

Table of Contents

	<u>Page</u>
<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>
	<u>Consolidated Statements of Financial Position (Unaudited)</u>
	<u>Consolidated Statements of Loss and Comprehensive Loss (Unaudited)</u>
	<u>Consolidated Statements of Stockholders' Equity (Unaudited)</u>
	<u>Consolidated Statements of Cash Flows (Unaudited)</u>
	<u>Notes to Condensed Interim Consolidated Financial Statements (Unaudited)</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>
<u>PART II.</u>	<u>OTHER INFORMATION</u>
<u>Item 1.</u>	<u>Legal Proceedings</u>
<u>Item 1A.</u>	<u>Risk Factors</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>
<u>Item 5.</u>	<u>Other Information</u>
<u>Item 6.</u>	<u>Exhibits</u>
<u>Signatures</u>	

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q for the quarter ended August 31, 2023 (the "Form 10-Q") contains forward-looking statements under Canadian securities laws and within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are intended to be subject to the "safe harbor" created by those sections and other applicable laws. Such statements involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, our results may differ materially from those expressed or implied by such forward-looking statements under the Canadian securities laws and within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are intended to be subject to the "safe harbor" created by those sections and other applicable laws. The words "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "project," "will," "would," "seek," or "should," or the negative or plural of these words or similar expressions or variations are intended to identify such forward-looking statements. Forward-looking statements include, among other things, our beliefs or expectations relating to our future performance, results of operations and financial condition; our intentions or expectations regarding our cost savings initiatives; our strategic initiatives, business strategy, supply chain, brand portfolio, product performance and expansion efforts; current or future macroeconomic trends; future corporate acquisitions and strategic transactions; and our synergies, cash savings and efficiencies anticipated from the integration of our completed acquisitions and strategic transactions.

Risks and uncertainties that may cause actual results to differ materially from forward-looking statements include, but are not limited to, those identified in this Form 10-Q and other risks and matters described in our most recent Annual Report on Form 10-K for the fiscal year ended May 31, 2023 as well as our other filings made from time to time with the U.S. Securities and Exchange Commission and in our Canadian securities filings.

Forward looking statements are based on information available to us as of the date of this Form 10-Q and, while we believe that information provides a reasonable basis for these statements, these statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements. You should not rely upon forward-looking statements or forward-looking information as predictions of future events.

We undertake no obligation to update forward-looking statements to reflect actual results or changes in assumptions or circumstances, except as required by applicable law.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

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

	August 31, 2023	May 31, 2023
Assets		
Current assets		
Cash and cash equivalents	\$ 177,519	\$ 206,632
Restricted cash	1,613	—
Marketable securities	287,333	241,897
Accounts receivable, net	82,076	86,227
Inventory	232,075	200,551
Prepays and other current assets	44,943	37,722
Assets held for sale	3,696	—
Total current assets	829,255	773,029
Capital assets	494,619	429,667
Right-of-use assets	5,605	5,941
Intangible assets	967,568	973,785
Goodwill	2,009,673	2,008,843
Interest in equity investees	4,638	4,576
Long-term investments	7,564	7,795
Convertible notes receivable	74,681	103,401
Other assets	8,647	222
Total assets	\$ 4,402,250	\$ 4,307,259
Liabilities		
Current liabilities		
Bank indebtedness	\$ 14,594	\$ 23,381
Accounts payable and accrued liabilities	238,081	190,682
Contingent consideration	7,181	16,218
Warrant liability	10,015	1,817
Current portion of lease liabilities	2,324	2,423
Current portion of long-term debt	13,489	24,080
Current portion of convertible debentures payable	251,590	174,378
Total current liabilities	537,274	432,979
Long - term liabilities		
Contingent consideration	13,000	10,889
Lease liabilities	7,462	7,936
Long-term debt	152,390	136,889
Convertible debentures payable	120,861	221,044
Deferred tax liabilities	169,633	167,364
Other liabilities	74	215
Total liabilities	1,000,694	977,316
Commitments and contingencies (refer to Note 18)		
Stockholders' equity		
Common stock (\$0.0001 par value; 980,000,000 common shares; 723,292,600 and 656,655,455 common shares issued and outstanding, respectively)	72	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	5,909,895	5,777,743
Accumulated other comprehensive loss	(43,561)	(46,610)
Accumulated Deficit	(2,487,032)	(2,415,507)
Total Tilray Brands, Inc. stockholders' equity	3,379,374	3,315,692
Non-controlling interests	22,182	14,251
Total stockholders' equity	3,401,556	3,329,943
Total liabilities and stockholders' equity	\$ 4,402,250	\$ 4,307,259

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

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

	Three months ended August 31,	
	2023	2022
Net revenue	\$ 176,949	\$ 153,211
Cost of goods sold	132,753	104,597
Gross profit	44,196	48,614
Operating expenses:		
General and administrative	40,516	40,508
Selling	6,859	9,671
Amortization	22,225	24,359
Marketing and promotion	8,535	7,248
Research and development	79	166
Change in fair value of contingent consideration	(11,107)	211
Litigation costs	2,034	445
Restructuring costs	915	—
Transaction (income) costs	8,502	(12,816)
Total operating expenses	78,558	69,792
Operating loss	(34,362)	(21,178)
Interest expense, net	(9,835)	(4,413)
Non-operating income (expense), net	(4,402)	(32,992)
Loss before income taxes	(48,599)	(58,583)
Income tax expense	7,264	7,211
Net loss	\$ (55,863)	\$ (65,794)
Total net income (loss) attributable to:		
Stockholders of Tilray Brands, Inc.	(71,525)	(73,482)
Non-controlling interests	15,662	7,688
Other comprehensive gain (loss), net of tax		
Foreign currency translation gain (loss)	3,209	(60,292)
Unrealized gain (loss) on convertible notes receivable	—	(2,525)
Total other comprehensive loss, net of tax	3,209	(62,817)
Comprehensive loss	\$ (52,654)	\$ (128,611)
Total comprehensive income (loss) attributable to:		
Stockholders of Tilray Brands, Inc.	(68,476)	(132,450)
Non-controlling interests	15,822	3,839
Weighted average number of common shares - basic	691,189,382	575,301,374
Weighted average number of common shares - diluted	691,189,382	575,301,374
Net loss per share - basic	\$ (0.10)	\$ (0.13)
Net loss per share - diluted	\$ (0.10)	\$ (0.13)

