consolidated financial statements from the date that control commences until the date that control ceases. All intercompany balances and transactions have been eliminated on consolidation.

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, Colombian peso, Argentine peso, and corporate bonds, commercial paper, treasury bills and money market funds.

Marketable Securities

We classify 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), net”.

Restricted cash

We classify cash that is legally or contractually restricted as to withdrawal or usage as restricted cash. As of May 31, 2024, and May 31, 2023, the Company reported \$nil restricted cash. During the year ended May 31, 2024, the Company acquired \$1,656 of restricted cash related to letters of credit and collateral from the acquisition of HEXO Corp. as described in Note 9 (Business acquisitions). During the year ended May 31, 2024, all of the restricted cash was released and transferred to cash and cash equivalents.

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

Assets held for sale

We classify capital assets that are available for immediate sale in their present condition, which the Company has approved the action or plan to sell, and the sale is probable within one year, as assets held for sale. As of May 31, 2024, the Company reported \$32,074 assets held for sale related to Broken Coast's former Duncan facility, the Quebec cultivation facility and the Fort Collins facility, see Note 6 (Capital assets). Assets held for sale are to be measured at the lower of carrying amount and the fair value less costs to sell, and are no longer depreciated. Disposition of assets held for sale are recorded in the statement of net loss and comprehensive loss, within the line, "Non-operating income (expense)".

When there are changes in circumstances that were previously considered unlikely to occur, and it is decided not to proceed with a sale, an asset that was previously classified as assets held for sale is reclassified as held and used. The asset is then remeasured at the lower of its carrying amount before being classified as held for sale less the amortization that would have occurred and the fair value on the date the decision not to proceed with a sale was made. Changes in the carrying amount are recorded in the statement of net loss and comprehensive loss.

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 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).

Long-term investments

Investments in equity securities of entities over which the Company does not have a controlling financial interest or significant influence are classified as an equity investment and 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 an individual equity investment is less than its carrying value. Changes in value are recorded in the statement of net loss and comprehensive loss, within the line, "Non-operating income (expense), net".

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 consolidated statements of loss and comprehensive loss. Equity method investments are recorded at cost, adjusted for the Company's share of undistributed earnings or losses, and impairment, if any, within "Interest in equity investees" on the balance sheets. The Company assesses investments in equity method investments when events or circumstances indicate that the carrying amount of the investment may be impaired. If it is determined that the current fair value of an equity method investment is less than the carrying value of the investment, the Company will assess if the shortfall is other than temporary ("OTTI"). Evidence of a loss in value might include, but would not necessarily be limited to, the absence of an ability to recover the carrying amount of the investment or inability of the equity investee to sustain an earnings capacity that would justify the carrying amount of the investment. Once a determination is made that an OTTI exists, the investment is written down to its fair value in accordance with ASC 820 Fair Value Measurement at the reporting date, which establishes a new cost basis.

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 in "Other non-operating (losses) gains, net". 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 comparable, 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 or services, through performance obligation, is transferred or provided to the customer in an amount that reflects the consideration we expect to be entitled to in exchange for the performance obligations.

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 loss and comprehensive loss and recognized as a current liability within accounts payable and accrued 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 or services, the Company considers the effects of variable consideration and the existence of significant financing components, if any.

We may enter into certain contracts for the sale of goods or services, which provide customers with rights of return, volume discounts, bonuses for volume/quality achievement, and/or sales allowances. In addition, the Company may provide in certain circumstances, a retrospective price reduction to a customer based primarily on inventory movement. The inclusion of these items may give rise to variable consideration. The Company uses the expected value method to estimate the variable consideration because this method provides the most accurate estimation of 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, recorded in accounts receivable, net, 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.

On July 12, 2022, the Company and HEXO Corp. ("HEXO") entered into various commercial transaction agreements, as described in Note 30 (Segment reporting), which included an advisory services arrangement. The fees associated with the advisory services arrangement were recognized as revenue when such services were provided to HEXO. Any payments that were received for such services in advance of performance were recognized as a contract liability. On June 22, 2023, the Company completed the acquisition of HEXO, as described in Note 9 (Business acquisitions), simultaneously terminating the advisory services arrangement and other commercial transactions.

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.

Transaction (income) costs, net

The Company expenses costs net of any gains directly attributable to business acquisitions and classifies these items as transaction (income) costs, net. These items include among other things, legal fees to complete the acquisition, financial advisor and due diligence costs, and transaction related compensation. These items are recognized as incurred.

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 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 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 year ended May 31, 2024 and May 31, 2023, the dilutive potential common share equivalents outstanding consisted of the following: 20,167,017 and 15,595,390 common shares from RSUs, 4,425,383 and 4,566,801 common shares from share options, 6,210,000 and 6,210,000 common shares for warrants and 65,001,591 and 81,874,568 common shares for convertible debentures, respectively.

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 judgments 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:

Convertible notes receivable – The determination of fair value of the Company's convertible notes receivable at other than initial cost is subject to certain limitations. Financial information for certain 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 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 in relation to the convertible notes receivable.

The fair value of 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 convertible notes receivable will be based upon management's judgment and any value estimated may not be realized or realizable.

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.

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.

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 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 the year ended May 31, 2025. 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 the year ended June 01, 2024. The Company is currently evaluating the effect of adopting this ASU.

In 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. ASU 2024-01 is effective for the Company beginning the year ended June 01, 2024. The Company is currently evaluating the effect of adopting this ASU.

New accounting pronouncements recently 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. The Company adopted the ASU 2021-08 beginning June 1, 2023, however, it did not have any impact on our consolidated financial statements.

4. Inventory

Inventory is comprised of:

	May 31, 2024	May 31, 2023
Beverage alcohol inventory	\$ 52,831	\$ 27,837
Plants	13,828	10,884
Dried cannabis	108,721	89,801
Cannabis trim	—	322
Cannabis derivatives	4,504	9,229
Cannabis vapes	4,132	1,173
Packaging and other inventory items	22,115	19,997
Distribution inventory	35,645	30,144
Wellness inventory	10,311	11,164
Total	<u>\$ 252,087</u>	<u>\$ 200,551</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, 2024, the Company did not have any charges for inventory and inventory-related write downs outside of the normal course of business compared to the previous year Cannabis inventory write down of \$55,000. Included in cost of goods sold for the year ended May 31, 2024 are \$4,602 and \$7,628 fair value step up adjustment under purchase accounting (PPA) for beverage alcohol and cannabis inventory sold in the year respectively, and \$4,482 for beverage alcohol inventory for the year ended May 31, 2023.

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.

The Company previously had a joint venture arrangement with a 50% ownership and voting interest in Cannfections through the Company's subsidiary, High Park Farms, LTD. ("High Park Farms"). During the year ended May 31, 2023, the Company terminated the Supply Agreement with Cannfections and did not continue transacting with them. During the year ended May 31, 2024, the Company wrote off its investment in Cannfections and no longer is a party of the joint venture, see Note 28 (Commitments and contingencies). During the year ended May 31, 2024, 2023 and 2022, co-manufacturing fees on edible cannabis products were \$nil, \$1,377, and \$2,560 respectively and were recorded within cannabis costs of goods sold in the statements of loss and comprehensive loss. While historically Cannfections was considered a related party, as of May 31, 2024, Cannfections is no longer defined as a related party. On April 5, 2024, High Park Farms voluntarily commenced bankruptcy proceedings to ensure the orderly liquidation of its assets and liabilities.

6. Capital assets

Capital asset consisted of the following:

	May 31, 2024	May 31, 2023
Land	\$ 45,577	\$ 30,635
Production facility	369,630	344,627
Equipment	258,532	185,422
Leasehold improvement	19,377	7,753
Finance lease, right-of-use assets	43,993	—
Construction in progress	10,713	8,048
	<u>\$ 747,822</u>	<u>\$ 576,485</u>
Less: accumulated amortization	(189,575)	(146,818)
Total	<u>\$ 558,247</u>	<u>\$ 429,667</u>

The Company performs ongoing assessments whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. During the year ended May 31, 2024, there were no indicators that an asset group was not recoverable and as a result there were \$nil impairments during the year ended May 31, 2024. During the year ended May 31, 2023, the Company recorded non-cash impairments of \$81,500 on its production facility in Canada and \$22,500 on its equipment.