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

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

	Number of common shares	Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated Deficit	Non- controlling interests	Total
Balance at May 31, 2022	532,674,887	\$ 53	\$ 5,382,367	\$ (20,764)	\$ (962,851)	\$ 42,561	\$ 4,441,366
Share issuance - equity financing	32,481,149	3	129,590	—	—	—	129,593
Shares issued to purchase 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 dividend settlement	1,529,821	1	5,063	—	—	—	5,064
Share issuance - options exercised	3,777	—	—	—	—	—	—
Share issuance - RSUs exercised	950,893	—	—	—	—	—	—
Shares effectively repurchased for employee withholding tax	—	—	(1,189)	—	—	—	(1,189)
Stock-based compensation	—	—	9,193	—	—	—	9,193
Dividends declared to non-controlling interests	—	—	—	—	—	(8,561)	(8,561)
Comprehensive income (loss) for the period	—	—	—	(58,968)	(73,482)	3,839	(128,611)
Balance at August 31, 2022	600,954,939	60	5,641,348	(79,732)	(1,036,333)	37,839	4,563,182
Balance at May 31, 2023	656,655,455	\$ 66	\$ 5,777,743	\$ (46,610)	\$ (2,415,507)	\$ 14,251	\$ 3,329,943
Share issuance - HEXO acquisition	39,705,962	4	65,158	—	—	—	65,162
Share issuance - settlement of contractual change of control severance incurred from HEXO acquisition	865,426	—	1,500	—	—	—	1,500
Share issuance - Double Diamond Holdings dividend settlement	5,004,735	—	8,146	—	—	—	8,146
Share issuance - HTI convertible note	17,148,541	2	49,998	—	—	—	50,000
Share issuance - RSUs exercised	3,912,481	—	—	—	—	—	—
Shares effectively repurchased for employee withholding tax	—	—	(4,860)	—	—	—	(4,860)
Equity component related to issuance of convertible debt, net of issuance costs	—	—	3,953	—	—	—	3,953
Stock-based compensation	—	—	8,257	—	—	—	8,257
Dividends declared to non-controlling interests	—	—	—	—	—	(7,891)	(7,891)
Comprehensive income (loss) for the period	—	—	—	3,049	(71,525)	15,822	(52,654)
Balance at August 31, 2023	723,292,600	\$ 72	\$ 5,909,895	\$ (43,561)	\$ (2,487,032)	\$ 22,182	\$ 3,401,556

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

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

	Three months ended August 31,	
	2023	2022
Cash used in operating activities:		
Net loss	\$ (55,863)	\$ (65,794)
Adjustments for:		
Deferred income tax recovery	59	796
Unrealized foreign exchange (gain) loss	(3,127)	10,026
Amortization	30,789	34,069
Loss on sale of capital assets	3	77
Other non-cash items	(816)	2,080
Stock-based compensation	8,257	9,193
Loss on long-term investments & equity investments	47	1,193
Loss on derivative instruments	10,345	6,336
Change in fair value of contingent consideration	(11,107)	211
Change in non-cash working capital:		
Accounts receivable	13,044	(3,068)
Prepays and other current assets	(4,654)	(34,891)
Inventory	3,650	(232)
Accounts payable and accrued liabilities	(6,469)	(6,265)
Net cash used in operating activities	(15,842)	(46,269)
Cash used in investing activities:		
Investment in capital and intangible assets, net	(4,152)	(3,000)
Proceeds from disposal of capital and intangible assets	342	1,463
Purchase of marketable securities, net	(45,436)	—
Net cash acquired from business acquisitions	22,956	—
Net cash used in investing activities	(26,290)	(1,537)
Cash provided by (used in) financing activities:		
Share capital issued, net of cash issuance costs	—	129,593
Shares effectively repurchased for employee withholding tax	—	(1,189)
Proceeds from long-term debt and convertible debt	29,174	1,288
Repayment of long-term debt and convertible debt	(6,369)	(5,196)
Repayment of lease liabilities	—	(1,035)
Net increase in bank indebtedness	(8,787)	159
Net cash provided by (used in) financing activities	14,018	123,620
Effect of foreign exchange on cash and cash equivalents	614	(1,080)
Net decrease in cash and cash equivalents	(27,500)	74,734
Cash and cash equivalents, beginning of period	206,632	415,909
Cash and cash equivalents, end of period	\$ 179,132	\$ 490,643

Included in the statement of cash flows cash and cash equivalents is \$1,613 of restricted cash as of August 31, 2023, \$nil as of May 31, 2023.

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

TILRAY BRANDS, INC.
Notes to Consolidated Financial Statements

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

The accompanying unaudited condensed interim consolidated financial statements (the “financial statements”) reflect the accounts of the Company for the quarterly period ended August 31, 2023. The financial statements were prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information and pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, they do not include all of the information and notes required by U.S. GAAP and should be read in conjunction with the audited consolidated financial statements (the “Annual Financial Statements”) included in the Company’s Annual Report on Form 10-K for the fiscal year ended May 31, 2023 (the “Annual Report”). These unaudited condensed interim consolidated financial statements reflect all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

These condensed interim 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.

All amounts in the unaudited condensed interim consolidated financial statements, notes and tables have been rounded to the nearest thousand, except par values and per share amounts, unless otherwise indicated.

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 subsidiaries are included in the condensed interim consolidated financial statements from the date that control commences until the date that control ceases. A complete list of our subsidiaries that existed prior to our most recent year end is included in the Annual Report, except for the entities acquired within Note 6 (Business acquisitions), during the period ended August 31, 2023.

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)”.

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 the equity investments is less than carrying values. Changes in value are recorded in the statement of net loss and comprehensive loss, within the line, “Non-operating income (expense)”.

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 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, 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 at the reporting date, which establishes a new cost basis.

Convertible notes receivable

Convertible notes receivable include 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 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 net loss and the remaining amount is recorded in other comprehensive income (loss).

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing reported net income (loss) attributable to stockholders of Tilray Brands, Inc. by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is computed by dividing reported net income (loss) attributable to stockholders of Tilray Brands, Inc. by the sum of the weighted average number of common shares and the number of dilutive potential common share equivalents outstanding during the period. Potential dilutive common share equivalents consist of the incremental common shares issuable upon the exercise of vested share options, warrants, and RSUs and the incremental shares issuable upon conversion of the convertible debentures and similar instruments. Shares of common stock outstanding under the share lending arrangement entered into in conjunction with the TLRY 27 Notes, see Note 12 (Convertible debentures payable) are excluded from the calculation of basic and diluted earnings per share because the borrower of the shares is required under the share lending.

In computing diluted earnings (loss) per share, common share equivalents are not considered in periods in which a net loss is reported, as the inclusion of the common share equivalents would be anti-dilutive. For the three months ended August 31, 2023 and August 31, 2022, the dilutive potential common share equivalents outstanding consisted of the following: 21,202,933 and 16,989,328 common shares from RSUs, 6,325,348 and 4,741,653 common shares from share options, 7,847,219 and 6,209,000 common shares for warrants and 77,819,141 and 36,687,326 common shares for convertible debentures, respectively.

Revenue

Revenue is recognized when the control of the promised goods or services, through performance obligation, is transferred/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 operations 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 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 24 (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 6 (Business acquisitions), simultaneously terminating the advisory services arrangement and other commercial transactions.

New accounting pronouncements not yet adopted

In August 2023, the FASB issued 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.

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 condensed interim consolidated financial statements.

Note 2. Inventory

Inventory consisted of the following:

	August 31, 2023	May 31, 2023
Plants	\$ 19,152	\$ 10,884
Dried cannabis	102,711	89,801
Cannabis trim	-	322
Cannabis derivatives	10,406	9,229
Cannabis vapes	4,076	1,173
Packaging and other inventory items	17,932	19,997
Wellness inventory	11,788	11,164
Beverage alcohol inventory	31,434	27,837
Distribution inventory	34,576	30,144
Total	<u>\$ 232,075</u>	<u>\$ 200,551</u>

Note 3. Capital assets

Capital assets consisted of the following:

	August 31, 2023	May 31, 2023
Land	\$ 36,076	\$ 30,635
Production facility	330,012	344,627
Equipment	271,992	185,422
Leasehold improvement	7,786	7,753
Construction in progress	9,727	8,048
	<u>\$ 655,593</u>	<u>\$ 576,485</u>
Less: accumulated amortization	(160,974)	(146,818)
Total	<u>\$ 494,619</u>	<u>\$ 429,667</u>

Note 4. Intangible Assets

Intangible assets consisted of the following items:

	August 31, 2023	May 31, 2023
Customer relationships & distribution channel	\$ 618,672	\$ 614,062
Licenses, permits & applications	369,479	366,793
Non-compete agreements	12,432	12,394
Intellectual property, trademarks, knowhow & brands	592,545	583,468
	<u>1,593,128</u>	<u>\$ 1,576,717</u>
Less: accumulated amortization	(209,716)	\$ (187,088)
Less: impairments	(415,844)	(415,844)
Total	<u>\$ 967,568</u>	<u>\$ 973,785</u>

As of August 31, 2023, included in licenses, permits & applications is \$183,660 of indefinite-lived intangible assets. As of May 31, 2023, there was \$181,093 of indefinite-lived intangible assets included in Licenses, permits & applications.

Expected future amortization expense for intangible assets as of August 31, 2023 are as follows:

	Amortization
2024 (remaining nine months)	\$ 55,895
2025	73,414
2026	73,414
2027	73,414
2028	73,414
Thereafter	434,357
Total	<u>\$ 783,908</u>

Note 5. Goodwill

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

Reporting Unit	August 31, 2023	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	8,705	7,875
Impairments	(842,431)	(842,431)
Total	<u>\$ 2,009,673</u>	<u>\$ 2,008,843</u>

10

Note 6. Business acquisitions

Acquisition of Montauk Brewing Company, Inc.

On November 7, 2022, Tilray acquired Montauk Brewing Company, Inc. ("Montauk"), a leading craft brewer company based in Montauk, New York, 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 23 (Fair value measurements).

The table below summarizes fair value of the assets acquired and the liabilities assumed at the effective 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	<u>55,549</u>
Current liabilities	
Accounts payable and accrued liabilities	1,580
Long-term liabilities	
Deferred tax liability	4,851
Other liabilities	3,750
Total liabilities	<u>10,181</u>
Total net assets acquired	<u>\$ 45,368</u>

In the event that the Montauk acquisition had occurred on June 1, 2022, the Company would have had additional revenue of approximately \$3,000 for the three months ended August 31, 2022 and net loss and comprehensive net loss would have increased by approximately \$600 for the three months ended August 31, 2022, 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.

11

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 of \$47. 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 has recorded the value of the associated capital assets as an asset held for sale.