Assets held for sale consisted of the following:

	May 31, 2024	May 31, 2023
Land	\$ 954	\$ —
Production facility	24,682	—
Equipment	6,438	—
	<u>\$ 32,074</u>	<u>\$ —</u>

On June 22, 2023, the Company acquired HEXO and recognized the Kirkland lake property as held for sale on the acquisition date, see Note 9 (Business combinations). The property was sold during the fiscal year ended May 31, 2024.

During the year ended May 31, 2024, the Company classified the following assets from its Cannabis reporting segment, which includes its Quebec cultivation facility, the Fort Collins warehouse facility, and Broken Coast's former Duncan cultivation facility as held for sale. Through the 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 they were classified as held for sale.

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, 2024	May 31, 2023
Assets			
Finance lease, right-of-use assets	Capital assets	\$ 43,993	\$ —
Operating lease, right-of-use assets	Operating lease, right-of-use assets	16,101	5,941
Total right-of-use asset		<u>\$ 60,094</u>	<u>\$ 5,941</u>
Liabilities			
Current:			
Current portion of finance lease liabilities	Current portion of lease liabilities	\$ 1,092	\$ —
Current portion of operating lease liabilities	Current portion of lease liabilities	3,999	2,423
Non-current:			
Finance lease liabilities	Lease liabilities	43,948	—
Operating lease liabilities	Lease liabilities	16,474	7,936
Total lease liabilities		<u>\$ 65,513</u>	<u>\$ 10,359</u>

For the year ended May 31, 2024 the Company had \$4,582 of operating lease expenses which included an offset of \$738 for sublease income compared to \$3,140 and \$662 respectively for the year ended May 31, 2023.

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

	Operating leases	Finance leases
2025	\$ 5,821	\$ 4,036
2026	5,540	4,036
2027	4,893	4,036
2028	3,997	4,036
Thereafter	6,101	79,993
Total minimum lease payments	\$ 26,352	\$ 96,137
Imputed interest	(5,879)	(51,097)
Obligations recognized	<u>\$ 20,473</u>	<u>\$ 45,040</u>

8. Intangible assets

Intangible assets are comprised of the following items

	May 31, 2024	May 31, 2023
Customer relationships & distribution channel	\$ 603,939	\$ 614,062
Licenses, permits & applications	368,057	366,793
Non-compete agreements	12,403	12,394
Intellectual property, trademarks, knowhow & brands	608,672	583,468
	<u>1,593,071</u>	<u>\$ 1,576,717</u>
Less: accumulated amortization	(261,758)	(187,088)
Less: impairments	(415,844)	(415,844)
Total	<u>\$ 915,469</u>	<u>\$ 973,785</u>

The Company performed the annual impairment test during the fourth quarter ended May 31, 2024, and determined there were no impairments to indefinite-lived intangible assets during the year ended May 31, 2024. A reasonably possible change in any of the inputs within the determination of fair value would not result in a material change to this determination of no impairment expense recognized during the year ended May 31, 2024.

In the year ended May 31, 2023, 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 as a result of the decline in market share in its Canadian cannabis business with certain product lines and customers. 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.

During the year ended May 31, 2022, there were impairments of \$110,033 on licenses, permits and applications and \$85,471 on intellectual property, trademarks, knowhow & brands.

As of May 31, 2024, included in licenses, permits & applications is \$182,851 of indefinite-lived intangible assets. As of May 31, 2023, there was \$181,093 of indefinite-lived intangible assets included in Licenses, permits & applications.

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

	Amortization
2025	\$ 75,988
2026	75,988
2027	75,988
2028	75,988
2029	75,988
Thereafter	352,678
Total	\$ 732,618

9. Business Acquisitions

Acquisition of Montauk Brewing Company, Inc.

On November 7, 2022, Tilray acquired Montauk Brewing Company, Inc. (“Montauk”), a leading craft brewer based in Montauk, New York, which expanded our distribution network with a strong brand in the tri-state region of the U.S. In consideration for the acquisition of Montauk, and after giving effect to post-closing adjustments, the Company paid an aggregate purchase price equal to \$35,123, which was comprised of \$ 28,701 in cash and the remainder through the issuance of 1,708,521 shares of Tilray's common stock (having a value of \$6,422 at closing). 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 29 (Financial risk management and financial instruments).

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

	Amount
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	55,549
Current liabilities	
Accounts payable and accrued liabilities	1,580
Long-term liabilities	
Deferred tax liability	4,851
Other liabilities	3,750
Total liabilities	10,181
Total net assets acquired	\$ 45,368

In the event that the Montauk acquisition had occurred on June 1, 2022, the Company would have had additional net revenue of approximately \$nil and \$12,100 for the year ended May 31, 2024 and 2023 respectively, and its consolidated net loss and comprehensive net loss would have increased by approximately \$nil and \$1,100 for the year ended May 31, 2024 and 2023, respectively, 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.

Acquisition of HEXO Corp.

On June 22, 2023, Tilray acquired HEXO, a cannabis company in Canada (the “HEXO Acquisition”) for the purpose of expanding the Company’s revenue base, production capabilities around certain form factors and growth opportunities with the Redecan brand. In consideration for the HEXO Acquisition, the Company paid a total purchase price equivalent of \$93,882, which consisted of stock consideration of \$63,927, settlement of convertible notes receivable of \$28,720, the fair value of HEXO stock-based compensation of \$1,188 and the assumption of warrants with exercise prices that are out-of-the-money. In connection with the HEXO Acquisition, each outstanding HEXO common share was exchanged for 0.4352 of a share of Tilray common stock and each outstanding HEXO preferred share was exchanged for 0.7805 of a share of Tilray common stock. In the aggregate, the Company issued 39,705,962 shares of Tilray common stock, at a share price of \$1.61 per share, in connection with the HEXO Acquisition. The Company intends to sell HEXO’s Kirkland lake property and the Quebec cultivation facility, and has recorded the value of the associated capital assets as assets held for sale, see Note 6 (Capital assets).

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

	Amount
Consideration	
Shares	\$ 63,927
Settlement of convertible notes receivable	28,720
Warrants assumed	47
Estimated fair value of HEXO stock-based compensation	1,188
Net assets acquired	
Current assets	
Cash and cash equivalents	14,634
Restricted cash	1,656
Accounts receivable	7,855
Asset held for sale	755
Prepays and other current assets	2,709
Inventory	24,122
Long-term assets	
Prepaid expenses	8,384
Capital assets	70,634
Intellectual property, trademarks & brands (15 years)	4,505
Interest in equity investee	3,145
Total assets	<u>138,399</u>
Current liabilities	
Accounts payable and accrued liabilities	44,517
Total liabilities	<u>44,517</u>
Total net assets acquired	<u>\$ 93,882</u>

Included in accounts payable and accrued liabilities was \$12,253 of litigation settlement accruals as of June 22, 2023.

In the event the HEXO Acquisition had occurred on June 1, 2022, the Company would have had, on an unaudited proforma basis, additional net revenue of approximately \$7,000 for the year ended May 31, 2024 and \$78,000 for the year ended May 31, 2023, and its net loss and comprehensive net loss would have increased by approximately \$1,800 for the year ended May 31, 2024, and \$199,000 for the year ended May 31, 2023, respectively. This unaudited pro forma financial information does not reflect the realization of any expected ongoing synergies relating to the integration of HEXO.

Acquisition of Truss Beverage Co.

On August 3, 2023, Tilray acquired the remaining 57.5% equity interest in Truss Beverage Co. ("Truss"), a cannabis beverage company, from Molson Coors Canada ("Molson"). This purchase represents the equity portion of Truss that had not been previously acquired as part of the HEXO Acquisition. The consideration paid by Tilray consisted of \$74 (CAD\$100) in cash and contingent consideration fair valued at \$4,181. During the year ended May 31, 2024, the contingent consideration liability was settled in exchange for a final payment equal to \$760 with the resultant gain of \$3,683 recorded in change in fair value of contingent consideration, offset by \$262 of foreign exchange. Tilray initially planned to divest Truss' assets and recorded the value of the associated capital assets and lease obligations as an asset held for sale. During the quarter ended November 30, 2023, due to a change in circumstance in the Company's ability to sell these assets, they were subsequently reclassified as capital assets as the Company has made alternative plans for their utilization. The Company subsequently shifted production of Truss beverages to one of our existing facilities to maximize existing capacity utilization rates. The asset was then remeasured at the lower of its carrying amount before being classified as held for sale less the amortization that would have occurred and the fair value on the date the decision not to proceed with a sale was made. Changes in the carrying amount were recorded in the consolidated statement of net loss and comprehensive loss as amortization in cost of goods sold. During the quarter ended May 31, 2024, the Company sold Truss Beverage Co. to a third party but the Company continues to retain liability for all of Truss's pre-closing contingent obligations.

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

	Amount
Consideration	
Cash consideration	\$ 74
Investment in equity investees	3,145
Contingent consideration	4,181
Net assets acquired	
Current assets	
Cash and cash equivalents	6,739
Accounts receivable	1,038
Prepays and other current assets	78
Inventory	2,573
Asset held for sale	2,960
Long-term assets	
Intangible assets	296
Total assets	13,684
Current liabilities	
Accounts payable and accrued liabilities	5,408
Other liabilities	876
Total liabilities	6,284
Total net assets acquired	\$ 7,400

In the event that the Truss acquisition had occurred on June 1, 2022 the Company would have had, on an unaudited proforma basis, additional net revenue of approximately \$3,000 for the year ended May 31, 2024, and \$16,100 for the year ended May 31, 2023, and its consolidated net loss and comprehensive net loss would have increased by approximately \$700 for the year ended May 31, 2024, and \$48,800 for the year ended May 31, 2023.

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 preliminary working capital adjustment at closing of \$1,342, which was subject to a final working capital adjustment. As described in Note 16 (Long-term debt), \$20,000 was borrowed under the ABC Group Delayed Draw Term Loan Agreement to fund part of the purchase price paid for the Craft Acquisition.

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:

	Amount
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>\$ 83,658</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 revenue of approximately \$55,000 for the year ended May 31, 2024, and \$155,000 for the year ended May 31, 2023, and its net loss and comprehensive net loss would have increased by approximately \$5,000 for the year ended May 31, 2024, and \$2,400 for the year ended May 31, 2023. This unaudited pro forma financial information does not reflect the realization of any expected ongoing synergies relating to the integration of the Craft Acquisition.

10. Goodwill

The following table shows the carrying amount of goodwill:

Reporting Unit	May 31, 2024	May 31, 2023
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	7,916	7,875
Impairments	(842,431)	(842,431)
Total	<u>\$ 2,008,884</u>	<u>\$ 2,008,843</u>

The Company performed the annual impairment test during the fourth quarter ended May 31, 2024, and determined that it is more likely than not, that the fair value of our reporting units was greater than their carrying amounts and thus \$nil impairment expense was recognized. A reasonably possible change in any of the inputs within the determination of fair value would not result in a material change to this determination of no impairment expense recognized during the year ended May 31, 2024.

For the year ended May 31, 2023, the Company recognized the non-cash impairment charges of \$603,500 of cannabis goodwill and \$15,000 of wellness goodwill. This impairment charge was related to the increased borrowing rates and the decline of the company's market capitalization. The non-cash charge had 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.

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, 2024	May 31, 2023
HEXO Convertible Note	\$ —	\$ 28,720
MedMen Convertible Note	32,000	74,681
Total convertible notes receivable	32,000	103,401
Deduct - current portion	—	—
Total convertible notes receivable, non current portion	\$ 32,000	\$ 103,401

HEXO Convertible Note

On June 22, 2023, the Company completed the HEXO Acquisition as described in Note 9 (Business acquisitions). Concurrently with the closing of the HEXO Acquisition, the HEXO convertible note was converted into shares of HEXO.

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, filing for insolvency protection in Canada and in California and pending asset sales. In the prior year, the Company used 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 nil; dividend yield of nil; probability of legalization between 0% and 60%; and, the exercise price of the respective conversion feature.

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, the Company did not recognize any interest income on the MedMen Convertible Note for the year ended May 31, 2024, which would have increased its value.

12. Long-term investments

Long-term investments are comprised of the following items:

	May 31, 2024	May 31, 2023
Equity investments measured at fair value	\$ 2,359	\$ 2,144
Equity investments under measurement alternative	5,500	5,651
Total	<u>\$ 7,859</u>	<u>\$ 7,795</u>

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, 2024 the Company received proceeds of \$nil on the sale of investments (2023-\$nil, 2022-\$nil) and recognized \$217 in unrealized losses due to the change in fair value of investments (2023-\$2,366 2022-\$6,731), 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,		
	2024	2023	2022
United States	\$ (126,735)	\$ (506,984)	\$ (233,697)
Canada	(106,822)	(912,717)	(81,772)
Other countries	(15,463)	(30,480)	(125,205)
	<u>\$ (249,020)</u>	<u>\$ (1,450,181)</u>	<u>\$ (440,674)</u>

The (recoveries) expense for income taxes consists of:

	For the year ended May 31,		
	2024	2023	2022
Current:			
United States	\$ 497	\$ 226	\$ 262
Canada	10,819	26,290	23,268
Other countries	940	(62)	479
	<u>\$ 12,256</u>	<u>\$ 26,454</u>	<u>\$ 24,009</u>
Deferred:			
United States	\$ (723)	\$ (4,055)	\$ 520
Canada	(33,422)	(24,364)	(17,154)
Other countries	(4,727)	(5,216)	(13,917)
	<u>\$ (38,872)</u>	<u>\$ (33,635)</u>	<u>\$ (30,551)</u>
Income tax benefits, net	<u>\$ (26,616)</u>	<u>\$ (7,181)</u>	<u>\$ (6,542)</u>

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

	For the year ended May 31,		
	2024	2023	2022
Loss before net income taxes:	\$ (249,020)	\$ (1,450,181)	\$ (440,674)
Income tax benefits at statutory rate	(51,325)	(304,538)	(92,542)
Tax impact of foreign operations	(5,661)	(25,857)	81,316
Foreign exchange and other	1,959	13,434	14,941
Non-deductible expenses	6,147	3,982	6,404
Non-deductible (taxable) losses	(682)	23,150	748
Changes in enacted rates	2,394	(816)	—
Change in fair value of warrant liability	302	(2,612)	(13,359)
Stock based and other compensation	—	—	994
Change in valuation allowance	20,250	285,698	17,255
Impact on convertible debenture and other differences	—	378	(22,299)
Income tax benefits, net	\$ (26,616)	\$ (7,181)	\$ (6,542)

The following table summarizes the components of deferred tax:

	May 31,	
	2024	2023
Deferred assets		
Operating loss carryforwards - United States	\$ 104,377	\$ 85,259
Operating loss carryforwards - Canada	366,720	145,111
Operating loss carryforwards - Other Countries	18,518	18,787
Capital loss carryforwards	34,355	34,355
Intangible assets	229,953	244,227
Property and equipment	34,578	46,400
Currently nondeductible interest	—	2,812
Investments and convertible notes receivable	45,685	66,718
Investment tax credits and related pool balance	23,132	22,054
Other	46,151	50,074
Total Deferred tax assets	903,469	715,797
Less valuation allowance	(789,839)	(625,368)
Net deferred tax assets	113,630	90,429
Deferred tax liabilities		
Property and equipment	(18,814)	(18,129)
Intangible assets	(218,020)	(225,460)
Convertible Senior Notes Due 2023	(2,229)	(14,204)
Other Deferred Items	(5,437)	—
Total deferred tax liabilities	(244,500)	(257,793)
Net deferred tax liability	\$ (130,870)	\$ (167,364)

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, there is 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, 2024, the Company had United States net operating loss carry-forwards of approximately \$497,033 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 \$662,839 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 \$164,471 and \$271,297 for the years ended May 31, 2024 and 2023, 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 \$nil, \$nil, and \$nil as of May 31, 2024, 2023 and 2022 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, 2024, 2023 and 2022, the Company recorded approximately \$nil, \$nil and \$nil, respectively, of interest and penalty expenses related to uncertain tax positions. As of May 31, 2024, and 2023, the Company had a cumulative balance of accrued interest and penalties on unrecognized tax positions of \$nil and \$nil, 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. 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 2020 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, 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 for €7,000 and €500 each, which bear interest at Euro Short-Term Rate ("ESTR") plus 2.50% and Euro Interbank Offered Rate ("EURIBOR") plus 4.00%, respectively. As of May 31, 2024, a total of €7,438 (\$8,033) was drawn down from the 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"), formerly known as Four Twenty Corporation, a subsidiary of the Company, has a revolving credit facility of \$30,000, which bears interest at SOFR plus an applicable margin. As of May 31, 2024, the Company has drawn \$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.

15. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprised of:

	May 31, 2024	May 31, 2023
Trade payables	\$ 105,392	\$ 70,819
Accrued liabilities	92,424	48,394
Litigation accrual	24,378	25,000
Accrued payroll and employment related taxes	6,154	18,772
Income taxes payable	4,092	14,934
Accrued interest	4,217	8,102
Sales taxes payable	5,300	4,661
Total	<u>\$ 241,957</u>	<u>\$ 190,682</u>

16. Long-term debt

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

	May 31, 2024	May 31, 2023
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	\$ 39,420	\$ 45,260
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	10,212	10,959
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	12,422	13,092
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	263	346
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	2,089	2,104
Term loan - €5,000 - EURIBOR plus 2.15%, 5-year term, repayable in quarterly installments of €250 plus interest, due in December 2023	—	803
Term loan - €1,200 - at 4.26%, 1-year term, repayable in monthly installments of €100 plus interest, due in December 2023	—	755
Term loan - €1,500 - at 2.00%, 5-year term, repayable in quarterly installments of €94 plus interest, due in April 2025	417	819
Term loan - €3,500 - at 4.59%, 5-year term, repayable in monthly installments of €66 including interest, due in August 2028	3,151	1,706
Mortgage payable - \$22,635 - EURIBOR rate plus 1.5%, 10-year term, repayable in monthly installments of \$57 including interest, due in October 2030	20,066	20,863
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	86,626	65,000
Carrying amount of long-term debt	174,666	161,707
Unamortized financing fees	(808)	(738)
Net carrying amount	173,858	160,969
Less principal portion included in current liabilities	(15,506)	(24,080)
Total noncurrent portion of long-term debt	\$ 158,352	\$ 136,889

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 in May 2020 and June 2023 for €1,500 and €3,500 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.

On December 1, 2021, 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 Sweetwater brewery and taproom.

During the year ended May 31, 2024, ABC Group, repaid its \$100,000 term loan and entered into a new secured credit agreement, which is comprised of: (i) a \$70,000 term loan facility, bearing interest at SOFR plus an applicable margin and having a maturity date of June 30, 2028 (the "ABC Group Term Loan"), and (ii) a \$20,000 delayed draw term loan facility, issued on the same terms as the \$70,000 term loan facility (the "ABC Group Delayed Draw Term Loan" and, together with the ABC Group Term Loan the "ABC Group Secured Credit Agreement"). The ABC Group Term Loan was fully drawn on June 30, 2023. The ABC Group Delayed Draw Term Loan was fully drawn on September 29, 2023 to fund part of the purchase price for the Craft Acquisition as described in Note 9 (Business acquisitions). Under the terms of the ABC Group Secured Credit Agreement, the Company pledged all of ABC Group and its subsidiaries' assets and the related equity interests, and Tilray Brands, Inc. provided a limited guarantee, as well as requiring the lenders approval to transfer assets to Tilray Brands, Inc.

The Company maintains, certain financial covenants or minimum balances in certain cash operating accounts, as at May 31, 2024, 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, 2024	May 31, 2023
5.20% Convertible Notes ("TLRY 27")	\$ 129,583	\$ 100,476
HTI Convertible Note	—	47,834
5.25% Convertible Notes ("APHA 24")	330	120,568
5.00% Convertible Notes ("TLRY 23")	—	126,544
Total	<u>129,913</u>	<u>395,422</u>
Deduct - current portion	330	174,378
Total convertible debentures payable, non current portion	<u>\$ 129,583</u>	<u>\$ 221,044</u>

HTI Convertible Note

	May 31, 2024	May 31, 2023
4.00% Contractual debenture	\$ —	\$ 50,000
Unamortized discount	—	(2,166)
Net carrying amount	<u>\$ —</u>	<u>\$ 47,834</u>

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. On August 31, 2023, the Company settled in full the HTI Convertible Note through the issuance of shares as described in Note 19 (Stockholders' equity).

During the year ended May 31, 2024, the Company recognized interest expense of \$500 and accretion of amortized discount interest of \$2,166. In the years ended May 31, 2023 and 2022 the Company recognized interest expense of \$1,778 and \$nil accretion of amortized discount interest of \$6,889 and \$nil, respectively.

TLRY 27

	May 31, 2024	May 31, 2023
5.20% Contractual debenture	\$ 172,500	\$ 150,000
Unamortized discount	(42,917)	(49,524)
Net carrying amount	<u>\$ 129,583</u>	<u>\$ 100,476</u>

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.

During the year ended May 31, 2024, the Company recognized interest expense of \$8,970 and accretion of amortized discount interest of \$11,516. For the same periods in the prior year there was no interest or accretion of amortized discount.

As at May 31, 2024, there was \$ 172,500 principal outstanding (May 31, 2023 - \$ 150,000).

	May 31, 2024	May 31, 2023
5.25% Contractual debenture	\$ 350,000	\$ 350,000
Debt settlement	(349,670)	(213,260)
Fair value adjustment	—	(16,172)
Net carrying amount	<u>\$ 330</u>	<u>\$ 120,568</u>

The APHA 24 convertible debentures, were entered into in April 2019, in the principal amount of \$350,000, bear interest at a rate of 5.25% per annum, payable semi-annually in arrears on June 1 and December 1 of each year, and mature on June 1, 2024, unless earlier converted (the APHA 24 Notes[®]). The APHA 24 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 27 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.

Holders of the APHA 24 Notes may convert all or any portion of such note, in multiples of \$1 principal amount, at their option at any time between December 1, 2023 to the maturity date of June 1, 2024. The initial conversion which the Company may settle in cash, or common shares of Tilray, or a combination thereof, at Tilray's election, is equivalent to an initial conversion price of approximately \$11.20 per common share, subject to adjustments in certain events.

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 Financial Instruments 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).

During the year ended May 31, 2024, the Company exchanged the aggregate principal of \$136,410 of APHA 24 Notes for cancellation by issuing 73,484,147 shares.

The overall change in fair value of APHA 24 during year ended May 31, 2024 decreased by \$16,172, this was comprised of \$19,735 of fair value changes and a foreign exchange loss of \$3,563.

There was \$330 principal outstanding as at May 31, 2024 compared to \$136,740 as at May 31, 2023. The remaining principal outstanding balance has been paid off in cash upon maturity.

During the year ended May 31, 2024, the Company recognized interest expense of \$5,803 (\$13,610 and \$13,600 for the periods ended May 31, 2023 and May 31, 2022 respectively).

	May 31, 2024	May 31, 2023
5.00% Contractual debenture	\$ —	\$ 277,856
Principal amount paid	—	(150,526)
Unamortized discount	—	(786)
Net carrying amount	<u>\$ —</u>	<u>\$ 126,544</u>

The TLRY 23 Notes bore interest at a rate of 5.00% per annum, payable semi-annually in arrears on April 1 and October 1 of each year. On September 12, 2023, the Company repurchased \$20,000 of its TLRY 23 Notes for cancellation by issuing 7,000,000 shares and paying \$610 of cash to settle both principal and accrued interest. Upon repurchase of the TLRY 23 Notes, a portion of the settlement consideration was allocated to the equity component of the instrument and was recognized as a \$1,672 reduction of additional paid-in capital in the Consolidated Statements of Changes in Equity. Additionally, this repurchase resulted in a loss of \$1,062 which was recorded in other non-operating (losses) gains, net as shown in Note 27 (Non-operating income (expense)).

After cancellation, the outstanding principal balance of the TLRY 23 Notes was \$107,331. On October 2, 2023, the Company repaid the remaining principal of the TLRY 23 Notes in cash upon maturity.