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 HEXO Acquisition at the effective acquisition date as follows:

	<u>Amount</u>
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	1,657
Accounts receivable	7,855
Asset held for sale	755
Prepays and other current assets	2,530
Inventory	27,495
Long-term assets	
Prepaid expenses	8,384
Capital assets	70,782
Intellectual property, trademarks & brands (15 years)	2,000
Interest in equity investee	3,145
Total assets	<u>139,237</u>
Current liabilities	
Accounts payable and accrued liabilities	45,355
Total liabilities	<u>45,355</u>
Total net assets acquired	<u>\$ 93,882</u>

Included in accounts payable and accrued liabilities was \$12,856 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 revenue of approximately \$7,000 and \$20,000 for the three month period ended August 31, 2023 and 2022, respectively, and its net loss and comprehensive net loss would have increased by approximately \$1,800 and \$30,000 for the three month period ended August 31, 2023, and 2022, 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, for \$74 (CAD\$100) in cash and \$4,181 of contingent consideration from Molson Coors Canada ("Molson"). This represents the portion of Truss that had not been previously acquired as part of the HEXO Acquisition. The Company currently intends to divest Truss's assets and has recorded the value of the associated capital assets and lease obligations as an asset held for sale. The Company has agreed to pay Molson as contingent consideration an amount equal to 57.5% of any proceeds from any divestiture, net of any costs and expenses associated with the disposition.

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

	<u>Amount</u>
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	<u>13,684</u>
Current liabilities	
Accounts payable and accrued liabilities	5,408
Other liabilities	876
Total liabilities	<u>6,284</u>
Total net assets acquired	<u>7,400</u>

In the event that the Truss acquisition had occurred on June 1, 2022 the Company would have had, on an unaudited proforma basis, additional revenue of approximately \$3,000 and \$5,000 for the three month period ended August 31, 2023 and 2022, respectively, and net loss and comprehensive net loss would have increased by approximately \$700 and \$1,000 for the three month period ended August 31, 2023, and 2022, respectively. This unaudited pro forma financial information does not reflect the realization of any expected ongoing synergies relating to the integration of Truss.

Note 7. Convertible notes receivable

Convertible notes receivable is comprised of the following:

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

HEXO Convertible Note

On June 22, 2023, the Company completed the HEXO Acquisition as described in Note 6 (Business acquisitions). Concurrently with the closing of the HEXO Acquisition, the HEXO convertible note was converted for 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% and, any accrued interest is added to the outstanding principal amount, and is to be paid at maturity of the MedMen Convertible Note. SH Acquisition was also granted "top-up" rights enabling it (and its limited partners) to maintain its percentage ownership (on an "as-converted" basis) in the event that MedMen issues equity securities. The Company's ability to convert the MedMen Convertible Note and exercise the Warrants is dependent upon U.S. federal legalization of cannabis (a "Triggering Event") or Tilray's waiver of such requirement as well as any additional regulatory approvals. The MedMen Convertible Note has a maturity date of August 17, 2028.

The MedMen Convertible Note was based upon the fair value of the collateral assets net of disposal costs. 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 recognize any interest income on the MedMen Convertible Note for the three months ended August 31, 2023, which would have increased its value.

Note 8. Long term investments

Long term investments consisted of the following:

	August 31, 2023	May 31, 2023
Equity investments measured at fair value	\$ 2,064	\$ 2,144
Equity investments under measurement alternative	5,500	5,651
Total	<u>\$ 7,564</u>	<u>\$ 7,795</u>

Note 9. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of:

	August 31, 2023	May 31, 2023
Trade payables	\$ 78,971	\$ 70,819
Accrued liabilities	129,517	78,007
Accrued payroll and employment related taxes	6,826	18,772
Income taxes payable	15,727	14,934
Accrued interest	6,974	8,102
Other accruals	66	48
Total	\$ 238,081	\$ 190,682

Note 10. Bank indebtedness

Aphria Inc., a subsidiary of the Company, has an operating line of credit in the amount of C\$1,000, which bears interest at the lender's prime rate plus 75 basis points. As of August 31, 2023, the Company has not drawn on the line of credit. The operating line of credit is secured by a security interest on that certain real property 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 3.75%, respectively. As of August 31, 2023, a total of €6,967 (\$7,594) was drawn down from the available credit of €7,500. The operating line of credit for €7,000 are 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.

Four Twenty Corporation ("420"), a subsidiary of the Company, has a revolving credit facility of \$30,000, which bears interest at SOFR plus an applicable margin. As of August 31, 2023, the Company has drawn \$7,000 on the revolving line of credit. The revolving credit facility is secured by all of 420's assets and includes a corporate guarantee by a subsidiary of the Company.

Note 11. Long-term debt

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

	August 31, 2023	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	\$ 44,400	\$ 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	10,905	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	13,105	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	330	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	2,128	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	545	803
Term loan - €1,200 - at a fixed 4.26%, 1-year term, repayable in monthly installments of €100 plus interest, due in December 2023	442	755
Term loan - €1,500 - at a fixed 2.00%, 5-year term, repayable in quarterly installments of €94 plus interest, due in April 2025	732	819
Term loan - €3,500 - at a fixed rate of 4.59%, 5-year term, repayable in monthly installments of €52 plus interest, due in August 2028	3,702	1,706
Mortgage payable - \$22,635 - EURIBOR rate plus 1.5%, 10-year term, with a 10-year amortization, repayable in monthly installments of \$57 plus interest, due in October 2030	20,688	20,863
Term loan - \$70,000 -SOFR plus an applicable margin, 5-year term, repayable in quarterly installments of \$875 to \$1,750 due in June 2028	70,000	65,000
Carrying amount of long-term debt	166,977	161,707
Unamortized financing fees	(1,098)	(738)
Net carrying amount	165,879	160,969
Less principal portion included in current liabilities	(13,489)	(24,080)
Total noncurrent portion of long-term debt	<u>\$ 152,390</u>	<u>\$ 136,889</u>

During the quarter ended August 31, 2023, Four Twenty Corporation ("420"), a wholly-owned subsidiary of the Company, repaid its \$100,000 term loan and entered into a new secured credit agreement, which 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 "420 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 "420 Delayed Draw Term Loan" and, together with the 420 Term Loan the "420 Secured Credit Agreement"). The 420 Term Loan was fully drawn on June 30, 2023. The 420 Delayed Draw Term Loan was fully drawn subsequent to August 31, 2023, as described in Note 25 (Subsequent events). Under the terms of the 420 Secured Credit Agreement, the Company pledged all of Sweetwater, Breckenridge and Montauk's assets and the related equity interest, and Tilray Brands, Inc. provided a limited guarantee.

As of August 31, 2023, the Company and its subsidiaries, were in compliance with its covenants under its long-term debt agreements.

Note 12. Convertible debentures payable

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

	August 31, 2023	May 31, 2023
5.20% Convertible Notes ("TLRY 27")	\$ 120,861	\$ 100,476
HTI Convertible Note	-	47,834
5.25% Convertible Notes ("APHA 24")	124,453	120,568
5.00% Convertible Notes ("TLRY 23")	127,137	126,544
Total	372,451	395,422
Deduct - current portion	251,590	174,378
Total convertible debentures payable, non current portion	\$ 120,861	\$ 221,044

HTI Convertible Note

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

On July 12, 2022, the Company issued a \$50,000 convertible promissory note to HTI ("HTI Convertible Note"), bearing a 4% interest rate payable on a quarterly basis and having a maturity date of September 1, 2023. On August 31, 2023, the Company settled in full the HTI Convertible Note through the issuance of shares as described in Note 14 (Stockholder's equity).

TLRY 27

	August 31, 2023	May 31, 2023
5.20% Contractual debenture	\$ 172,500	\$ 150,000
Unamortized discount	(51,639)	(49,524)
Net carrying amount	\$ 120,861	\$ 100,476

The TLRY 27 convertible debentures were issued on May 30, 2023 and on June 9, 2023 by way of overallotment, in the principal amount totaling \$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.

APHA 24

	August 31, 2023	May 31, 2023
5.25% Contractual debenture	\$ 350,000	\$ 350,000
Debt settlement	(213,260)	(213,260)
Fair value adjustment	(12,287)	(16,172)
Net carrying amount	\$ 124,453	\$ 120,568

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 23 and 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. In addition, holders of the APHA 24 Notes may convert all or any portion of their notes, in multiples of \$1 principal amount, at their option at any time preceding December 1, 2023, if:

- (a) the last reported sales price of the common shares for at least 20 trading days during a period of 30 consecutive trading days immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- (b) during the five-business day period after any five consecutive trading day period (the "measurement period") in which the trading price per \$1 principal amount of the APHA 24 Notes for each trading day of the measurement period is less than 98% of the product of the last reported sale price of the Company's common shares and the conversion rate on each such trading day;
- (c) the Company calls any or all of the APHA 24 Notes for redemption or;
- (d) upon occurrence of a specified corporate event.

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

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

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

The overall change in fair value of APHA 24 during the quarter ended August 31, 2023 decreased by \$3,885, this was comprised of \$2,147 of fair value changes which was offset by the decrease in foreign exchange of \$1,738 (August 31, 2022 – \$7,884 of fair value changes, offset by a decrease in foreign exchange of \$8,367).

As at August 31, 2023, there was \$136,740 principal outstanding as compared to on May 31, 2023 there was \$136,740 of principal outstanding.

During the three months ended August 31, 2023 and 2022, the Company recognized total interest expense of \$1,795 and \$3,403, respectively.

TLRY 23

	August 31, 2023	May 31, 2023
5.00% Contractual debenture	\$ 277,856	\$ 277,856
Principal amount paid	(150,526)	(150,526)
Unamortized discount	(193)	(786)
Net carrying amount	<u>\$ 127,137</u>	<u>\$ 126,544</u>

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

The TLRY 23 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 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.

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

Prior to the close of business on the business day immediately preceding April 1, 2023, the TLRY 23 will be convertible only under the specified circumstances. On or after April 1, 2023 until the close of business on the business day immediately preceding the maturity date, September 30, 2023, holders may convert all or any portion of their TLRY 23, in multiples of \$1 principal amount, at the option of the holder regardless of the aforementioned circumstances. This note was repaid on maturity as described in Note 25 (Subsequent events).

As of August 31, 2023, the Company was in compliance with all the covenants set forth under the TLRY 23. The effective interest rate on the debt is 6.9%, the Company recognized interest expense of \$1,592 and amortized discount interest of \$593 for the three months ended August 31, 2023.

Note 13. Warrant liability

As of August 31, 2023 and May 31, 2023, there were 6,209,000 warrants outstanding, with an original exercise price of \$5.95 per warrant, expiring March 17, 2025. Each warrant is exercisable for one common share of the Company.

The warrants contain anti-dilution price protection features, which adjust the exercise price of the warrants if the Company subsequently issues common stock at a price lower than the exercise price of the warrants. In the event additional warrants or convertible debt are issued with a lower and/or variable exercise price, the exercise price of the warrants will be adjusted accordingly. During the three months ended August 31, 2023, the Company issued shares which triggered the anti-dilution price protection feature lowering the exercise price to \$1.61. These warrants are classified as liabilities as they are to be settled in registered shares, and the registration statement is required to be active, unless such shares may be subject to an applicable exemption from registration requirements. The holders, at their sole discretion, may elect to affect a cashless exercise, and be issued exempt securities in accordance with Section 3(a)(9) of the 1933 Act. In the event the Company does not maintain an effective registration statement, the Company may be required to pay a daily cash penalty equal to 1% of the number of shares of common stock due to be issued multiplied by any trading price of the common stock between the exercise date and the share delivery date, as selected by the holder. Alternatively, the Company may deliver registered common stock purchased by the Company in the open market. The Company may also be required to pay cash if it does not have sufficient authorized shares to deliver to the holders upon exercise.