During the year ended May 31, 2024, the Company recognized interest expense of \$2,122 and accretion of amortized discount interest of \$786. In the year ended May 31, 2023 and 2022 the Company recognized interest expense of \$9,303 and \$14,684 accretion of amortized discount interest of \$2,817 and \$4,176, respectively .

18. Warrant Liability

As of May 31, 2024 and May 31, 2023, 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 year ended May 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 the warrant liability at May 31, 2024 at \$0.524 per warrant using the Black Scholes pricing model (Level 3) with the following assumptions: Risk-free interest rate of 4.04%, expected volatility of 50%, expected term of 1.3 years, strike price of \$1.61 and fair value of common stock of \$1.80.

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, 2024, the Company had 1,198,000,000 common shares and 10,000,000 preferred shares authorized to be issued with 831,925,373 common shares and nil preferred shares issued and outstanding, compared to the period ended May 31 2023, the Company had 980,000,000 common shares and 10,000,000 preferred shares authorized and 656,655,455 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 year-ended May 31, 2024, the Company issued the following shares:

- a) 39,705,962 shares in connection with the HEXO Acquisition, see Note 9 (Business acquisitions).
- b) 865,426 shares to settle a contractual change of control severance obligations in the aggregate amount of \$1,500 incurred in connection with the HEXO Acquisition.
- c) 24,780,994 shares to settle dividends payable to the non-controlling shareholders of 1974568 Ontario Limited (“Aphria Diamond”).
- d) 1,032,616 shares for the settlement of the HTI Convertible Note payable see Note 17 (Convertible debentures payable).
- e) 17,148,541 shares to HTI Investments MA LLC pursuant to the terms of a \$50.0 million convertible promissory note originally issued by Tilray to HTI on July 12, 2022 and which was settled at maturity as previously disclosed.
- f) 1,573,152 shares to settle HEXO-based litigation judgement obtained by MediPharm Labs Inc. in 2022.
- g) 7,000,000 shares to repurchase \$20,000 of its TLRY 23 Notes for cancellation.
- h) 73,484,147 shares to repurchase \$349,670 of its APHA 24 Notes for cancellation.
- j) 5,327,843 shares under its At-the-Market (“ATM”) program for gross proceeds of \$9,944. The Company paid \$1,325 in commissions and other fees associated with these issuances for net proceeds of \$8,619.
- k) 4,351,237 shares in connection with the exercise of previously awarded stock-based compensation awards.

Stock-based compensation

The Company maintains stock-based compensation plans as disclosed in our Annual Financial Statements. For the year-ended May 31, 2024, the total stock-based compensation was \$ 31,769 (2023 - \$39,595 and 2022 - \$35,994).

During the year-ended May 31, 2024 the Company granted 13,680,556 time-based RSUs, and 7,566,146 performance-based RSUs (May 31, 2023 - 6,004,995 time-based RSUs and 2,634,744 performance based RSUs). The 7,566,146 performance based RSUs issued during the year contains certain performance conditions that will only be set at a future date, and therefore for accounting purposes the grant date has not been met. 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.

In conjunction with the reverse acquisition with Aphria Inc on 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, 2024 and 2023.

Stock-based activity under the EIP and Original Plan for the year ended May 31, 2024 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, 2023	2,809,198	\$ 14.88	5.0	\$ —
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Cancelled	(11,411)	101.80	—	—
Balance, May 31, 2024	<u>2,797,787</u>	<u>\$ 14.53</u>	<u>4.0</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, 2023	63,969	\$ 3.52	3.8	\$ 7.68
Exercised	(4,291)	0.19	—	—
Forfeited	—	—	—	—
Cancelled	(10,512)	5.16	—	—
Balance, May 31, 2024	<u>49,166</u>	<u>\$ 3.46</u>	<u>3.0</u>	<u>\$ 1.43</u>

Time-based and Performance-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, 2023	12,138,692	\$ 6.04	1.7	\$ 24,857
Granted	21,246,702	1.93	—	39,553
Vested	(6,199,254)	4.76	—	(11,159)
Forfeited	(1,051,288)	2.21	—	(1,892)
Cancelled	—	—	—	—
Balance, May 31, 2024	<u>26,134,852</u>	<u>\$ 3.16</u>	<u>2.85</u>	<u>\$ 47,043</u>

Predecessor Plan - Aphria

Aphria had established the Aphria Omnibus Incentive Plan (the “Aphria Predecessor Plan”). Following stockholder approval of the EIP, no new awards have been granted under the Aphria 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.

No stock options were granted under the Aphria Predecessor Plan during the years ended May 31, 2024 and 2023. As of May 31, 2024, there were 434,212 awards outstanding and which are vested and exercisable.

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

Time-based stock option activity

	Number of options	Weighted average exercise price	Weighted average grant date fair value	Weighted average remaining contractual term (years)	Aggregate Intrinsic Amount
Outstanding, beginning of the year	1,706,627	\$ 11.16	\$ 60.75	1.0	—
Exercised during the year	—	—	—	—	N/A
Granted during the year	—	—	—	—	N/A
Forfeited during the year	—	—	—	—	N/A
Expired during the year	(1,272,415)	12.39	—	—	N/A
Outstanding, end of the year	434,212	\$ 7.56	\$ —	0.65	—
Vested and exercisable, end of the year	434,212	\$ 7.56	\$ —	0.65	—

Time-based and Performance-based RSU activity

	May 31, 2024	
	Time- based RSUs	Weighted average grant - date fair value per share
Non-vested, beginning of the year	371,182	\$ 11.37
Granted during the year	—	—
Vested during the year	(123,113)	\$ 6.47
Forfeited during the year	(3,876)	\$ 6.90
Non-vested, end of the year	244,193	\$ 13.91

Predecessor Plan - HEXO

Prior to the acquisition of HEXO Corp, HEXO had established the Formal Plan and Omnibus Incentive Plan (the “HEXO Predecessor Plan”). In connection with the acquisition, HEXO stock options issued under these plans were exchanged at a rate of 0.4352 for 1,267,793 options under the Tilray 2018 EIP. As a result of the modification, all grantees were affected, and the Company recognized nil incremental compensation cost. Following stockholder approval of the EIP, no new awards have been granted under the Predecessor Plan. As of May 31, 2024, 1,144,218 awards outstanding and 1,120,768 are vested and exercisable.

	May 31, 2024				
	Number of options	Weighted average exercise price	Weighted average grant date fair value	Weighted average remaining contractual term (years)	Aggregate Intrinsic Amount
Outstanding, beginning of the year	—	\$ —	\$ —	—	—
Exercised during the year					N/A
Converted upon acquisition	1,267,793	62.87	—	8.91	N/A
Forfeited during the year	(63,760)	26.27	—	—	N/A
Expired during the year	(59,815)	339.63	—	—	N/A
Outstanding, end of the year	1,144,218	\$ 53.40	\$ —	1.19	—
Vested and exercisable, end of the year	1,120,768	\$ 54.15	\$ —	1.04	—

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, 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)
Other comprehensive loss	3,111	—	3,111
Balance May 31, 2024	\$ (43,499)	\$ —	\$ (43,499)

21. Non-controlling interests

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

Summarized balance sheet information of the entities in which there is a non-controlling interest as at 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>

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 income statement information of the entities in which there is a non-controlling interest for the year ended May 31, 2024:

	SH Acquisition	CC Pharma Nordic ApS	Aphria Diamond	ColCanna S.A.S.	May 31, 2024
Revenue	\$ —	\$ —	\$ 103,331	\$ —	\$ 103,331
Total expenses	42,681	(1,064)	40,935	(203)	82,349
Net (loss) income	(42,681)	1,064	62,396	203	20,982
Other comprehensive (loss) income	—	(9)	171	(334)	(172)
Net comprehensive (loss) income	<u>\$ (42,681)</u>	<u>\$ 1,055</u>	<u>\$ 62,567</u>	<u>\$ (131)</u>	<u>\$ 20,810</u>
Non-controlling interest %	32%	25%	49%	10%	NA
Comprehensive (loss) income attributable to NCI	(13,658)	264	30,658	(13)	17,251
Additional income attributable to NCI	—	—	5,336	—	5,336
Net comprehensive (loss) income attributable to NCI	<u>\$ (13,658)</u>	<u>\$ 264</u>	<u>\$ 35,994</u>	<u>\$ (13)</u>	<u>\$ 22,587</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	\$ (36,519)	\$ (643)	\$ 75,032	\$ (91,935)	\$ (54,065)
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	\$ (11,686)	\$ (161)	\$ 48,187	\$ (9,194)	\$ 27,146