The Company estimated the fair value of warrants outstanding at August 31, 2023 at \$1.613 per warrant using the Black Scholes pricing model (Level 3) with the following assumptions: Risk-free interest rate of 4.4%, expected volatility of 50%, expected term of 2.05 years, strike price of \$1.61 and fair value of common stock of \$2.96.

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

Note 14. Stockholders' equity

Issued and outstanding

As of August 31, 2023, the Company had 980,000,000 common shares and 10,000,000 preferred shares authorized to be issued, with 723,292,600 common shares and nil preferred shares issued and outstanding. Historically, the Company has issued shares of its common stock as consideration for business acquisitions, including the settlement of convertible notes, the settlement of litigation claims, in connection with public offerings and as payment of dividends to non-controlling interests for profit distributions.

During the three months ended August 31, 2023, the Company issued the following common shares:

- a) 39,705,962 shares in connection with the HEXO Acquisition, see Note 6 (Business acquisitions).
- b) 865,426 shares to settle a contractual change of control severance in the amount of \$1,500 incurred in connection with the HEXO Acquisition.
- c) 5,004,735 shares to settle dividends payable to the non-controlling shareholders of Aphria Diamond in the amount of \$8,146.
- d) 17,148,541 shares for the settlement of the HTI Convertible Note payable see Note 12 (Convertible debentures payable).
- e) 3,912,481 shares in connection with the exercise of previously awarded stock-based compensation awards.

The Company maintains stock-based compensation plans as disclosed in our Annual Financial Statements. For the three months ended August 31, 2023 and 2022, the total stock-based compensation was \$ 8,257 and \$9,193 respectively.

During the three months ended August 31, 2023 and 2022, the Company granted 11,559,549 and 5,747,938 time-based RSUs, respectively, and 7,566,146 and 2,540,394 performance-based RSUs, respectively. The 7,566,146 performance based RSUs issued during the quarter had performance conditions not yet finalized. The Company's total stock-based compensation expense recognized is as follows:

	For the three months ended August 31,	
	2023	2022
Stock options	\$ —	\$ 604
RSUs	8,257	8,589
Total	\$ 8,257	\$ 9,193

Note 15. Accumulated other comprehensive income (loss)

Accumulated other comprehensive loss includes the following components:

	Foreign currency translation gain (loss)	Unrealized loss on convertible notes receivables	Total
Balance May 31, 2022	\$ 54,413	\$ (75,177)	(20,764)
Other comprehensive loss	(56,443)	(2,525)	(58,968)
Balance at August 31, 2022	<u>\$ (2,030)</u>	<u>\$ (77,702)</u>	<u>\$ (79,732)</u>
Balance May 31, 2023	\$ (46,610)	\$ —	\$ (46,610)
Other comprehensive loss	3,049	—	3,049
Balance August 31, 2023	<u>\$ (43,561)</u>	<u>\$ —</u>	<u>\$ (43,561)</u>

Note 16. Non-controlling interests

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

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

	SH Acquisition	CC Pharma Nordic ApS	Aphria Diamond	ColCanna S.A.S.	August 31, 2023
Current assets	\$ —	\$ 91	\$ 148,222	\$ 169	\$ 148,482
Non-current assets	74,681	—	134,351	3,730	212,762
Current liabilities	—	(1,198)	(147,917)	(6,982)	(156,097)
Non-current liabilities	—	—	(51,397)	(2,072)	(53,469)
Net assets	<u>\$ 74,681</u>	<u>\$ (1,107)</u>	<u>\$ 83,259</u>	<u>\$ (5,155)</u>	<u>\$ 151,678</u>

Summary of balance sheet information of the entities there is a non-controlling interest as of 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>

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

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

Summary of income statement information of the entities in which there is a non-controlling interest for the three months ended August 31, 2022:

	SH Acquisition	CC Pharma Nordic ApS	Aphria Diamond	ColCanna S.A.S.	August 31, 2022
Revenue	\$ —	\$ —	\$ 36,401	\$ —	\$ 36,401
Total expenses	(3,492)	154	20,427	55,845	72,934
Net (loss) income	3,492	(154)	15,974	(55,845)	(36,533)
Other comprehensive (loss) income	(7,103)	29	(3,280)	240	(10,114)
Net comprehensive (loss) income	\$ (3,611)	\$ (125)	\$ 12,694	\$ (55,605)	\$ (46,647)
Non-controlling interest %	32%	25%	49%	10%	NA
Comprehensive (loss) income attributable to NCI	(1,156)	(31)	6,220	(5,561)	(528)
Additional income attributable to NCI	—	—	4,367	—	4,367
Net comprehensive (loss) income attributable to NCI	\$ (1,156)	\$ (31)	\$ 10,587	\$ (5,561)	\$ 3,839

Note 17. Income taxes

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

The Company reported income tax expense of \$7,264 for the three months ended August 31, 2023, and income tax expense of \$7,211 for the three months ended August 31, 2022. The income tax expense (benefit) in the current period varies from the US statutory income tax rate and prior period primarily due to the geographical mix of earnings and losses with no tax benefit resulting from valuation allowances in certain jurisdictions.

Note 18. Commitments and contingencies

Purchase and other commitments

The Company has payments on long-term debt, refer to Note 11 (Long-term debt), convertible notes, refer to Note 12 (Convertible debentures payable), material purchase commitments and construction commitments as follows:

	Total	2024	2025	2026	2027	Thereafter
Long-term debt repayment	\$ 166,977	\$ 66,829	\$ 17,233	\$ 6,662	\$ 8,412	\$ 67,841
Convertible notes	436,570	264,070	—	—	—	172,500
Material purchase obligations	56,525	33,484	18,491	3,675	875	—
Construction commitments	1,515	1,515	—	—	—	—
Total	<u>\$ 661,587</u>	<u>\$ 365,898</u>	<u>\$ 35,724</u>	<u>\$ 10,337</u>	<u>\$ 9,287</u>	<u>\$ 240,341</u>

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

	Operating leases
2024	\$ 4,106
2025	3,295
2026	3,486
2027	3,412
Thereafter	4,012
Total minimum lease payments	<u>\$ 18,311</u>
Imputed interest	<u>(8,525)</u>
Obligations recognized	<u>\$ 9,786</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.

There have been no material changes from the legal proceedings since our Annual Report on Form 10-K for the fiscal year ended May 31, 2023, except with respect to certain aspects of the legal proceedings disclosed below:

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

On August 21, 2023, the U.S. District Court granted Tilray’s motion for reconsideration and dismissed the second amended complaint with leave to amend one final time. Tilray continues to believe that all of the underlying claims are without merit, and that the plaintiff will not be able to fix the deficiencies in its claims as part of its amended complaint.

Legal Proceedings Related to Contractual Obligations

420 Investments Ltd. Litigation

On February 21, 2020, 420 Investments Ltd., as Plaintiff (“420 Investments”), filed a lawsuit against Tilray Brands, Inc. and High Park Shops Inc. (“High Park”), as Defendants, in Calgary, Alberta in the Court of Queen’s Bench of Alberta. In August 2019, Tilray and High Park entered into an Arrangement Agreement with 420 Investments and others (the “Agreement”). Pursuant to the Agreement, High Park was to acquire the securities of 420 Investments. In February 2020, Tilray and High Park gave notice of termination of the Agreement. 420 Investments alleges that the termination was unlawful and without merit and further alleges that the Defendants had no legal basis to terminate. 420 Investments alleges that the Defendants did not meet their contractual and good faith obligations under the Agreement. 420 Investment seeks damages in the stated amount of C\$110,000, plus C\$20,000 in aggravated damages. The Tilray and High Park Statement of Defense and counterclaim were both filed on March 20, 2020. 420 Investment’s Statement of Defense to our counterclaim was filed on April 20, 2020. Respectively, 420 Investments and Tilray / High Park served each other with their Affidavits of Records (“AOR”) on August 25, 2020 and November 30, 2020. Tilray and High Park cross-examined the litigation representative of 420 Investments about its AOR with 420 Investments producing supplemental documents in August 2021 and 2022. Additional discovery may take place in the Fall of 2023. The Company denies the Plaintiff’s allegations and intends to vigorously defend this litigation matter, although there can be no assurance as to its outcome.

In February 2023, Tilray and High Park filed an Application for Summary Judgment to collect an unpaid C\$7,000 bridge loan made to 420 Investments on August 28, 2019, relating to the subject transaction. That debt was repayable in March 2020, but was never repaid. The application is pending and a decision from the Court is expected on Tilray’s Application for Summary Judgment in October or November 2023.

Docklight Litigation

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

Summary of Litigation accruals

The total litigation expense accrual included in accrued liabilities for the period ended August 31, 2023 was \$35,138 to cover various ongoing litigation matters that are probable and estimable (May 31, 2023 - \$25,000). The increase of \$10,138 from the prior period is due to the inclusion of the HEXO liabilities assumed, net of settlements during the quarter.

Note 19. Net revenue

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

Net revenue is comprised of:

	For the three months ended August 31,	
	2023	2022
Cannabis revenue	\$ 96,884	\$ 75,689
Cannabis excise taxes	(26,551)	(17,119)
Net cannabis revenue	70,333	58,570
Beverage alcohol revenue	25,339	21,863
Beverage alcohol excise taxes	(1,177)	(1,209)
Net beverage alcohol revenue	24,162	20,654
Distribution revenue	69,157	60,585
Wellness revenue	13,297	13,402
Total	\$ 176,949	\$ 153,211

Note 20. Cost of goods sold

Cost of goods sold is comprised of:

	For the three months ended August 31,	
	2023	2022
Cannabis costs	\$ 50,517	\$ 28,861
Beverage alcohol costs	11,266	10,849
Distribution costs	61,468	54,984
Wellness costs	9,502	9,903
Total	\$ 132,753	\$ 104,597

Note 21. General and administrative expenses

General and administrative expenses are comprised of:

	For the three months ended August 31,	
	2023	2022
Executive compensation	\$ 3,661	\$ 3,555
Office and general	8,168	5,829
Salaries and wages	13,114	14,635
Stock-based compensation	8,257	9,193
Insurance	3,849	2,703
Professional fees	1,499	2,490
Gain on sale of capital assets	3	77
Travel and accommodation	1,107	1,161
Rent	858	865
Total	\$ 40,516	\$ 40,508

Note 22. Non-operating income (expense)

Non-operating income (expense) is comprised of:

	For the three months ended August 31,	
	2023	2022
Change in fair value of convertible debenture payable	\$ (2,147)	\$ (7,884)
Change in fair value of warrant liability	(8,198)	1,548
Foreign exchange loss (gain)	6,267	(25,573)
Loss on long-term investments	(109)	(1,008)
Other non-operating (losses) gains, net	(215)	(75)
Total	<u>\$ (4,402)</u>	<u>\$ (32,992)</u>

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

Note 23. Fair value measurements**Financial instruments**

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

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

At August 31, 2023 and May 31, 2023 the Company had long-term debt of \$4,876 and \$nil, respectively, and the principal portion of convertible debentures payable of \$436,570 subject to fixed interest rates. The Company's long-term debt is valued based on discounting the future cash outflows associated with the long-term debt. The discount rate is based on the incremental premium above market rates for the U.S. Department of the Treasury securities of similar duration. In each period thereafter, the incremental premium is held constant while the U.S. Department of the Treasury security is based on the then current market value to derive the discount rate.