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 (recovery)	(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

On January 5, 2024, Aphria Inc. (“Aphria”), a wholly-owned subsidiary of the Company, entered into an Amended and Restated Wholesale Cannabis Supply Agreement (the “Supply Agreement”) with 1974568 Ontario Limited (“Aphria Diamond”), Aphria’s joint venture with Double Diamond Holdings Ltd. The Supply Agreement amended and restated the existing supply agreement, effective as of September 1, 2023, and amended certain terms relating to pricing and product classes. Due to the terms stipulated in the Supply Agreement, the reduced transfer price will lead to a decrease in income attributable to non-controlling interest over the duration of the agreement. If this agreement had been effective June 1, 2023, the Company would have recognized approximately \$15,000 in additional net income attributed to the Stockholders of Tilray Brands, Inc.

22. Net revenue

Net revenue is comprised of:

	For the year ended May 31,		
	2024	2023	2022
Beverage alcohol revenue	\$ 213,614	\$ 100,679	\$ 74,959
Beverage alcohol excise taxes	(11,520)	(5,586)	(3,467)
Net beverage alcohol revenue	202,094	95,093	71,492
Cannabis revenue	370,692	284,314	300,891
Cannabis excise taxes	(97,894)	(63,884)	(63,369)
Net cannabis revenue	272,798	220,430	237,522
Distribution revenue	258,740	258,770	259,747
Wellness revenue	55,310	52,831	59,611
Total	\$ 788,942	\$ 627,124	\$ 628,372

23. Cost of goods sold

Cost of goods sold is comprised of:

	For the year ended May 31,		
	2024	2023	2022
Beverage alcohol costs	\$ 113,522	\$ 48,770	\$ 32,033
Cannabis costs	182,594	162,755	194,834
Distribution costs	230,596	231,309	243,231
Wellness costs	38,879	37,330	41,457
Total	\$ 565,591	\$ 480,164	\$ 511,555

24. General and administrative expenses

General and administrative expenses are comprised of the following items:

	For the year ended May 31,		
	2024	2023	2022
Executive compensation	\$ 15,597	\$ 13,655	\$ 14,128
Office and general	28,460	27,845	27,153
Salaries and wages	68,076	57,228	51,693
Stock-based compensation	31,769	39,595	35,994
Insurance	12,586	12,033	17,536
Professional fees	5,345	7,166	13,047
(Gain) loss on sale of capital assets	(4,198)	(48)	(682)
Insurance proceeds	—	—	(4,032)
Travel and accommodation	5,138	4,530	4,203
Rent	4,585	3,155	3,761
Total	\$ 167,358	\$ 165,159	\$ 162,801

Included in (Gain) loss on sale of capital asset for the year ended May 31, 2024, are gains of \$4,198 which is comprised of \$3,957 from the sale of Truss Beverage Co. refer to Note 9 (Business Acquisitions), and others.

25. Restructuring

In connection with executing our acquisition strategy and strategic transactions, the Company incurred restructuring and exit costs associated with the integration efforts of these non-recurring transactions. For the year ended May 31, 2024, May 31, 2023 and May 31, 2022, the Company incurred \$15,581, \$9,245 and \$795 respectively of restructuring costs. The Company approves detailed restructuring initiative plans at the executive level and recognizes these expenses in the period in which the plan has been committed to. The breakdown of the restructuring charges for the year ended May 31, 2024 are as follows:

Within the Cannabis reporting unit, three restructuring plans have been initiated as follows; HEXO acquisition related charges which is expected to take place within 24 months from the acquisition date, Truss acquisition related charges which is expected to take place within 18 months from the acquisition date and the Canadian business cost reduction plan, which concluded during the fiscal year. During the year ended May 31, 2024, the following expenses were recognized, \$10,174 of employee termination benefits and other restructuring charges for the HEXO acquisition plan, \$3,549 of restructuring charges related to the costs of exiting the Truss facility given the sale of the facility and \$482 of employee termination benefits for the Canadian cannabis business cost reduction plan.

Within the distribution reporting unit, the Company completed its cost optimization plan during the year ended May 31, 2024. During the year ended May 31, 2024, the Company recognized \$1,376 related to employee termination benefits in connection with the execution of this plan.

For the year ended May 31, 2023, the Company recognized \$9,245 of restructuring charges which was comprised of \$2,663 of severance costs required to right size the Company's production, \$1,599 of exit costs, and \$1,276 for inventory adjustments from the termination of our producer partnership in Uruguay due to a breach of the underlying contract in our International cannabis business. Additionally, amounts related to the Tilray-Aphria Arrangement Agreement for the closure of our Canadian cannabis facility in Enniskillen of \$1,512 million were incurred. The Company also incurred \$2,195 million of write-offs from the exit of our medical device reprocessing business in our distribution reporting segment.

For the year ended May 31, 2022, the Company recognized \$795 of restructuring charges related to the Tilray and Aphria business combination.

26. Interest expense, net

Interest expense, net is comprised of:

	For the year ended May 31,		
	2024	2023	2022
Interest income	\$ 12,831	\$ 33,025	\$ 11,736
Interest expense	(49,264)	(46,612)	(39,680)
	\$ (36,433)	\$ (13,587)	\$ (27,944)

27. Non-operating (expense) income

Non-operating (expense) income is comprised of:

	For the year ended May 31,		
	2024	2023	2022
Change in fair value of convertible debenture payable	\$ (19,736)	\$ (43,651)	\$ 163,670
Change in fair value of warrant liability	(1,436)	12,438	63,913
Foreign exchange (loss) gain	(4,086)	(25,535)	(28,383)
Loss on long-term investments	(217)	(2,190)	(6,737)
Other non-operating (losses) gains, net	(12,367)	(7,971)	5,208
	<u>\$ (37,842)</u>	<u>\$ (66,909)</u>	<u>\$ 197,671</u>

Included in other non-operating (losses) gains, net for the year ended May 31, 2024, are losses of \$12,367 which is comprised of \$2,313 from the downside protection share issuance relating to the HTI note, as described in Note 19 (Stockholders' equity), \$2,458 of amounts to settle outstanding notes with non-controlling interest shareholders, \$4,638 for a decrease in value of equity investee, as described in Note 28 (Commitments and contingencies), Cannfections, and \$3,063 loss on measurement at the lower of carrying amount and the fair value less costs to sell of Broken Coast's former Duncan facility, refer to Note 6 (Capital assets).

28. 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	2025	2026	2027	2028	Thereafter
Long-term debt repayment	\$ 174,666	\$ 15,507	\$ 43,232	\$ 11,764	\$ 68,672	\$ 35,491
Convertible debentures payable	172,830	330	—	172,500	—	—
Material purchase obligations	59,959	26,410	33,549	—	—	—
Construction commitments	575	575	—	—	—	—
Total	<u>\$ 408,030</u>	<u>\$ 42,822</u>	<u>\$ 76,781</u>	<u>\$ 184,264</u>	<u>\$ 68,672</u>	<u>\$ 35,491</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

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 Kassir 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 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.

The Defendants’ materials for a motion to dismiss the Third Amended Complaint were filed on November 8, 2023. A decision on the motion is expected by December 2024.

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 28, 2021, the Court denied all motions for reconsideration and provided Plaintiffs with the opportunity to amend their complaint. Plaintiffs did not amend, and so the dismissals of Cacciavillani, Cervini, DeFrancesco, and SOL Investments became dismissals with prejudice.

On January 28, 2022, Plaintiffs moved for class certification, and briefing on the motion was complete as of June 28, 2022. The motion was granted, and a class was certified. On April 12, 2024, the parties filed a revised schedule for the remainder of the proceeding through trial, a key element of which includes setting trial for a “date convenient to the court after April 17, 2025”.

The parties engaged in mediation in March 2021 and December 2022, but neither mediation resulted in a settlement. The parties are as of the date of this Form 10-K engaged in fact discovery and have sought to extend fact discovery into September 2024.

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.

Aphria Class Action and Related Individual Actions (Canada)

i. Aphria Class Action (Canada)

In February 2019, a putative securities class action was commenced in the Ontario Superior Court of Justice against Aphria, Inc. (“Aphria”) and certain of its former officers and directors, as well as five underwriters. The claim was subsequently amended in September 2022 to only proceed against Aphria, and two of its former officers and directors as named defendants.

The class plaintiff seeks various relief including damages in the amount of CAD \$850,000 pursuant to Ontario securities legislation on behalf of all class members who acquired Aphria’s common shares between January 29, 2018 and December 3, 2018. The class action stems from Aphria’s acquisition of Nuuvera Inc. and LATAM Holdings Inc. in March and September 2018, respectively, alleging, among other things, that the value of the acquired assets was misrepresented as being significantly higher than their actual worth, and that insiders at Aphria personally benefitted from the acquisitions at the expense of investors.

Trial has been scheduled to begin in January 2025. The Company denies the allegations made in the Canadian class action and intends to vigorously defend against them.

ii. Individual Actions (Canada)

In 2019 and 2020, four individual actions were commenced against Aphria and certain of its current and former officers and directors on various grounds including common law misrepresentations relating to the same Nuuvera and LATAM transactions at issue in the Aphria Class Action (Canada) discussed above. The individual plaintiffs make allegations including that the value of the assets acquired in the Nuuvera and LATAM transactions was misrepresented as being significantly higher than their actual worth, and that insiders at Aphria personally benefitted from the acquisitions at the expense of investors. The individual plaintiffs seek declaratory relief and damages in an amount to be determined, plus interest and costs. No substantive steps have been taken by the plaintiffs in the individual actions.

The Company denies the allegations made in the individual actions and intends to vigorously defend against them.

Martin Dionne v. HEXO Corporation and Sebastien St. Louis

In November 2019, a Canadian securities class action was instituted against HEXO Corp. (“HEXO”) and its former CEO, Sebastien St. Louis. The plaintiff claims that between April 11, 2018 and March 30, 2020, the defendants misrepresented material facts, in both documents and oral statements and failed to disclose material changes in a timely manner as it relates to: (a) revenue certainty in the first year post-legalization (2018 supply agreement with the province of Québec); (b) additional revenue generation (acquisition of Newstrike); (c) HEXO inventory and internal controls; and (d) licensing at the Newstrike Niagara facility.

On January 23, 2023, the class action was dismissed in its entirety at the certification stage in Quebec. On March 14, 2023, the plaintiff appealed this decision to the Quebec Court of Appeal. The appeal was heard on January 18, 2024. A decision is expected in or before the end of the calendar year.

The Company believes the plaintiff’s claims are without merit and intends to vigorously defend against them. There is approximately \$2,000 remaining in the applicable HEXO D&O policy retention. If HEXO successfully defends the appeal, the Company intends to pursue recovery of D&O retention amounts applicable under Quebec Law.

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 CAD \$110,000, plus C\$20,000 in aggravated damages. High Park subsequently counterclaimed against 420 Investments for repayment of a CAD \$7,000 bridge loan made to 420 Investments in August 2019.

On February 7, 2024, the court granted summary judgment in favor of High Park on its counterclaim. The summary judgment order is equal to the amount of CAD \$7,000, plus pre-judgment interest in the amount of CAD \$2,280, plus post-judgment interest and costs. 420 Investments subsequently appealed the summary judgment decision and filed an application seeking an interim stay of any enforcement of that decision pending the appeal. The interim stay application was dismissed at first instance and on appeal in March and April 2024, respectively. A hearing date for the appeal of the summary judgment decision is scheduled for December 5, 2024.

With the dismissal of the interim stay application, High Park took steps to enforce the summary judgment decision against 420 Investments, which includes enforcing a security agreement registered against 420 Investments' personal property in November 2023. On May 29, 2024, 420 filed a Notice of Intention to Make a Proposal under subsection 50.4(1) of the *Bankruptcy and Insolvency Act*, RSC 1985, c. B-3.

The main action remains in the discovery stage, with examinations for discovery ongoing. No trial date has been set for the main action. Tilray and High Park deny 420's allegations in the main action and intend to vigorously defend against them.

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

In December 2022, Cannfections Group Inc. ("Cannfections") commenced an arbitration against High Park Farms Ltd. ("HPF") and High Park Holdings Ltd. ("HPH") seeking damages in the amount of CAD \$27,500 for breach of a supply and development agreement entered in 2019.

The arbitration took place in November 2023. On March 5, 2024, the arbitrator released her decision, finding in favor of Cannfections and awarding damages to Cannfections in the amount of CAD \$19,951, plus prejudgment interest, to be paid by HPF. The arbitrator found that HPH was not a party to the arbitration.

On March 13, 2024, HPF commenced a separate court action in the Ontario Superior Court of Justice (Court File No.: CV-24-00716433-000) against Cannfections, 13062775 Canada Inc. and one of Cannfections' directors for damages in an amount to be determined at trial, together with declaratory and equitable relief, on various grounds including oppression and breach of fiduciary duty. No substantive steps have been taken in the action, but the Company expects that the HPF trustee will actively pursue this litigation claim.

On April 5, 2024, HPF commenced a voluntary assignment in bankruptcy, naming B. Riley Farber as its licensed insolvency trustee. HPF's bankruptcy filing is limited solely to HPF's, and neither Tilray nor any of its affiliates are petitioners or parties to the HPF's bankruptcy filing. As a result of this bankruptcy filing, the Company recognized a \$4,638 decrease in value of the equity investee during the three months ended February 29, 2024. The Company does not expect that there will be any further impact to the Company's financial statements. HPF's determined to commence bankruptcy proceedings given it ceased all active operations following closure of the Enniskillen facility and the termination of its supply agreement with Cannfections. The purpose of the bankruptcy filing is to ensure the orderly liquidation and wind-up of HPF's remaining assets and liabilities.

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 she was wrongfully terminated in December 2020 and entitled to certain benefits under her employment agreement together with other contract and wage claims. Tilray asserted a counterclaim of its own for post-termination payments on the basis that they were mistakenly paid to Dickson.

On March 17, 2023, the arbitrator awarded Dickson \$3,134 for her Restricted Share Units, \$300 in severance, and \$300 for a discretionary bonus, plus amounts for pre-judgment and post-judgment interest and double damages ("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 \$103 in attorney fees and \$21 in costs from Tilray in connection with the arbitration.

On February 27, 2024, the U.S. District Court for the Western District of Washington dismissed 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 the dispute. 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. A date for Tilray's appeal to the Ninth Circuit Court of Appeal has yet to be set.

On April 12, 2024, the District Court Judge in Minnesota lifted the stay of proceedings in that court, permitting Dickson to bring a motion to confirm the Arbitration Award. A hearing for the motion is scheduled for July 17, 2024. The Company intends to pursue its appeal of the decision, but has accrued an appropriate amount to cover the underlying judgment.

Fotmer Corporation S.A. v. Tilray Brands Inc. et al.

On January 4, 2023, Fotmer Corporation S.A. commenced an arbitration demanding \$1,233 for alleged breaches by Tilray of a 2019 purchase agreement. On July 5, 2023, Tilray responded by filing a court action in the Berlin Regional Court seeking \$2,250 under a 2021 supply agreement asserting that Fotmer's alleged monetary claims under the 2019 and 2021 supply agreements are improper, and that Fotmer owes Tilray \$2.25 million in respect of advance payments made for future deliveries and certain reimbursement obligations owing by Fotmer to Tilray for defective products and EU GMP certifications.

On August 8, 2023, a final award was issued in the arbitration between the parties, ordering Tilray to pay Fotmer damages in the amount of \$1,233, plus simple interest of 7.5% from December 29, 2020 forward, in connection with the 2019 supply agreement.

Tilray has yet to pay Fotmer any amounts owed pursuant to the arbitral award on the basis that the facts and legal issues in the court action and the arbitration overlap, such that equitable setoff should be applied between the two proceedings.