The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of August 31, 2023 and May 31, 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	August 31, 2023
Financial assets				
Cash and cash equivalents	\$ 177,519	\$ —	\$ —	\$ 177,519
Restricted cash	1,613	—	—	1,613
Marketable securities	287,333	—	—	287,333
Convertible notes receivable	—	—	74,681	74,681
Equity investments measured at fair value	1,078	986	5,500	7,564
Financial liabilities				
Warrant liability	—	—	(10,015)	(10,015)
Contingent consideration	—	—	(20,181)	(20,181)
APHA 24 Convertible debenture	—	—	(124,453)	(124,453)
Total recurring fair value measurements	\$ 467,543	\$ 986	\$ (74,468)	\$ 394,061

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

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

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

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

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

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

The contingent consideration from the acquisitions of SweetWater, Montauk, and Truss due in December 2023, December 2025, and upon the triggering event respectively and are payable in cash, is determined by discounting future expected cash outflows at a discount rate in the range of 5% - 11.4%, respectively and probability of achievement of 25% and 90%. The unobservable inputs into the future expected cash outflows result in a fair value measurement classified as Level 3.

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

	Convertible notes receivable	Equity Investments	Warrant Liability	Contingent Consideration	APHA 24 Convertible Debt
Balance, May 31, 2023	\$ 103,401	\$ 5,651	\$ (1,817)	\$ (27,107)	\$ (120,568)
Additions	—	—	—	(4,181)	—
Disposals	(28,720)	—	—	—	—
Unrealized gain (loss) on fair value	—	(151)	(8,198)	11,107	(3,885)
Impairments	—	—	—	—	—
Balance, August 31, 2023	<u>\$ 74,681</u>	<u>\$ 5,500</u>	<u>\$ (10,015)</u>	<u>\$ (20,181)</u>	<u>\$ (124,453)</u>

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

Financial asset / financial liability	Valuation technique	Significant unobservable input	Inputs
APHA Convertible debentures	Black-Scholes	Volatility, expected life (in years)	50% 0.8
Warrant liability	Black-Scholes	Volatility, expected life (in years)	50% 1.5
Contingent consideration	Discounted cash flows	Discount rate, achievement	5% - 11% 25% - 90%

Items measured at fair value on a non-recurring basis

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

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

Note 24. Segment reporting

Information reported to the Chief Operating Decision Maker ("CODM") for the purpose of resource allocation and assessment of segment performance focuses on the nature of the operations. The Company operates in four reportable segments: (1) 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 three months ended August 31,	
	2023	2022
Cannabis		
Net cannabis revenue	\$ 70,333	\$ 58,570
Cannabis costs	50,517	28,861
Gross profit	19,816	29,709
Distribution		
Distribution revenue	69,157	60,585
Distribution costs	61,468	54,984
Gross profit	7,689	5,601
Beverage alcohol		
Net beverage alcohol revenue	24,162	20,654
Beverage alcohol costs	11,266	10,849
Gross profit	12,896	9,805
Wellness		
Wellness revenue	13,297	13,402
Wellness costs	9,502	9,903
Gross profit	\$ 3,795	\$ 3,499

Channels of Cannabis revenue were as follows:

	For the three months ended August 31,	
	2023	2022
Revenue from Canadian medical cannabis	\$ 6,142	\$ 6,520
Revenue from Canadian adult-use cannabis	71,195	58,355
Revenue from wholesale cannabis	5,295	392
Revenue from international cannabis	14,252	10,422
Less excise taxes	(26,551)	(17,119)
Total	\$ 70,333	\$ 58,570

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 7 (Convertible notes receivable) and Note 12 (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 6 (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 three months ended August 31, 2023 from the aforementioned HEXO commercial transaction agreements, compared to \$7,753 in the prior comparative period.

Geographic net revenue:

	For the three months ended August 31,	
	2023	2022
North America	\$ 93,521	\$ 82,192
EMEA	79,704	66,041
Rest of World	3,724	4,978
Total	\$ 176,949	\$ 153,211

Geographic capital assets:

	August 31,	May 31,
	2023	2023
North America	\$ 384,091	\$ 319,173
EMEA	106,761	107,131
Rest of World	3,767	3,363
Total	\$ 494,619	\$ 429,667

Major customers are defined as customers that are materially significant to the Company's annual revenues. For the three months ended August 31, 2023 and 2022, there were no major customers representing a material contribution to our quarterly revenues.

Note 25. Subsequent Events

On August 7, 2023, the Company entered into a securities and asset purchase agreement (the "Purchase Agreement") by and among Anheuser-Busch Companies, LLC, Craft USA Holdings, LLC, Craft Brew Alliance, Inc. (collectively, "AB"), the Company and Tilray Beverages, LLC. Pursuant to the Purchase Agreement, Tilray will acquire from AB a portfolio of craft beer and beverage brands, assets and businesses related to Breckenridge Brewery, Blue Point, 10 Barrel, Redhook, Widmer Brothers, Square Mile, Shock Top and HiBall. The purchase price paid to AB at closing was equal to \$85,000 in cash and is subject to working capital and other applicable closing adjustments. The acquisition closed on September 29, 2023 and \$20,000 was borrowed under the 420 Delayed Draw Term Loan Agreement to fund part of the purchase price paid for the AB Transaction.

On September 12, 2023, the Company repurchased \$20,000 of its TLRV 23 Notes for cancellation by issuing 7,000,000 shares and paying \$610 of cash to settle both principal and accrued interest. After cancellation, the outstanding principal balance of the TLRV 23 Notes was \$107,331.

On October 2, 2023, the Company repaid the remaining \$107,331 of the TLRV 23 Notes in cash upon maturity.