In the court action, Fotmer submitted its statement of defense on November 7, 2023. On May 21, 2024, Tilray filed its statement of reply and defense against counterclaims. Tilray believes that Fotmer's claims are without merit and the Company intends to vigorously defend against these claims.

Summary of litigation accruals

As described in Note 15 (Accounts payable and accrued liabilities), the total litigation expense accrual included in accrued liabilities as of May 31, 2024 was \$24,378 to cover various ongoing litigation matters that are probable and estimable (May 31, 2023 - \$25,000). During the year ended May 31, 2024, the Company assumed \$12,253 of litigation accruals from the acquisition of HEXO, several of which were settled during the year ended May 31, 2024. The Company did not assume any litigation accruals from the Craft Acquisition.

29. 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 \$3,568 (2023 - \$3,280) and the principal portion of convertible debentures payable of \$172,830 (2023 - \$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, 2024 and 2023 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, 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>

	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	<u>\$ 449,585</u>	<u>\$ 1,088</u>	<u>\$ (40,440)</u>	<u>\$ 410,233</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 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 acquisition of Montauk due in December 2025, and upon the triggering event if met, and are payable in cash, was determined by discounting future expected cash outflows at a discount rate of 11%, and probability of achievement of 95%. The unobservable inputs into the future expected cash outflows result in a fair value measurement classified as Level 3. During the year ended May 31, 2024, a decrease in fair value of \$15,528, inclusive of changes in foreign exchange, was recognized and was comprised of a decrease of fair value of \$16,218 for the contingent consideration from the Sweetwater acquisition as a result of not achieving the incentive targets which was offset by an increase in fair value of \$4,111 for the contingent consideration from the Montauk acquisition as a result of a higher probability of achieving the incentive targets and a decrease of \$3,421 for the Truss contingent consideration that was recognized initially as \$4,181 that has been settled in cash for \$760 (CAD \$1,041).

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, 2023	\$ 103,401	\$ 5,651	\$ (1,817)	\$ (27,107)	\$ (120,568)
Additions/(Repayments)	—	—	—	(4,181)	136,410
Redemption	(28,720)	—	—	760	—
Unrealized gain (loss) on fair value	—	(151)	(1,436)	15,528	(16,172)
Impairments	(42,681)	—	—	—	—
Balance, May 31, 2024	<u>\$ 32,000</u>	<u>\$ 5,500</u>	<u>\$ (3,253)</u>	<u>\$ (15,000)</u>	<u>\$ (330)</u>

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% 0.0
Warrant liability	Black-Scholes	Volatility, expected life (in years)	50% 1.3
Contingent consideration	Discounted cash flows	Discount rate, achievement	11% 95%

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, 2024, 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 \$7,714 at May 31, 2024 (2023-\$6,641) and are broken out below as follows:

	Total	0-30 days	31-60 days	61-90 days	90+ days
Accounts receivable, net	\$ 101,695	\$ 86,435	\$ 3,042	\$ 893	\$ 11,325
		85%	3%	1%	11%
		Balance at the beginning of period	Movement during the year(1)	Balance at end of period	
Fiscal year ended May 31, 2024					
Allowance for doubtful accounts and credit loss provision		\$ 6,641	\$ 1,073	\$ 7,714	
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	

(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, 2024, 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 cash operating accounts tied to loans secured by its Aphria One, SweetWater, and craft beverage facilities. The Company maintains debt service charge and leverage covenants on certain loans secured by its Aphria Diamond facilities and ABC Group that are measured quarterly. The Company believes that it has sufficient operating room with respect to its financial covenants for the next fiscal year and does not anticipate being in breach of any of its financial covenants.

The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company's working capital position at May 31, 2024, management regards liquidity risk to be low.

(c) Currency rate risk

As at May 31, 2024, 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 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.

30. 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:

	For the year ended May 31,		
	2024	2023	2022
Beverage alcohol			
Net beverage alcohol revenue	\$ 202,094	\$ 95,093	\$ 71,492
Beverage alcohol costs	113,522	48,770	32,033
Beverage alcohol gross profit	<u>88,572</u>	<u>46,323</u>	<u>39,459</u>
Cannabis			
Net cannabis revenue	272,798	220,430	237,522
Cannabis costs	182,594	162,755	194,834
Cannabis gross profit	<u>90,204</u>	<u>57,675</u>	<u>42,688</u>
Distribution			
Distribution revenue	258,740	258,770	259,747
Distribution costs	230,596	231,309	243,231
Distribution gross profit	<u>28,144</u>	<u>27,461</u>	<u>16,516</u>
Wellness			
Wellness revenue	55,310	52,831	59,611
Wellness costs	38,879	37,330	41,457
Wellness gross profit	<u>\$ 16,431</u>	<u>\$ 15,501</u>	<u>\$ 18,154</u>

Channels of cannabis revenue were as follows:

	For the year ended May 31,		
	2024	2023	2022
Revenue from Canadian medical cannabis	\$ 25,211	\$ 25,000	\$ 30,599
Revenue from Canadian adult-use cannabis	266,846	214,319	209,501
Revenue from wholesale cannabis	25,340	1,436	6,904
Revenue from international cannabis	53,295	43,559	53,887
Less excise taxes	(97,894)	(63,884)	(63,369)
Total	<u>\$ 272,798</u>	<u>\$ 220,430</u>	<u>\$ 237,522</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. On June 22, 2023, the Company completed the HEXO Acquisition as described in Note 9 (Business acquisitions), and thus these commercial arrangements were terminated and HEXO's financial results were consolidated in the current period results.

Included in revenue from Canadian adult-use cannabis is \$1,500 of advisory services revenue for the year ended May 31, 2024, from the aforementioned HEXO commercial transaction agreements, compared to \$40,377 of advisory services revenue in the prior comparative period.

Geographic net revenue:

	For the year ended May 31,		
	2024	2023	2022
USA	\$ 233,141	\$ 123,284	\$ 103,991
Canada	243,722	201,361	210,141
EMEA	296,450	284,567	296,911
Rest of World	15,629	17,912	17,329
Total	<u>\$ 788,942</u>	<u>\$ 627,124</u>	<u>\$ 628,372</u>

Geographic capital assets:

	May 31, 2024	May 31, 2023
USA	\$ 141,314	\$ 63,925
Canada	313,359	255,248
EMEA	99,921	107,131
Rest of World	3,653	3,363
Total	<u>\$ 558,247</u>	<u>\$ 429,667</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, 2024, 2023 and 2022 there were no major customers representing greater than 10% of our annual revenues.

31. Subsequent Events

On May 17, 2024, the Company has entered into an equity distribution agreement with TD Securities and Jefferies in connection with an aggregate offering value of up to \$250,000 from time to time through an at-the-market equity program ATM Program. Between June 1, 2024 to June 13, 2024, the Company issued an additional 8,626,620 shares for gross proceeds of \$15,397. The Company paid \$320 in commissions and other fees associated with these issuances for net proceeds of \$15,077.

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, 2024 and 2023, 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, 2024, 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, 2024, 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, 2024 and 2023, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2024 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, 2024, 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 Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting 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 HEXO Corp., the Craft Acquisition, and Truss Beverage Co. (which was subsequently sold on May 30, 2024) from its assessment of internal control over financial reporting as of May 31, 2024, because they were acquired by the Company in purchase business combinations during the year ended May 31, 2024. HEXO Corp., the Craft Acquisition, and Truss Beverage Co. are wholly-owned subsidiaries whose total assets and total revenues excluded from management's assessment and our audit of internal control over financial reporting represent 2.1%, 2.9% and 0% of total assets and 7.3%, 10.8% and 0.7% of total revenues, respectively, of the related consolidated financial statement amounts as of and for the year ended May 31, 2024.

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 \$2,008.9 million and \$182.9 million respectively as at May 31, 2024. 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 intangible assets may not be recoverable. Any impairment charges are determined by comparing the fair value of the reporting units to its carrying value. Fair value amounts are estimated by management using discounted cash flow models. As at May 31, 2024, management performed the annual impairment tests which resulted in no impairment. 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 estimating 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
Toronto, Canada
July 29, 2024

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